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quarterly report to shareholders

first quarter ended June 30, 2002

HÉROUX DEVTEK

Message to Shareholders

On behalf of the Board of Directors, I am pleased to present the financial results of the Company's first quarter period ended June 30, 2002.

Drastic demand cut backs in the power generation industry had a strong impact on our results. The three-week strike at Bombardier also had an effect, but should be short-lived as our client's rate of production will increase over the coming months. As a result, sales and net income for the first quarter were down 11.4% to $69.2 million and 25.9% to $3.0 million, respectively.

At the beginning of the year, we expected demand for gas turbines and for aircraft with more than 100 seats to be lower for the 2002-2003 fiscal year. Since then, demand in the gas turbine industry has decreased more rapidly than we had anticipated. As a result, we now expect our earnings per share to decrease for the current fiscal year.

As we continuously aim at gaining additional market share in the Gas Turbine Components Division, we have taken steps to adapt to this new business environment by implementing rigorous cost control measures throughout the Company and accelerating the specialization of all our major plants with the goal of creating centers of excellence. These initiatives will enable us to become more productive and more efficient, thus more competitive in this challenging climate. Significantly, our largest division, the Landing Gear Division, continues to perform strongly. This was recently underlined by the previously announced awarding of two major contracts, worth some $48 million, with the U.S. Air Force and the U.S. Navy as well as with The Boeing Company. Our financial position is strong and gives us the necessary latitude to make acquisitions that will fit our business strategy.

I wish to thank our shareholders for their confidence and support. The management of Héroux-Devtek reiterates its commitment towards the Company's pursuit of growth in these difficult times.

Gilles Labbé
President and Chief Executive Officer
August 8, 2002

Consolidated Statements of Income

For the periods ended June 30, 2002 and 2001

(In thousands of dollars except per share data)	2002 June (unaudited)	2001 June (unaudited)
Sales	$ 69,160	$ 78,019
Cost of sales	54,879	61,448
Amortization	3,656	3,112
Gross profit	10,625	13,459
Selling and administrative expenses	5,364	5,730
Research and development expenses	168	261
Operating income	5,093	7,468
Financial expenses	504	342
Income before income taxes and goodwill amortization	4,589	7,126
Income taxes	1,572	2,716
Income before goodwill amortization	3,017	4,410
Goodwill amortization	–	336
Net income	$ 3,017	$ 4,074
Earnings per share before goodwill amortization	$ 0.12	$ 0.19
Earnings per share before goodwill amortization - fully diluted	$ 0.12	$ 0.19
Earnings per share	$ 0.12	$ 0.17
Earnings per share - fully diluted	$ 0.12	$ 0.17
Average number of shares outstanding	24,443,937	23,292,017

Consolidated Statements of Retained Earnings

For the periods ended June 30, 2002 and 2001

(In thousands of dollars)	2002 (unaudited)	2001 (unaudited)
Balance at beginning of period	$ 53,283	$ 35,859
Net income	3,017	4,074
Balance at end of period	$ 56,300	$ 39,933

Consolidated Balance Sheets

As at June 30, 2002 and March 31, 2002

(In thousands of dollars)	2002 *June* *(unaudited)*	2002 *March* *(audited)*
Assets		
Current assets		
Cash and temporary investments	$ 52,072	$ 55,966
Accounts receivable	34,433	47,340
Other receivables	4,050	4,301
Inventories	62,794	61,127
Prepaid expenses	1,985	2,114
Future income taxes	5,233	4,730
Total current assets	160,567	175,578
Capital assets, net	93,301	95,260
Other assets	1,628	1,720
Future income taxes	3,639	2,919
Goodwill, net	24,160	24,160
Total assets	$ 283,295	$ 299,637
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 67,252	$ 74,962
Customers' advances	2,326	6,123
Income taxes payable	283	3,919
Future income taxes	835	720
Current portion of long-term debt	4,475	5,075
Total current liabilities	75,171	90,799
Long-term debt	57,345	59,565
Other liabilities	7,768	7,938
Future income taxes	10,701	10,534
Total liabilities	150,985	168,836
Shareholders' equity		
Capital stock (Note 3)	73,958	73,958
Contributed surplus (Note 2)	8	–
Cumulative translation adjustment	2,044	3,560
Retained earnings	56,300	53,283
Total shareholders' equity	132,310	130,801
Total liabilities and shareholders' equity	$ 283,295	$ 299,637

Consolidated Statements of Cash Flows

For the periods ended June 30, 2002 and 2001

(In thousands of dollars)	2002 (unaudited)	2001 (unaudited)
Cash and cash equivalents provided by (used for):		
Operating activities		
Net income	$ 3,017	$ 4,074
Items not requiring an outlay of cash		
Amortization	3,746	3,448
Future income taxes	(918)	(1,068)
(Gain) on sale of capital assets	(61)	–
Stock based compensation (Note 2)	8	–
Cash flow from operations	5,792	6,454
Net change in non-cash items related to operations	(5,506)	(5,485)
	286	969
Investing activities		
Net change in temporary investments	1,063	6,199
Purchase of capital assets	(3,172)	(4,282)
Proceeds on disposal of capital assets	62	–
Other	–	(27)
	(2,047)	1,890
Financing activities		
Net change in bank loan	–	445
Increase in long-term debt	1,471	–
Repayment of long-term debt	(1,902)	(2,101)
Issuance of common capital stock (Note 3)	–	12
	(431)	(1,644)
Effect of changes in exchange rates on cash and cash equivalents	(432)	18
Cash and cash equivalents used for discontinued operations included in other liabilities	(207)	(142)
Change in cash and cash equivalents	(2,831)	1,091
Cash and cash equivalents at beginning of period	13,716	7,047
Cash and cash equivalents at end of period	$ 10,885	$ 8,138
Cash and temporary investments are comprised of:		
Cash and cash equivalents	$ 10,885	$ 8,138
Temporary investments	41,187	27,473
	$ 52,072	$ 35,611
Interest paid	$ 499	$ 807
Income tax paid	$ 5,926	$ 5,637

Notes to Consolidated Financial Statements

(Unaudited)

For the periods ended June 30, 2002 and 2001

(in thousands of dollars except per share data)

Note 1 | Consolidated Interim Financial Statements

The consolidated interim financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned.

The consolidated interim 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, except for the changes in accounting policies for stock-based compensation and goodwill and other intangible assets described in Note 2. 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, 2002.

Note 2 | Changes in Accounting Policies

Goodwill and other intangible assets

Effective April 1, 2002, the Company adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to goodwill and other intangible assets. Accordingly, the Company ceased amortizing goodwill on April 1, 2002 and adopted the goodwill impairment model introduced by the new accounting rules. Transitional impairment tests on goodwill were performed during the current period and no loss was recognized as an adjustment to the retained earnings as at April 1, 2002.

The goodwill amortization expense, under the previous accounting rules, would have amounted to $336 for the quarter ended June 30, 2002.

Stock-based compensation

Effective April 1, 2002, the Company adopted prospectively the new recommendations of the CICA with respect to stock-based compensation. The Company elected to expense all granting of stock options. On June 6, 2002, the Company granted 150,000 stock options to key employees, representing a fair value of $472 calculated using the Black - Scholes valuation model assuming a 7-year term, expected volatility of 35%, no expected dividend distribution and a risk-free interest rate of 5.2%. The cost of these options is amortized over their earned period. The expense related to stock options recorded in the quarter ended June 30, 2002 amounted to $8 and is included in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

Note 3 | Capital Stock

The authorized capital stock of the Company consists of the following:

An unlimited number of common shares
An unlimited number of first preferred shares, issuable in series
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:

	2002 *June 30*	2002 *March 31*
24,443,937 common shares (24,443,937 at March 31, 2002)	**$ 73,958**	$ 73,958

Common shares issued
During the quarter ended June 30, 2001, the Company issued 2,000 common shares for a total cash consideration of $12 relating to the exercise of stock options.

Diluted earnings per share
In the first quarter ended June 30, 2002, the use of the treasury method, for the diluted earnings per share calculations, increased the average number of common shares by 291,278 to 24,735,215 (346,043 to 23,638,060 in 2001).

Note 4 | Segmented Information

	2002			2001		
	Products related to Aerospace & Defence	**Industrial Products**	**Total**	Products related to Aerospace & Defence	Industrial Products	Total
Activity Segments						
Sales	**$ 56,478**	**$ 12,682**	**$ 69,160**	$ 63,252	$ 14,767	$ 78,019
Operating income	**4,218**	**875**	**5,093**	5,994	1,474	7,468
Financial expenses			**504**			342
Income before income taxes and goodwill amortization			**4,589**			7,126
Assets	**224,090**	**59,205**	**283,295**	226,421	36,641	263,062
Goodwill	**22,060**	**2,100**	**24,160**	22,975	2,193	25,168
Purchase of capital assets	**2,620**	**552**	**3,172**	3,145	1,137	4,282
Amortization	**2,709**	**1,037**	**3,746**	2,456	992	3,448

Note 4 | Segmented Information *(continued)*

	2002			2001		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Geographic Segments						
Sales	$ 52,923	$ 16,237	$ 69,160	$ 56,116	$ 21,903	$ 78,019
Operating income	4,281	812	5,093	5,717	1,751	7,468
Financial expenses			504			342
Income before income taxes and goodwill amortization			4,589			7,126
Assets	216,667	66,628	283,295	208,649	54,413	263,062
Goodwill	20,977	3,183	24,160	21,845	3,323	25,168
Purchase of capital assets	2,444	728	3,172	2,967	1,315	4,282
Amortization	2,495	1,251	3,746	2,144	1,304	3,448

Note 5 | Reclassification

Comparative figures for the quarterly financial statements as at June 30, 2001 have been reclassified to comply with the June 30, 2002 presentation.

Management's Discussion
and Analysis of Financial Position and Operating Results

The purpose of this analysis of the Company's financial position and operating results is to provide the reader with an overview of how the financial position changed between March 31, 2002 and June 30, 2002. It also compares the operating results and cash flow for the quarter ended June 30, 2002 to those for the corresponding period the previous year. This analysis should be read in conjunction with the Company's consolidated audited financial statements dated March 31, 2002.

Forward-looking statement

Statements made in this analysis, other than historical financial results, may be considered as forward-looking statements. These statements express the current beliefs and expectations of Management about the Company's future results and performance. These factors may include, but are not limited to, fluctuations in the interim results to June 30, 2002, changes in level of demand for the Company's services and the impact of competitive price pressures, as well as general market trends and changes in economic conditions. Consequently, readers are advised that actual results could differ materially from those anticipated.

OPERATING RESULTS

Consolidated sales were $69.2 million for the first quarter ended June 30, 2002, down 11.4% from the $78.0 million recorded during the corresponding period last year. The Gas Turbine Components Division, the Aerostructure Division and the Landing Gear Division all recorded revenue declines. This was somewhat compensated by a small increase in Logistics & Defence Division sales.

Landing Gear Division

Landing Gear Division sales totaled $40.5 million for the first quarter ended June 30, 2002, down 4.6% from the $42.4 million recorded during the same period last year. The 2001 results include D.A.L.S. sales for comparative purposes. The lower sales were mainly due to the repatriation by a key customer of sub-contracting work related to the large civil aerospace sector that was produced by the Company last year and the reduced demand for out-of-production aircraft replacement parts. However, the decrease in demand in the commercial sector was partially offset by an increase in sales in the military market.

The Division's sales for the first quarter include $432,000, which were derived from the establishment of the engineering department as a revenue generating activity.

Gas Turbine Components Division

Total sales in the Gas Turbine Components Division were $16.2 million during the first quarter ended June 30, 2002, a decrease of 25.9%, from $21.9 million during the same period last year. The decrease was due to several factors. Aerospace engine parts sales decreased during the quarter, due to a three-week strike at Bombardier and weakness in the civil aerospace sector stemming from the aftereffects of the September 11 events.

Industrial gas turbine shipments were down 7.5%, stemming from lower demand from G.E. Power. The customer has indicated substantial cut backs in the number of industrial gas turbines that it will produce this year. Industrial sales related to information technologies also showed continuing weakness during the quarter.

Aerostructure Division

Aerostructure Division sales totaled $5.6 million for the quarter ended June 30, 2002, down 23.4% compared to $7.3 million during the corresponding quarter last year. The decrease was mostly due to reduced shipments to Bombardier during its three-week strike. Reduced demand continued after the strike ended, since the client only gradually resumed production. However, the backlog in this division remains strong.

Logistics & Defence Division

Logistics & Defence Division sales for the quarter ended June 30, 2002 rose to $6.9 million, an increase of 7.1% from the $6.4 million recorded the previous period. The increase was mostly due to sales to the Norwegian Special Forces.

Geographic and Sector Breakdown

Total sales related to the aerospace and defence sector for the quarter ended June 30, 2002 were $56.5 million, a decrease of 10.7% from the $63.3 million recorded during the corresponding quarter last year. The decrease was mostly related to reduced demand for components for large commercial aircraft and to slower shipments resulting from the Bombardier strike. These factors were somewhat attenuated by stronger demand for military and defence products.

During the same quarter, industrial sector sales were $12.7 million, a 14.1% decrease compared to the $14.8 million recorded during the corresponding period last year. The decrease was largely due to production cut backs by G.E. Power and reduced demand for information technology products.

Approximately 76.5% of the Company's products were manufactured in Canada during the first quarter, compared to 71.9% for the same period last year, and was mainly due to lower demand in the gas turbine and the aerospace engine parts markets. The balance of production was manufactured in the United States. Of the Company's total sales during the quarter, 63.5% came from U.S. customers, 26.0% were derived from Canadian customers and 10.5% from international customers.

Gross Profit

Consolidated gross profit for the first quarter ended June 30, 2002 was $10.6 million (15.4% of sales), down 1.9% as a percentage of sales from $13.5 million (17.3% of sales) during the corresponding quarter last year. The reduced total and the decrease in gross profit as a percentage of sales, are mostly due to lower sales, which reduced fixed manufacturing overhead cost absorption. This applies to all divisions except Logistics & Defence, which saw both shipments and gross profit rise during the quarter.

The Landing Gear Division's gross profit as a percentage of sales dropped 1.9% mostly due to reduced demand in the large civil aerospace market and out-of-production aircraft replacement parts.

Production cut backs by customers such as G.E. Power hurt gross profit as a percentage of sales in the Gas Turbine Components Division, which decreased 3.5%.

The Aerostructure Division's gross profit as a percentage of sales fell 13.2%, because of reduced volume emanating from the Bombardier strike.

The Logistics & Defence Division was the key exception, with gross profit as a percentage of sales rising by 6.1% due to a better sales mix which featured more manufactured, as opposed to distributed, products being sold.

Selling and Administrative Expenses

For the first quarter ended June 30, 2002, selling and administrative expenses were $5.4 million (7.8% of sales), a decrease of 6.4% from the $5.7 million (7.3% of sales) recorded during the corresponding period last year. The increase in selling and administrative expenses as a percentage of sales is due to the fact that a fair portion of these expenses are relatively fixed. In addition, the variable portion of these expenses went up slightly due to commissions and royalties paid on increasing military sales. Selling and administrative expenses included $8,000 with respect to the granting of stock options, which are now expensed since April 1, 2002.

Operating Income

Operating income was $5.1 million for the first quarter ended June 30, 2002 (7.4% of sales), down 31.8% from the $7.5 million (9.6% of sales) during the corresponding quarter the previous year. The decrease in operating income was a direct result of lower sales for the period. Operating income as a percentage of sales fell by 3.1% in the industrial sector and by 2.0% in the aerospace and defence sector.

Financial Expenses

Financial expenses net of interest revenue rose during the first quarter ended June 30, 2002 to $504,000 from $342,000 in 2001. Interest revenue amounted to $295,000 compared to $451,000 in the corresponding quarter last year.

Income Taxes

Income tax provision as a percentage of income before income taxes dropped to 34.3% from 38.1%, due to lower operating income generated by our U.S. operations where corporate income tax rates are higher than in Canada.

Net Income

Net income for the first quarter ended June 30, 2002 was $3.0 million ($0.12 per share fully diluted) compared to $4.1 million ($0.17 per share fully diluted) the previous year. The decrease was mostly due to lower sales.

CASH FLOW AND FINANCIAL POSITION

The Company generated $5.8 million of cash from operations during the quarter ended June 30, 2002, compared to $6.5 million for the corresponding period last year. The decrease was due to a drop in net income ($1.1 million) and was offset by an increase in amortization costs ($0.3 million).

Non-cash items related to operations reduced cash and cash equivalents by $5.5 million during the first quarter ended June 30, 2002. This reduction was mainly due to reduction in accounts payable and accrued liabilities, customer advances and income taxes payable, which together totaled $15.1 million. Increased inventories and other receivables of $2.5 million also contributed. These factors were offset by the $12.9 million drop in accounts receivable that resulted from lower sales volume.

In the first quarter of 2001, non-cash items related to operations reduced cash and cash equivalents by $5.5 million, due mainly to the reduction of $6.4 million in accounts payable and accrued liabilities, customer advances and income taxes payable and to the increase of $5.8 million in inventories. This was offset by a decrease in accounts receivable of $7.5 million.

On June 30, 2002 working capital was $85.4 million, which is comparable to the working capital of $84.8 million at March 31, 2002. Consequently, the working capital ratio improved to 2.14:1 from 1.93:1.

Investing Activities

Funds totaling $2.0 million were used in investing activities during the first quarter of this year, compared to $1.9 million in cash and cash equivalents provided by these activities during the corresponding quarter last year.

Capital asset purchases totaled $3.2 million during the first quarter compared to $4.3 million during the corresponding quarter last year. Of this amount, $1.4 million – including $1.1 million in deposits on new machinery and equipment – was earmarked for the Aerostructure Division, $1.0 million for the Landing Gear Division and $800,000 for the Gas Turbine Components Division.

Approximately $1.1 million in cash was provided from the decrease in temporary investments, which fell to $41.2 million as at June 30, 2002, compared to $42.3 million as at March 31, 2002. Temporary investments decreased by $6.2 million during the corresponding period last year.

Financing Activities

Cash and cash equivalents of $431,000 were used for financing activities during the first quarter ended June 30, 2002, compared to $1.6 million during the corresponding quarter last year.

Of this total, $1.9 million was allocated to repay the long-term debt ($2.1 million during the corresponding quarter last year), including a $700,000 final payment on sale balance owing related to an acquisition. The Company also increased its interest-free loans by $1.5 million during the period.

Consolidated Balance Sheet

Working capital totaled $85.4 million at June 30, 2002, roughly the same as at year-end, and the current ratio improved from 1.93:1 to 2.14:1 during the quarter. The Company's long-term debt-to-equity ratio also improved to 0.43:1 on June 30, 2002, compared to 0.46:1 on March 31, 2002.

Outlook

The civil aerospace production sector continues to remain fragile, particularly the market for large aircraft with more than 100 seats, which is beset by continued fallout from the events of September 11 and uncertainty related to the U.S. economy. This is causing fierce competition among OEM suppliers as the large manufacturers strive to consolidate their supplier base. On the other hand, the picture for smaller aircraft looks somewhat brighter as demand remains strong in this sector.

The energy production sector also peaked last year. According to G.E. Power Systems, demand for gas turbines will be substantially lower over the next three (3) years.

Risk and uncertainties

An overview of the risks and uncertainties associated with the conduct of the Company's business is included in the "Management Discussion and Analysis of Financial Position and Operating Results" for the fiscal year ended March 31, 2002. That overview constitutes an integral part of this document.

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