HÉROUX DEVTEK

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Héroux-Devtek – Quarterly Report

First Quarter Ended June 30, 2008

MESSAGE TO SHAREHOLDERS

First quarter ended June 30, 2008

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's first quarter ended June 30, 2008.

We had a solid first quarter in all of our operations. Despite a weaker economy and a high Canadian dollar, our three divisions increased their sales and, more importantly, all generated a positive net income. Our profitability was favourably impacted by a much better sales mix in Aerostructure operations and by solid sales growth of value-added Industrial Gas Turbine components.

Consolidated sales for the quarter grew by 4.8% to $82.6 million from $78.8 million for the same period last year. Sales of the Landing Gear Division increased by 0.7% to $46.2 million reflecting increased large commercial and helicopter sales offset by a reduced throughput for military repair and overall work and the negative impact of the stronger Canadian dollar on US-denominated sales. Aerostructure sales grew 7.3% to $27.5 million driven by increased military sales to civil customers, mainly on the F-16 program, including kit sales for the same aircraft. Sales of our Industrial segment grew 25.1%, with Industrial Gas Turbine sales up 15.4% year-over-year, while sales to the wind energy and heavy industry markets increased in total by $1.2 million.

The stronger Canadian dollar reduced sales in the first quarter by $6.4 million, or 8.2%, compared with last year and lowered the gross profit margin by 2.2%. The impact of the stronger Canadian dollar against the US currency on our gross profit margin, expressed as a percentage of sales, 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 $9.8 million, or 11.9% of sales, compared with last year's $6.4 million, or 8.1% of sales. In the Aerospace segment, operating income was $8.4 million, or 11.4% of sales, compared with $6.4 million, or 8.9% of sales, in the first quarter of last year, essentially reflecting higher sales and a better sales mix at the Aerostructure Division. The Industrial segment generated operating income of $1.4 million, or 16.3% of sales, for the first quarter of this year compared with an operating loss of $0.1 million a year earlier reflecting higher sales, better margins stemming from increased sales of value-added components, and continued operational improvement.

First quarter net income increased to $5.7 million or $0.18 per share, fully diluted, compared with $4.2 million or $0.13 per share, fully diluted, for the same period last year.

During the quarter, our Landing Gear division was awarded a contract by Bombardier Aerospace to provide the landing gear for the newly launched *Learjet 85* business aircraft program. Under the terms of the agreement, Héroux-Devtek will design, develop, fabricate, assemble, test and deliver landing gear structure and actuation for the *Learjet 85* aircraft. This life-cycle mandate also includes the provision of spare parts.

In addition, the LAHAV Division of Israel Aerospace Industries (IAI) awarded the Aerostructure Division a ten-year contract to manufacture over 50 aluminum and titanium structural detail components such as spars, ribs, and fitting assemblies used in IAI's production of F-15 and F-16 structural assemblies. Production will take place in

Arlington, Texas. The first purchase order was released at a value of approximately $1 million for the remainder of calendar year 2008. Future purchase orders will be released on an annual basis, with the total contract value possibly exceeding $10 to $12 million.

We also concluded the increase of our Credit Facilities to $125 million. These Credit Facilities, which mature in October 2011, allow Héroux-Devtek and its subsidiaries to borrow, either in Canadian or US currency equivalent, for working capital, capital expenditures and other general corporate purposes including acquisitions.

Finally, Héroux-Devtek successfully renewed two long-term collective agreements for its Landing Gear Division. First, 140 employees at the Laval, Québec facility accepted a new four-year contract which extends through December 31, 2011. Second, 315 employees at the Longueuil, Québec plant voted in favour of a three-year collective agreement which extends through April 30, 2011. All of our unionized facilities now have collective agreements in place for at least two fiscal years.

As highlighted by our recently announced contracts, our principal markets remain in growth mode. However, we will continue to monitor the risks associated with a weaker U.S. economy and high crude oil price on the commercial aerospace market as well as with the possibility of a new U.S. administration which may reduce funding of US military budgets. Given solid customer relationships and a strong backlog, Héroux-Devtek is well positioned in all its key markets, but we must make further productivity gains to maintain our global competitiveness in light of the continued strength of the Canadian dollar. We continue to expect achieving approximately 10% internal sales growth in fiscal 2009, although it is 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, 2008

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended June 30, 2008 and 2007.

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, 2008 and 2007, 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 2008.

CONSOLIDATED BALANCE SHEETS
As at June 30, 2008 and March 31, 2008
(In thousands of dollars) (Unaudited)

	Notes	June 2008	March 2008
Assets	7		
Current assets			
Cash and cash equivalents		$ 20,447	$ 24,431
Accounts receivable		47,997	44,887
Income tax receivable		5,276	5,415
Other receivables		4,332	5,420
Inventories	2,6	84,809	86,625
Prepaid expenses		1,591	1,458
Future income taxes		8,846	9,142
Other current assets		7,874	9,235
		181,172	186,613
Property, plant and equipment, net	2	125,733	124,596
Finite-life intangible assets, net	2	7,621	5,787
Other assets		2,866	3,646
Goodwill		35,691	35,812
		$ 353,083	$ 356,454
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 68,053	$ 70,977
Income tax payable	2	1,950	2,349
Future income taxes		6,973	6,680
Current portion of long-term debt	7	4,722	5,011
		81,698	85,017
Long-term debt	7	70,125	72,242
Other liabilities		7,654	8,564
Future income taxes		9,868	9,853
		169,345	175,676
Shareholders' equity			
Capital stock	8	104,340	104,260
Contributed surplus	8	1,235	1,115
Accumulated other comprehensive loss		(10,930)	(9,932)
Retained earnings	2	89,093	85,335
		183,738	180,778
		$ 353,083	$ 356,454

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

CONSOLIDATED STATEMENTS OF INCOME
For the quarters ended June 30, 2008 and 2007
(In thousands of dollars, except share and per share data) (Unaudited)

	Notes	2008	2007
Sales		**$82,571**	$78,776
Cost of sales, including amortization of $4,664 ($4,235 in 2007)		**67,450**	68,156
Gross profit		**15,121**	10,620
Selling and administrative expenses		**5,318**	4,240
Operating income		**9,803**	6,380
Financial expenses, net	7	**1,171**	1,246
Income before income tax expense		**8,632**	5,134
Income tax expense		**2,934**	983
Net income		**$ 5,698**	$ 4,151
Earnings per share – basic		**$ 0.18**	$ 0.13
Earnings per share – diluted		**$ 0.18**	$ 0.13
Weighted-average number of shares outstanding during the quarters		**31,645,381**	31,551,999

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, 2008 and 2007
(In thousands of dollars) (Unaudited)

	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	**2**	**-**	**-**	**-**	**(1,940)**	**-**
Balance at March 31, 2008, adjusted		**104,260**	**1,115**	**(9,932)**	**83,395**	**-**
Common shares issued	**8**					
Under the stock purchase and ownership incentive plan		**80**	**-**	**-**	**-**	**-**
Stock-based compensation expense	**8**	**-**	**120**	**-**	**-**	**-**
Net income		**-**	**-**	**-**	**5,698**	**5,698**
Net gains on derivative financial instruments designated as cash flow hedges, net of taxes of $653		**-**	**-**	**1,357**	**-**	**1,357**
Net gains 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**

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007, adjusted		$103,620	$691	$(2,437)	$66,316	**$ -**
Common shares issued	**8**					
Under the stock option plan		413	-	-	-	-
Under the stock purchase and ownership incentive plan		60	-	-	-	-
Stock-based compensation expense	**8**	-	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 years 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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the quarters ended June 30, 2008 and 2007
(In thousands of dollars) (Unaudited)

	Notes	2008	2007
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		$ 5,698	$ 4,151
Items not requiring an outlay of cash:			
Amortization		4,664	4,235
Future income taxes		927	153
Amortization of deferred financing costs	7	42	46
Amortization of net deferred loss related to a financial derivative instrument	7	-	33
Accretion expense of asset retirement obligations and loans bearing no interest	7	268	242
Stock-based compensation expense	8	120	78
Cash flows from operations		11,719	8,938
Net change in non-cash items related to operations	10	(8,990)	(11,115)
Cash flows relating to operating activities		2,729	(2,177)
Investing activities			
Purchase of property, plant and equipment		(4,039)	(4,717)
Increase in finite-life intangible assets		(1,203)	(4)
Cash flows relating to investing activities		(5,242)	(4,721)
Financing activities			
Repayment of long-term debt	7	(1,417)	(3,546)
Issuance of common shares	8	80	473
Other		(185)	-
Cash flows relating to financing activities		(1,522)	(3 073)
Effect of changes in exchange rates on cash and cash equivalents		51	234
Change in cash and cash equivalents during the period		(3,984)	(9,737)
Cash and cash equivalents at beginning of period		24,431	20,124
Cash and cash equivalents at end of period		$ 20,447	$ $10,387
Supplemental information:			
Interest paid		$ 789	$ 810
Income taxes paid		$ 1,786	$ 294

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the quarters ended June 30, 2008 and 2007
(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, except for the changes in accounting policies mentioned 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, 2008.

Note 2. Changes in Accounting Policies

ADOPTED IN FIRST QUARTER OF FISCAL YEAR 2009 AND EFFECTIVE APRIL 1, 2008
In the first quarter ended June 30, 2008, the Company adopted four new Handbook Sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3031 Inventories
In June 2007, the Accounting Standard Board ("AcSB") released Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements. These required additional disclosures relating to inventories are:

- The amount of inventories recognized as an expense
- The amount of any write-down of inventories
- The amount of any reversal of any write-down
- The circumstances or events that led to the reversal of a write-down

As at April 1 2008, the Company adopted the unit cost method in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The excess-over-average production costs (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract), is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Company has revised its manufacturing overhead costs allocation policy, whereby abnormal costs are expensed and specifically determined on normal production capacity. Based on these new rules, the Company has applied these changes in accounting policy by adjusting the opening retained earnings and by making certain reclassifications in the Company's balance sheet as at April 1, 2008. Also, the program tooling costs and development costs, which were recorded as part of inventories in prior years, were either written-off to retained earnings or reclassified to property, plant and equipment and finite-life intangible assets, the amortization of these costs being based on the pre-determined contract quantity. The consolidated financial statements for the prior fiscal year were not restated, as permitted by the new Section.

As at April 1, 2008, the effect of these changes in accounting policy, including certain reclassifications, and their related income tax impact on the Company's consolidated balance sheet was as follows:

	Reported as at March 31, 2008	Impact of changes in accounting policy: Inventories		Restated as at April 1, 2008
		Write-off	Reclassification	
Assets				
Inventories	$ 86,625	$ (2,869)	$(2,878)	$ 80,878
Property, plant and equipment, net	124,596	-	1,691	126,287
Finite-life intangible assets	5,787	-	1,187	6,974
Liabilities				
Income taxes payable	$ 2,349	$ (929)	$ -	$ 1,420
Retained earnings	$ 85,335	$(1,940)	$ -	$ 83,395

Inventory categories

Inventories consist of raw materials, work in process and finished goods which are valued at the lower of cost (unit cost method) and net realizable value.

Progress billings received from customers are deducted from related costs in inventories. Progress billings received in excess of related costs in inventories are classified as customers' advances in accounts payable and accrued liabilities.

Revenue recognition

Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered, the sale price is determinable and collectability is reasonably assured.

Provision for losses on contract, if any, are made as soon as it is determined that total estimated contract costs are expected to exceed the total contract revenue.

Section 1535 Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. These standards require an entity to disclose the following:

- its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any imposed capital requirements to which it is subject;
- when the entity has not complied with such requirements, the consequences of such non-compliance.

Section 3862 Financial Instruments - Disclosures

This Section modifies the disclosure requirements for financial instruments that were included in Section 3861 'Financial Instruments – Disclosure and Presentation. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

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

Section 3863 Financial Instruments - Presentation

This Section carries forward unchanged the presentation requirements of the old Section 3861 – Financial Instruments – Disclosure and Presentation (See note 5 to the June 30, 2008 interim consolidated financial statements).

The new disclosure and presentation requirements under Sections 1535 and 3862 referred to above are further outlined in notes 3 and 4 to the June 30, 2008 interim consolidated financial statements.

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FUTURE CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064, 'Goodwill and Intangible Assets', which replaces Section 3062, 'Goodwill and Other Intangible Assets' and Section 3450, 'Research and Development Costs'. For the Company, this Section is effective for interim and annual financial statements beginning on April 1, 2009. This Section establishes standards for the recognition, measurement and disclosure of goodwill and 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'.

International Financial Reporting Standards

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

The Company is evaluating the effect of these new standards on its consolidated financial statements and is currently developing its IFRS changeover plan.

Note 3. Financial Risk Management

The Company is primarily exposed to market risk, credit risk and credit concentration risk, and liquidity risk as a result of holding financial instruments.

Market risk	Risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is primarily exposed to the following market risks: • Foreign exchange risk • Interest rate risk
Credit risk and Credit concentration risk	Credit risk – Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation Credit concentration risk - Risk that the business is concentrated on a limited number of customers and financial institutions, which could cause an increased Credit risk as defined above
Liquidity risk	Risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

Market risk

Foreign exchange risk

The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. Based on the last fiscal year ended March 31, 2008, the Company's sales made from its Canadian and American operations and in the related currencies were as follow (calculated based on the Company's consolidated sales):

	CANADIAN OPERATIONS	AMERICAN OPERATIONS	TOTAL
U.S. Currency	49%	28%	77%
Canadian Currency	23%	-	23%
% consolidated sales	**72%**	**28%**	**100%**

In an effort to mitigate the foreign currency fluctuation exposure on sales, the Company makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian operations.

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

At June 30, 2008 the Company had forward foreign exchange contracts totalling US $141.8 million at an average rate of 1.0787 (US $145.5 million at an average rate of 1.0922 at March 31, 2008) maturing over the next four fiscal years, with the majority maturing over the next two fiscal years.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Company's financial instruments as of the balance sheet date. As of June 30, 2008, a 1% strengthening of the Canadian dollar over the US currency, while all other variables would remain fixed, would have reduced the consolidated net income by $35 and other comprehensive income by $1,471.

Interest rate risk

The Company is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Banks Credit Facilities (see Note 7 to the interim consolidated financial statements). In addition, the interest rate fluctuations could also have an impact on the Company's interest revenue which is derived from its cash and cash equivalents.

The Company's interest rate policy requires, in general, maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rate.

In July 2007, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company has entered into a four-year interest rate swap agreement for an amount of U.S. $15,000 that fixes the Libor U.S. rate at 5.53% and matures on August 1, 2011.

The interest credit risk sensitivity is calculated on the floating rate liability at the end of the quarter. Assuming a 100-basis point increase in interest rate as at June 30, 2008, while all other variables would remain fixed, this would have reduced the Company's consolidated net income by $65. For the derivative financial instrument (interest rate swap agreement), a shift of 100-basis point increase in the yield curve, as of June 30, 2008, would have increased the Company's other comprehensive income by $297 while a 100-basis point decrease would have reduced it by $308.

Credit risk and Credit Concentration risk

The credit and credit concentration risks represent counterparty risks where the parties with which the Company enters into the related agreements or contracts could not be able to fulfill their commitments.

Credit risk is primarily related to the potential inability of customers to discharge their obligations in regard to the Company's accounts receivable and, of financial institutions in regard to the Company's cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments.

Credit concentration risk is related to the fact that a significant portion of the Company's sales, approximately 68%, are made to a limited number of customers and that the Company deals mainly with a limited number of financial institutions.

Accounts receivable
The credit and credit concentration risks related to this financial instrument are limited due to the fact that the Company deals generally with large corporations and Government agencies, with the exception of sales made to non-governmental agencies outside North America which represent approximately 1% of the Company's total annual consolidated sales.

Historically, the Company has not made any significant write-off of accounts receivable and the number of days in accounts receivable at June 30, 2008, was at acceptable levels in the industries where the Company evolves.

The credit quality of accounts receivable is monitored on a regular basis through the Company's decentralized operations.

Changes in the allowance for doubtful accounts were as follows for the quarter ended June 30, 2008:

Balance at beginning of the period, as at April 1, 2008	$ 936
Provision for doubtful accounts	29
Amounts written off	(1)
Effect of foreign exchange rate changes	(2)
Balance at end of the period, as at June 30, 2008	$ 962

The Company's trade receivables that are past due but not impaired amounted to $7,733 as at June 30, 2008, of which $557 were more than 90 days past due.

Cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments
The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Company deals only with Canadian chartered banks and their subsidiaries.

On that basis, the Company does not anticipate any breach of agreement by counterparties.

The maximum exposure to credit and credit concentration risks for financial instruments represented the following as at June 30, 2008 (See Note 5 to the interim consolidated financial statements):

	Held for Trading	Loans and Receivables
Cash and cash equivalents	$ 20,447	$ -
Accounts receivable	-	47,997
Other receivable	-	1,480
Other current assets	5,177	2,697
Other assets	2,866	-

Liquidity Risk
The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set and under the terms of such commitments and at a reasonable price. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

The maturity analysis of financial liabilities represented the following as at June 30, 2008 (See Note 5 to the interim consolidated financial statements):

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$42,367	$ -	$ -	$ -	$42,367
Long-term debt (2)	4,832	6,111	61,284(1)	8,531	80,758
Other liabilities	-	834	923	-	1,757

(1) Includes the used Bank's Credit Facilities of $52,847 maturing on October 4, 2011.
(2) Includes interest accretion on loan bearing no interest.

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Note 4. Capital Risk Management

The general objectives of the Company's management, in terms of capital management, reside essentially in the preservation of the Company's capacity to continue operating, to continue providing benefits to other stakeholders, and also, in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Company.

The Company thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risk characteristics of the underlying assets.

In order to maintain or adjust its capital structure, the Company can:

- Issue new common shares from treasury;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders;
- Modify dividends paid to shareholders. However, the Company does anticipate paying dividends on outstanding shares in the near future.

In the Company's current activity sectors involving long-term contracting and major capital expenditures, the total cash flows generated by the Company must be consistent with its net debt to equity ratio and comparable with wide-spread practices in these sectors. This net debt to equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Company's capital management and monitoring practices.

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt, less cash and cash equivalents. Shareholders' equity includes capital stock, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. In some cases, shareholders' equity may be adjusted by amounts recorded in accumulated other comprehensive income (loss), particularly those related to cash flow hedges, depending on their nature and materiality. Moreover, in some cases and for the same reasons as those indicated above, total debt and shareholders' equity may be adjusted by the amount of subordinated or unsecured loans and off-balance sheet items.

During the quarter ended June 30, 2008, the Company pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt to equity ratio, so as to allow access to financing at a reasonable or acceptable cost in relation to risk taken. The Company's net debt to equity ratio, as at June 30, 2008 and as at the end of the fiscal year ended March 31, 2008 was 0.30:1 and 0.29:1 respectively.

Moreover, the Company is not subject to any regulatory capital requirements and the Company's capital management has not changed since the prior year.

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Note 5. Financial Instruments

The classification of financial instruments and their carrying amounts and fair values were as follows as at:

	June 30, 2008 Carrying value			Fair Value	March 31, 2008 Carrying value			Fair Value
	HFT	L&R	Total (1)		HFT	L&R	Total (1)	
Financial Assets								
Cash and cash equivalents	$ 20,447	$ -	$ 20,447	$ 20,447	$ 24,431	$ -	$ 24,431	$ 24,431
Accounts receivable(2)	-	47,997	47,997	47,997	-	44,887	44,887	44,887
Other receivables(3)	-	1,480	1,480	1,480	-	3,804	3,804	3,804
Other current assets(4)	5,177	2,697	7,874	7,874	6,706	2,529	9,235	9,235
Other assets(6)	2,866	-	2,866	2,866	3,641	-	3,641	3,641
	$ 28,490	$ 52,174	$ 80,664	$ 80,664	$34,778	$51,220	$85,998	$85,998

	June 30, 2008 Carrying value			Fair Value	March 31, 2008 Carrying value			Fair Value
	HFT	Other than HFT	Total (1)		HFT	Other than HFT	Total (1)	
Financial Liabilities								
Accounts payable and accrued liabilities(5)	$ 875	$ 41,492	$ 42,367	$ 42,367	$1,391	$ 48,537	$ 49,928	$ 49,928
Long-term debt, including current portion	-	75,491	75,491	77,322	-	77,890	77,890	79,195
Long-term liabilities – Other liabilities(6)	1,462	295	1,757	1,757	2,234	-	2,234	2,234
	$ 2,337	$117,278	$119,615	$121,446	$3,625	$126,427	$130,052	$131,357

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprised of trade receivables.
(3) Comprised of certain other receivables.
(4) Comprised of short-term derivative financial instruments designated in a hedging relationship and deposits on machinery and equipment.
(5) Comprised of trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities. It also includes short-term derivative financial instruments designated in a hedging relationship.
(6) Comprised of long-term derivative financial instruments designated in a hedging relationship.

Fair value of financial instruments

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for the instrument to which the Company has immediate access. When bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair value based on internal or external valuation models, such as discounted cash flow analysis and using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses primarily external, readily observable market inputs, including factors such as interest rates, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable.

No profit or loss was accounted for the quarters ended June 30, 2008 and 2007 on financial instruments designated as HFT.

Note 6. Inventories

Inventories consist of:

	June 30, 2008	March 31, 2008
Raw materials	**$ 41,984**	$ 22,761
Work in process and finished goods	**67,112**	86,511
Less: Progress billings	**24,287**	22,647
	$ 84,809	$ 86,625

The amount of inventory recognized as cost of sales for the quarters ended June 30, 2008, was as follows:

Aerospace segment	**$ 57,406**
Industrial segment	**6,474**
	$ 63,880

The variation of the write-downs related to inventories for the quarters ended June 30, 2008, was as follows:

Write-down recognized as expense	**$1,247**
Reversal of any write-down as reduction of the expense	**$ 842**

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

Note 7. Long-term debt

	June 30, 2008	March 31, 2008
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $125,000 ($80,000 as of March 31, 2008) (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, 2008 (representing an effective interest rate of 4.2%) and at Libor plus 1.0% at June 30, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.5%), and bankers' acceptance plus 1.0% for the Canadian Credit Facilities at March 31, 2008 (representing an effective interest rate of 4.6%) and Libor plus 1.0% at March 31, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.7%).		
At June 30 and March 31, 2008, the Company used $9,000 and U.S. $43,000 on the Credit Facilities.	**$ 52,847**	$ 53,140
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2017.	**11,651**	12,977
Obligations under capital leases bearing interest between 4.2% and 9.0% maturing between November 2008 and November 2014, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $1,541 ($1,797 at March 31, 2008).	**10,993**	11,773
Deferred financing costs, net	**(644)**	(637)
	74,847	77,253
Less: current portion	**4,722**	5,011
	$ 70,125	$ 72,242

Senior Secured Syndicated Revolving Credit Facilities

In fiscal year 2007, the Company successfully concluded the amendment and extension of its Credit Facilities whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature on October 4, 2011, with no extension.

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 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. On April 14, 2008, the Company increased its $80 million Credit Facilities to $125 million, essentially under the same terms and conditions.

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

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

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

	2008	2007
Interest	**$ 1,029**	$ 1,017
Interest accretion on loans bearing no interest	**215**	191
Amortization of deferred financing costs	**42**	46
Standby fees	**21**	58
Accretion expense of asset retirement obligations	**53**	51
Amortization of net deferred loss related to financial derivative instrument	**-**	33
Gain on financial instruments classified as HFT - Interest revenue	**(189)**	(150)
Financial expenses, net	**$ 1,171**	$ 1,246

Note 8. 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, 2008	March 31, 2008
31,650,306 common shares at June 30, 2008 (31,639,019 at March 31, 2008)	**$104,340**	$104,260

Issuance of common shares

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 cash consideration of $80, all under the Company's stock purchase and ownership incentive plan.

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 cash consideration of $473. A number of 83,300 common shares were issued following the exercise of stock options for a total cash 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).

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, 2008 amounted to $120 ($78 for the quarter ended June 30, 2007).

During the quarters ended June 30, 2008 and 2007, no stock options were granted and 65,000 options were cancelled, all in the quarter ended June 30, 2008.

At June 30, 2008, the Company had 1,209,221 outstanding stock options at a weighted exercise average price of $6.52 which will expire over the next six years (between June 2009 and August 2014).

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, 2008, 11,287 common shares were issued and 4,652 common shares were attributed to the participating employees. Since the beginning of the plan, 118,447 common shares were issued and 52,230 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.

During the quarter ended June 30, 2007, 7,421 common shares were issued and 3,288 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $30 was recorded as compensation expense and was 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 the 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, 2008 and 2007.

During the quarters ended June 30, 2008 and 2007, no SARs were granted.

At June 30, 2008, on a cumulative basis, 95,500 SARs were still outstanding at a weighted-average granted value of $6.53 which expire at various dates between fiscal years 2009 and 2014.

Note 9. 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 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 costs for the quarters ended June 30 are as follows:

		2008		2007
Defined benefit pension costs	**$**	**432**	$	226
Defined contribution pension costs		**438**		371
	$	**870**	$	597

Note 10. Net change in non-cash items related to operations

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

		2008		2007
Accounts receivable	**$**	**(3,110)**	$	6,438
Income tax receivable		**139**		(19)
Other receivables		**1,088**		(6,491)
Inventories		**(3,791)**		7,433
Prepaid expenses		**(133)**		(374)
Other current assets		**(168)**		(1,287)
Accounts payable and accrued liabilities and, other liabilities		**(3,395)**		(14,652)
Income tax payable		**530**		313
Effect of changes in exchange rate		**(150)**		(2,476)
	$	**(8,990)**	$	(11,115)

Note 11. Segmented information for the quarters ended June 30

Activity Segments

	2008			2007		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	**$73,993**	**$8,578**	**$82,571**	$71,918	$6,858	$78,776
Operating income (loss)	**8,402**	**1,401**	**9,803**	6,425	(45)	6,380
Financial expenses			**1,171**			1,246
Income before income tax expense			**8,632**			5,134
Assets	**330,104**	**22,979**	**353,083**	307,533	20,555	328,088
Goodwill	**34,778**	**913**	**35,691**	35,551	954	36,505
Purchase of property, plant and equipment	**2,684**	**1,355**	**4,039**	4,497	220	4,717
Increase in finite-life intangible assets	**1,203**	**-**	**1,203**	4	-	4
Amortization	**4,050**	**614**	**4,664**	3,573	662	4,235

Geographic Segments

	2008			2007		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$55,349**	**$27,222**	**$82,571**	$57,063	$21,713	$78,776
Property plant and equipment, net	**75,631**	**50,102**	**125,733**	67,725	38,727	106,452
Finite-life intangible assets, net	**1,216**	**6,405**	**7,621**	1,164	5,625	6,789
Goodwill	**17,534**	**18,157**	**35,691**	17,534	18,971	36,505
Export sales (1)	**$25,329**			$31,960		

63% of the Company's sales (67% in 2007) were to U.S. customers.

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

Note 12. Reclassification

Comparative figures for the financial statements as at June 30, 2007 and March 31, 2008 have been reclassified to comply with the June 30, 2008 presentation.

HÉROUX DEVTEK

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, 2008 and June 30, 2008. It also compares the operating results and cash flows for the first quarter ended June 30, 2008 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, 2008 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, 2008. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual 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, 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, 2008. 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.

HÉROUX DEVTEK

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.

Although the North-American economy has weakened and is struggling somewhat with high fuel costs, the Company posted positive results for all its divisions. For the first quarter of fiscal 2009, all three divisions have positive net income, including the Gas Turbine Components Division, which is now enjoying the fruits of its turnaround efforts. These results have also been achieved with a Canadian dollar hovering at close to par with the US dollar for the quarter, even stronger than it was a year ago.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended June 30, 2008 grew by 4.8% to $82.6 million from $78.8 million for the same period last year.

The increase in first quarter sales was mainly due to increased large commercial sales at the Landing Gear Division, higher military sales for the Aerostructure Division and growth in Industrial sales. The sustained strength of the Canadian dollar against the US dollar once again had a negative impact on US dollar denominated sales, reducing total sales by $6.4 million or 8.2% compared to last year.

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

Segment	Quarters ended June 30 2008 ($'000)	2007 ($'000)	VARIANCE ($'000)	%
Aerospace				
Military				
Military sales to government	12,563	14,973	(2,410)	(16.1)
Military sales to civil customers	24,382	21,229	3,153	14.9
Total Military	36,945	36,202	743	2.1
Total Commercial	37,048	35,716	1,332	3.7
Total Aerospace	73,993	71,918	2,075	2.9
Total Industrial	8,578	6,858	1,720	25.1
Total	82,571	78,776	3,795	4.8

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 2008 ($'000)	2007 ($'000)	VARIANCE ($'000)	%
Landing Gear	46,197	45,858	339	0.7
Aerostructure	27,496	25,624	1,872	7.3
Other aerospace products	300	436	(136)	(31.2)
Total	73,993	71,918	2,075	2.9

For the first quarter ended June 30, 2008, overall sales for the Aerospace segment were up 2.9% to $74.0 million from $71.9 million for the same period last year.

During the first quarter, Landing Gear sales increased by $0.3 million or 0.7% relative to the same period last year. This resulted mainly from increased large commercial and helicopter sales, offset by a reduced throughput for military repair and overhaul work and the negative impact of the stronger Canadian dollar on US-denominated sales.

First quarter Aerostructure sales were $27.5 million, $1.9 million or 7.3% higher than last year. This reflects the increase in military sales to civil customers, mainly on the F-16 program, including kit sales for the same program.

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Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended June 30			
	2008	2007	VARIANCE	
	($'000)	($'000)	($'000)	%
Gas Turbine	4,120	3,571	549	15.4
Other Industrial	4,458	3,287	1,171	35.6
Total	8,578	6,858	1,720	25.1

First quarter sales for the Industrial segment totalled $8.6 million this year, 25.1% higher than last year. Gas Turbine sales continued the positive trend started last year, with a 15.4% increase relative to last year, while Other Industrial sales benefitted from a $1.2 million increase in sales in the heavy industry and wind energy markets.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended June 30	
	2008	2007
Canada	36%	31%
US	63%	67%
International	1%	2%
	100%	100%

The change in the sales-by-destination mix can be explained by the winding-down of a large commercial retrofit program to a US customer, which was compensated by increased large commercial sales to Canadian customers.

Gross Profit

For the quarter ended June 30, 2008, consolidated gross profit as a percentage of sales was 18.3%, up 4.8% from 13.5% last year.

This year, gross profit was favourably impacted by the higher Aerostructure sales volume and much better sales mix, and by the increase in value-added Industrial sales at the Gas Turbine Components Division. These increases were somewhat offset by lower margin at the Landing Gear Division, which is still feeling the pressure of the strong Canadian dollar on its gross profit margin. Furthermore, it is worth noting that, in the first quarter of last year, the Aerostructure margin was negatively impacted by the development phase of the JSF program.

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The Canadian dollar had a 2.2% negative impact on the consolidated gross profit margin in the quarter ended June 30, 2008, 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 contracts to mitigate the risks related to the Canadian currency fluctuations against the US currency (see below).

Selling and Administrative Expenses

First quarter selling and administrative expenses were as follows:

	Quarters ended June 30	
	2008	2007
Selling and administrative expenses ($'000)	5,318	4,240
% of sales	6.4	5.4

First quarter selling and administrative expenses were $1.1 million higher than last year and 1% higher as a percentage of sales. Selling and administrative expenses were reduced by a $0.6 million gain on currency translation in the first quarter ended June 30, 2007, compared to a break-even for the same period this year. Selling and administrative expenses also rose due to the increase level of business activity.

Operating Income (Loss)

Aerospace Segment

Aerospace operating income was $8.4 million or 11.4% of sales in the first quarter compared to $6.4 million or 8.9% of sales in the first quarter of last year, with the increase essentially reflecting higher sales and a better sales mix at the Aerostructure division.

Industrial Segment

The operating income of $1.4 million or 16.3% of sales for the first quarter of this year compares to a $0.1 million operating loss for the same period last year, and reflects the continued operational improvement, better margins and the increase in Industrial Gas Turbine and Wind Energy sales in the first quarter compared to last year.

Financial Expenses

Financial expenses for both quarters ended June 30, 2008 and 2007, were $1.2 million, with the net debt position being almost the same for both periods. The net debt position is defined as the long-term debt, including the current portion, less cash and cash equivalents.

Income Tax Expense

The Company had an income tax expense of $2.9 million for the quarter ended June 30, 2008, compared to an expense of $1.0 million last year. The effective tax rate 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 self-sustaining 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).

The Company's effective income tax rate for the first quarter ended June 30, 2007 was 19.1%, compared to its Canadian blended statutory rate of 32.7%. This difference reflects the favourable impact of permanent differences, which reduced the income tax rate by 3.5%, and by the recognition of $300,000 in income tax benefits, which also reduced the income tax rate by 5.8%, 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.

Net Income

	Quarters ended June 30	
	2008	2007
Net income ($'000)	5,698	4,151
Earnings per share – basic & diluted ($)	0.18	0.13

The Company posted net income of $5.7 million for the first quarter ended June 30, 2008, compared to net income of $4.2 million for the quarter ended June 30, 2007. These results reflect essentially increased sales volume and improved gross profit margins in both the Aerostructure and Gas Turbine Components divisions, as explained before.

Earnings per share figures are based on weighted averages of 31,645,381 common shares outstanding for the first quarter of this year and 31,551,999 for the same period last year. The increase in the number of shares is essentially due to the issuance of 11,287 common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 8 to the interim consolidated financial statements).

On August 5, 2008, the date of this MD&A, the Company had 31,657,827 common shares outstanding.

HÉROUX DEVTEK

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarters ended June 30	
	2008 ($'000)	2007 ($'000)
Cash flows from operations	11,719	8,938
Net change in non-cash items related to operations	(8,990)	(11,115)
Cash flows relating to operating activities	2,729	(2,177)

For the first quarter ended June 30, 2008, cash flows from operations were $11.7 million, $2.8 million higher than for the same period last year, due mainly to a $1.5 million improvement in net income and the increase in future income taxes ($0.8 million).

The net change of $9.0 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, a $3.8 million increase in inventories (before the inventory adjustment following the new accounting guidelines – see below) in line with the upcoming business activity, and a reduction of $3.4 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.

The net change of $11.1 million in non-cash items for the first quarter ended June 30, 2007, arose mainly from a decrease of $14.7 million in accounts payable and accrued liabilities and other liabilities 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.

Investing Activities

The Company's investing activities were as follows:

	Quarters ended June 30	
	2008 ($'000)	2007 ($'000)
Purchase of property, plant and equipment	(4,039)	(4,717)
Increase in finite-life intangible assets	(1,203)	(4)
Cash flows relating to investing activities	(5,242)	(4,721)

First quarter purchase of property, plant and equipment totalled $4.0 million this year compared to $4.7 million last year. Capital expenditures of about $35 million are planned for the current fiscal year, including $14 million for investments following the award in November 2007 of a $115 million, 10-year sales contract to manufacture major landing gear components for the Boeing B-787, the Airbus A-320 and Sukhoi RRJ programs, and more than $2 million to complete the modernization of the plating department at the Landing Gear plant in Longueuil, Quebec.

The $1.2 million increase in finite-life intangible assets represents the purchase of $0.2 million of computer software and the increase, in the first quarter of fiscal 2009, of capitalized development costs ($1.0 million) for Aerospace long-term contracts and following the implementation of new accounting guidelines on inventories (see 'Changes in accounting policies', below).

Financing Activities

The Company's financing activities were as follows:

	Quarters ended June 30	
	2008 ($'000)	2007 ($'000)
Repayment of long-term debt	(1,417)	(3,546)
Issuance of common shares	80	473
Other	(185)	-
Cash flows relating to financing activities	(1,522)	(3,073)

There was no increase to the Company's long-term debt in the quarters ended June 30, 2008 and 2007. The increase in common shares issued last year resulted from the exercise of 83,300 options at a price of $4.96 per common share for a total of $0.4 million in the quarter ended June 30, 2007 while there was no option exercised this year.

On April 14, 2008, the Company increased its $80 million in Credit Facilities to $125 million on essentially the same terms and conditions. The Credit Facilities mature in October 2011 (see Note 7 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, 2008, the Company had 1,209,221 outstanding stock options at a weighted average exercise price of $6.52 that will expire over the next six years (between June 2009 and August 2014).

During the quarter ended June 30, 2008, 65,000 options were cancelled (none in the same period last year), having reached their expiry dates.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 489,718 had not yet been granted at June 30, 2008. 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 8 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, 2008 and June 30, 2008:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(4.0)	See consolidated statements of cash flows.
Accounts receivable	3.1	In line with the increased level of business activity. The impact of the strengthening of the Canadian dollar since March 31, 2008, on US-denominated accounts receivable had a negligible impact at quarter-end.
Inventories	(1.8)	Inventories were reduced ($5.7 million) following the implementation of new accounting guidelines on inventories (see “Changes in Accounting Policies”, below), partially offset by the upcoming increase in business activity.
Other current assets	(1.4)	Essentially reflects the variation in the Company’s balance sheet of short-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Property, plant and equipment, net	1.1	Due to: • Purchase of capital assets ($4.0 million); • It also reflects the implementation of the new accounting guidelines on inventories (see "Changes in Accounting Policies", below) ($1.7 million) Net of: • Amortization ($4.1 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.5 million).
Finite-life intangible assets, net (includes a $4.7 million net backlog)	1.8	Due to: • Purchase of computer software ($0.2 million); • Increase in finite-life intangible assets ($1.0 million), representing the increase in capitalized Aerospace development costs for long-term contracts, and following the implementation of the new accounting guidelines on inventories; • It also reflects the implementation of the new accounting guidelines on inventories (see "Changes in Accounting Policies", below) ($1.2 million) Net of: • The amortization ($0.5 million) on the underlying value of the net backlog and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.1 million).
Other assets	(0.8)	Essentially reflects the variation in the Company's balance sheet of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	(2.9)	Mainly reflects an overall reduction in days of payable and accrued liabilities. The impact of the strengthening of the Canadian dollar since March 31, 2008, on US denominated accounts payable and accrued liabilities had minimal impact at quarter-end.
Long-term debt (including current portion)	(2.4)	Due to: • Capital repayments of long-term debt ($1.4 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries net of the variation in the Company's balance sheet of long-term financial instruments measured at fair value at the date of inception ($1.0 million).

Item	Change ($ millions)	Explanation
Accumulated other comprehensive loss	(1.0)	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	3.8	See consolidated statements of changes in shareholders' equity and "Changes in Accounting Policies", below.

At June 30, 2008 and March 31, 2008, 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, 2008	March 31, 2008
Working capital ratio	2.22:1	2.20:1
Cash and cash equivalents	$20.4 million	$24.4 million
Long-term debt-to-equity ratio	0.38:1	0.40:1
Net debt-to-equity ratio(1)	0.30:1	0.29:1

(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 $9.5 million as at June 30, 2008 ($9.4 million as at March 31, 2008), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At June 30, 2008, the Company also had purchase commitments totalling $18.4 million ($16.5 million to March 31, 2008), mainly for machinery and equipment and construction in progress, for which deposits of $2.7 million ($2.3 million to March 31, 2008) on machinery and equipment were made and are included in the Company's other current assets. These commitments mainly relate to the modernization of the Longueuil plant plating department and the investment required following the award of a $115 million sales contract (see "Investing Activities", above).

At June 30, 2008, the Company had entered into forward foreign exchange contracts to sell US $141.8 million at an average exchange rate of 1.0787 (US$145.5 million at an average rate of 1.0922 as at March 31, 2008 and US $112.3 million at an average rate of 1.2055 as at June 30, 2007) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between July 2008 and January 2012, with the majority maturing in fiscal 2009 and 2010.

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CHANGES IN ACCOUNTING POLICIES

ADOPTED IN FIRST QUARTER OF FISCAL YEAR 2009 AND EFFECTIVE APRIL 1, 2008

In the first quarter ended June 30, 2008, the Company adopted four new Handbook sections issued by the Canadian Institute of Chartered Accountants (CICA):

<u>Section 3031, Inventories</u>

In June 2007, the Accounting Standard Board ("AcSB") released Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. The section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements.

As at April 1 2008, the Company adopted the unit cost method in replacement of the average cost method. The unit cost method is a prescribed cost method under which the actual production costs are charged to each unit produced and recognized to income as the unit is delivered. The excess-over-average production costs (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract), is not allowed under the unit cost method. In addition, as a result of the more restrictive guidance on the determination of costs, the Company has revised its manufacturing overhead costs allocation policy, whereby abnormal costs are expensed and specifically determined on normal production capacity. Based on these new rules, the Company has applied these changes in accounting policy by adjusting the opening retained earnings and by making certain reclassifications in the Company's balance sheet as at April 1, 2008. Also, the program tooling costs and development costs, which were recorded as part of inventories in prior years, were either written-off to retained earnings or reclassified to property, plant and equipment and finite-life intangible assets, the amortization of these costs being based on the pre-determined contract quantity. The consolidated financial statements for the prior fiscal year were not restated, as permitted by the new Section.

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As at April 1, 2008, the effect of these changes in accounting policy, including certain reclassifications, and their related income tax impact on the Company's consolidated balance sheet were as follows:

(000's)	Reported as at March 31, 2008	Impact of changes in accounting policy: Inventories		Restated as at April 1, 2008
		Write-off	Reclassification	
Assets				
Inventories	$86,625	$(2,869)	$ (2,878)	$80,878
Property, plant and equipment, net	124,596	-	1,691	126,287
Finite-life intangible assets	5,787	-	1,187	6,974
Liabilities				
Income taxes payable	$ 2,349	$ (929)	$ -	$ 1,420
Retained earnings	$85,335	$(1,940)	$ -	$83,395

Section 1535, Capital Disclosures

This section establishes standards for disclosing information about an entity's capital and how it is managed.

Section 3862, Financial Instruments - Disclosures

This section modifies the disclosure requirements for financial instruments that were included in Section 3861, 'Financial Instruments – Disclosure and Presentation'. The new standards require entities to provide disclosures in their financial statements that enable users to evaluate:

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

Section 3863, Financial Instruments - Presentation

This section carries forward unchanged the presentation requirements of the old Section 3861, "Financial Instruments – Disclosure and Presentation" (see Note 5 to the June 30, 2008 interim consolidated financial statements).

The new disclosure and presentation requirements under Sections 1535 and 3862 referred to above are further outlined in Notes 3 and 4 to the June 30, 2008 interim consolidated financial statements.

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. For the Company, the conversion to IFRS will be required for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the mandatory transition date.
The Company is presently working on its preliminary changeover plan, which will be disclosed before the end of this fiscal year.

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 controls over financial reporting.

The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have determined that there were no changes to the Company's internal controls over financial reporting during the first quarter ended June 30, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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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, 2008.

- 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

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

Given a solid backlog and solid customer relationships, Héroux-Devtek is well positioned in all its key markets, but further productivity gains must be achieved to remain globally competitive in light of the continued strength of the Canadian dollar. The Company is still anticipating internal revenue growth of approximately 10% in fiscal 2009, although it should be noted that the second quarter is traditionally somewhat slower due to vacations and plant shutdowns.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on August 5, 2008. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.