Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or the "Company") changed between March 31, 2010 and September 30, 2010. It also compares the operating results and cash flows for the three- and six-month periods ended September 30, 2010 to those for the same periods in the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2010 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2010 and September 30, 2010. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of worldwide general economic conditions and, in particular, 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; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it 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 statements, whether as a result of new information, future events or otherwise.

Overview

Héroux-Devtek and its subsidiaries specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial segments. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States and Canada.

Héroux-Devtek serves two segments: Aerospace and Industrial. The Company supplies both the commercial and military sectors of the Aerospace segment with landing gear products (including spare parts and repair and overhaul services), and airframe structural components (including kits). In the commercial sector, the Company is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment. It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry markets.

The Aerospace segment comprises the Landing Gear and Aerostructure product lines. The Industrial segment comprises large power generation components and other industrial products produced by the Industrial product line (formerly referred to as Gas Turbine Components product line). The Landing Gear product line designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team and serves both the Commercial and Industrial sectors. The Aerostructure product line manufactures airframe components ranging in size from small to large, for the commercial and military aerospace sectors. The Industrial product line manufactures large components for power generation, including the wind energy sector, and other industrial markets.

For the three- and six-month periods ended September 30, 2010, the markets served by the Company remained soft and consolidated sales, excluding the acquisition, concluded on April 28, 2010 (see below), were somewhat lower than at the same period last year, exclusive of the currency impact. Although major OEM backlogs remain strong, and announcements continue at a good pace, the Company does not see any major increase to its top line in fiscal 2011 when compared with fiscal 2010, again excluding the acquisition made in April 2010.

RESULTS OF OPERATIONS

Acquisition of the assets of Eagle Tool Machine Co and of its subsidiary

As previously disclosed in our June 30, 2010 unaudited interim consolidated financial statements, on April 28, 2010, the Company announced that it had concluded the acquisition, through a U.S. subsidiary of substantially all the net assets of U.S. based Eagle Tool & Machine Co ("Eagle") and of its subsidiary All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million based on their December 31, 2009, fiscal year-end (see note 3 to the interim consolidated financial statements).

The preliminary allocation of the total purchase price of the net assets acquired, along with the source of funds, can be broken down as follows:

Net assets acquired ($'000)		**Source of funds ($'000)**	
Working capital	$ 16,797	Credit Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

The Company drew, from its US Credit Facility, $16.7 million (US$16.5 million) and used $12.1 million of cash in the first quarter of fiscal 2011 to finance this transaction.

Throughout this MD&A, Management has explained the consolidated results for the three- and six-month periods ended September 30, 2010 which include the results of Eagle and E2. For all significant elements explained, Management has singled out the acquisition impact on the second quarter and year-to-date results to help readers understand the year-over-year change excluding the acquisition transaction. Please also keep in mind that all second quarter and year-to-date results for Eagle and E2 are for the period following the acquisition which is April 28, 2010, to September 30, 2010, which is not a full semester.

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate assets and liabilities.

	Quarter ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Average rates	1.0391	1.0974	1.0333	1.1323
Closing rates to September 30, 2010/March 31, 2010			1.0290	1.0158

The value of the Canadian dollar, for the three- and six-month periods ended September 30, 2010, was stronger than for the same period a year ago which adds pressure to the US denominated sales and results of the Company. Currency fluctuation impact on the Company's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Company makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At September 30, 2010, the Company had US$151.1 million of forward foreign exchange contracts at a weighted-average of 1.1342 compared to US$149.9 million at 1.1388 at June 30, 2010. At March 31, 2010, the Company had forward foreign exchange contracts totalling US$150.0 million at a weighted-average exchange rate of 1.1436. These contracts will be maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

At September 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$9.3 million at a weighted-average rate of 1.2372 maturing over the next four fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

As stated previously, the general economic climate, although more favourable, is still not improving the Company's sales volume. Total sales for the second quarter ended September 30, 2010 stood at $83.2 million, up from $76.6 million for the same period last year. Excluding the $13.5 million sales coming from the Eagle and E2 acquisition, consolidated sales were actually $6.9 million or 9.0% lower than last year for the second quarter, mainly as a result of lower repair and overhaul sales of $4.2 million and from the negative US/CAD currency impact of $2.6 million.

To date, consolidated sales totalled $165.7 million or 4.4% higher than last year's sales of $158.7 million. Excluding the $20.6 million sales of Eagle and E2 since the acquisition, consolidated sales were down by $13.6 million or 8.6%. For the first six months, the Canadian dollar, when compared to its US counterpart, had a $7.6 million or 4.8% unfavourable impact, when compared to the same period last year. The remaining difference is explained by lower military sales in the Aerospace segment.

The Company's sales by segment were as follows:

Segment	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Total Aerospace	76,967	70,911	6,056	8.5	153,009	146,094	6,915	4.7
Total Industrial	6,227	5,659	568	10.0	12,726	12,636	90	0.7
Total	**83,194**	**76,570**	**6,624**	**8.7**	**165,735**	**158,730**	**7,005**	**4.4**

This year's Aerospace sales, excluding the acquisition whose sales are included in the Aerospace segment, declined $7.4 million or 10.4% this quarter and $13.6 million or 9.3% year-to-date, compared to the same period last year essentially for the same reasons mentioned above.

Industrial sales marginally improved due to increased heavy equipment product sales.

Aerospace Segment

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

Product	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	53,581	47,375	6,206	13.1	107,855	95,493	12,362	12.9
Aerostructure	23,321	23,342	(21)	-	45,015	50,084	(5,069)	(10.1)
Other	65	194	(129)	(66.5)	139	517	(378)	(73.1)
Total	**76,967**	**70,911**	**6,056**	**8.5**	**153,009**	**146,094**	**6,915**	**4.7**

For the second quarter and for the first six-month period, this year's Landing Gear sales increased by 13.1% and 12.9% to $53.6 million and $107.9 million respectively, compared to last year, but were actually lower by 15.4% in the second quarter and 8.5% in the first six-month period, when excluding the sales of Eagle and E2. Year-to-date sales were impacted by reduced throughput and reduced customer requirements in repair and overhaul work this quarter, by the negative impact of currency exchange rates, and also by reduced engineering sales as related projects have been completed. However, and compared to last year, new business on the A-320, B-787 and Fokker commercial programs more than offset the reduction in sales in certain other large commercial programs, following production rate reductions from customers.

Second quarter sales for Aerostructure were comparable to last year. At year-to-date, the Aerostructure sales decreased 10.1% to $45.0 million, when compared to the same period last year, as a result of lower sales in the first quarter, explained by reduced F-16 aftermarket sales and F-22 sales, as well as reduced Joint Strike Fighter ("JSF") sales mostly driven by altered scheduling. The stronger Canadian dollar also had a negative impact on this product line's US denominated sales, when compared to last year. These negative variances were partially offset by increased F-18 sales as well as increased commercial business jet (Challenger 605 and 850) and regional jet/turboprops (Dash 8) sales.

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

Sector	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Military *(1)*	47,806	43,468	4,338	10.0	94,175	91,354	2,821	3.1
Commercial	29,161	27,443	1,718	6.3	58,834	54,740	4,094	7.5
Total Aerospace	**76,967**	**70,911**	**6,056**	**8.5**	**153,009**	**146,094**	**6,915**	**4.7**

(1) Includes military sales to civil customers and government.

Excluding the Eagle and E2 acquisition, military sales were 18.5% lower this quarter and 17.8% lower year-to-date than last year, while Commercial sales were 2.3% and 4.7% respectively higher for the same corresponding period last year. As mentioned above, new business on the A-320, B-787 and Fokker programs along with improved regional/turboprops and business jet sales boosted Commercial sales volume, while military sales were somewhat impacted by lower customer requirements and throughput in repair and overhaul work, reduced sales generated by the engineering programs, and by lower F-16, F-22 and JSF program sales, as explained above.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	2,419	3,083	(664)	(21.5)	5,654	7,046	(1,392)	(19.8)
Other Industrial	3,808	2,576	1,232	47.8	7,072	5,590	1,482	26.5
Total	**6,227**	**5,659**	**568**	**10.0**	**12,726**	**12,636**	**90**	**0.7**

Second quarter sales for the Industrial segment were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry, while the Gas Turbine sector was still impacted by lower power generation demand. Overall, at year-to-date, our sales in the Industrial segment were comparable to last year, as reduced Gas Turbine sales were compensated by the increase in Other Industrial sales, for the same reasons mentioned above.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended September 30 2010	Quarters ended September 30 2009	Six months ended September 30 2010	Six months ended September 30 2009
Canada	28%	30%	29%	29%
US	68%	69%	67%	69%
International	4%	1%	4%	2%
	100%	**100%**	**100%**	**100%**

The sales by destination mix was somewhat comparable to last year and includes the impact of shipments to a new European customer (Stork – Fokker program) and the reduced US military sales already mentioned above.

Gross Profit

For the second quarter ended September 30, 2010, consolidated gross profit as a percentage of sales was 13.1%, down 2.2% from 15.3% last year and was 13.6%, down 2.2% from 15.8% last year on a year-to-date basis.

When excluding the impact of the Eagle and E2 acquisition, this year's gross profit as a percentage of sales would have been slightly higher by 0.4% for the quarter and 0.3% for the first six months.

This quarter and on a year-to-date basis, excluding the acquisition, gross profit in Landing Gear was essentially impacted by lower sales and by reduced throughput in repair and overhaul work, resulting in a higher under-absorption of manufacturing overhead costs, when compared to last year.

This quarter, the Aerostructure product line generated improved gross profit margin, compared to last year and the first quarter this year, due to a higher production volume in light of the upcoming increase in sales expected over the second semester of the current fiscal year, resulting in a better absorption of manufacturing overhead costs.

The Industrial product line improved its gross profit, compared to last year, for both this quarter and for the first six months. This is the result of the marginal increase in sales and the continued improvement in manufacturing efficiency experienced in this segment, when compared to last year.

For the quarter ended September 30, 2010, the Canadian dollar fluctuations relative to the US dollar had a minimal favourable impact on gross profit in dollars of $0.2 million or 0.6% on gross profit margin expressed as a percentage of sales, compared to the same corresponding period last year. However, for the first six months this year, the unfavourable impact of currency fluctuation on gross profit in dollars was $0.9 million, but represented a favourable impact of 0.1%, when expressed as a percentage of sales.

Besides the natural hedging from the purchase of raw materials in US dollars, the Company mitigates the currency impact by the use of forward foreign exchange contracts.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Selling and administrative expenses ($'000)	5,932	5,376	11,956	11,244
% of sales	7.1	7.0	7.2	7.1

Selling and administrative expenses were $5.9 million or 7.1% of sales and $12.0 million or 7.2% of sales respectively for the quarter and for the six-month period ended September 30, 2010. The increase in selling and administrative expenses is mainly attributable to the impact from the acquisition of Eagle and E2. Effectively, as a percentage of sales, selling and administrative expenses are comparable to last year. This quarter, selling and administrative expenses include a loss on currency translation on net monetary assets of $0.3 million compared to a $0.7 million loss last year. At year-to-date, the loss on currency translation on net monetary assets was $0.4 million, compared to a $1.0 million loss last year.

Operating Income

Consolidated operating income stood at $4.9 million or 5.9% of consolidated sales for the quarter ended September 30, 2010, and was $1.4 million lower than the $6.3 million or 8.3% operating income for the same period last year. Year-to-date, operating income was $10.5 million or 6.3% of consolidated sales compared to $13.8 million or 8.7% for the same period last year. The lower operating income this year, compared to last year, is essentially explained by the lower gross profit, as mentioned above.

Aerospace Segment

Aerospace operating income was $4.1 million or 5.4% of sales this year, compared to $5.6 million or 7.9% of sales last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $3.3 million or 5.2% of sales for the quarter ended September 30, 2010.

For the six-month period ended September 30, 2010, the Aerospace segment operating income stood at $9.1 million or 5.9% of sales, compared to $12.3 million or 8.4% last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $7.8 million or 5.9% of sales for the six-month period ended September 30, 2010.

This quarter and at year-to-date, the reduction in operating income in this segment essentially reflects the impact on gross profit as explained above.

Industrial Segment

This quarter, operating income slightly increased to $0.8 million or 12.7% of sales this year from $0.7 million or 13.1% of sales last year, reflecting the 10.0% sales increase in this segment. At year-to-date, operating income stood at $1.5 million this year and last year, in line with basically the same comparable sales level in this segment.

Financial Expenses

Financial expenses for the quarter stood at $1.2 million and $2.2 million for the first six-month period ended September 30, 2010. This compares to $1.2 million and $2.3 million respectively, for the same period last year. The year-to-date financial expenses this year, when compared to last year, reflect the impact from the increased drawings against the Company's Credit Facilities to finance the acquisition of Eagle and E2. This factor was more than offset by the impact from the lower Canadian versus US dollar on the Company's financial expenses on debt in US dollars and from the lower capital lease debt bearing higher interest rates.

Restructuring Charges

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Company's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Company's other facilities in the Greater Montreal area. During the three- and six-month periods ended September 30, 2010, the Company recorded restructuring charges of $0.3 million ($0.2 million, net of income taxes) and $0.6 million ($0.4 million, net of income taxes) respectively, and does not expect any significant additional restructuring charges. Effectively, this restructuring initiative was properly planned and executed, which resulted in lower than expected restructuring charges initially estimated at $0.8 million, net of income taxes.

Income Tax Expense

The Company had an income tax expense of $1.0 million for the quarter ended September 30, 2010, compared to an expense of $1.7 million last year. At year-to-date, the Company posted an income tax expense of $1.9 million for the first six months this year, compared to an expense of $3.4 million for the same period last year.

The Company's effective income tax rate for the six-month period ended September 30, 2010 was 25.0% compared to its Canadian blended statutory rate of 28.3%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.3 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million), somewhat offset by the negative impacts of a higher US income tax rate for the Company's US subsidiaries ($0.1 million) and changes in the Canadian income tax rate ($0.1 million).

For the six-month period ended September 30, 2009, the Company's effective income tax rate was 29.9%, compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.4 million) but offset mainly by the negative impact of a higher US income tax rate for the Company's US subsidiaries.

Net Income

For the three- and six-month periods ended September 30, 2010, the Company posted net income of $2.6 million and $5.7 million respectively, compared to net income of $3.5 million and $8.1 million for the same periods last year. This essentially reflects the decrease in operating income from the Company's Aerospace segment and the restructuring charges, as explained above.

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Net income ($'000)	2,556	3,518	5,739	8,060
Earnings per share – basic ($)	0.09	0.11	0.19	0.26
Earnings per share – diluted ($)	0.08	0.11	0.19	0.26

Basic earnings per share figures are based on year-to-date weighted-averages of 30,121,872 common shares outstanding for the six-month period ended September 30, 2010, and 30,795,183 common shares for the same period last year. The diluted earnings per share figures are based on year-to-date weighted-averages of 30,353,077 for the three-month period this year and 30,816,711 for the same period last year. The reduction in the average number of shares is mainly attributable to the normal course issuer bids (NCIB) launched by the Company in November 2008 and November 2009 (see Normal Course Issuer Bid section).

On October 28, 2010, the date of this MD&A, the Company had 30,069,181 common shares and 1,481,000 stock options outstanding with a weighted-average of 4.0 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial situation and is well positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") through a syndicate of four Canadian Banks and their US affiliates or branches. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To September 30, 2010, only $61.2 million (US$59.5 million) had been drawn against these Credit Facilities, including US$16.5 million in April 2010 to finance the acquisition described earlier. These Credit Facilities will mature in October 2011. The Company's Management is working on the renewal of these Credit Facilities. Considering the Company's cash and cash equivalent position, its available Credit Facilities and level of expected capital investments, Company Management does not expect any liquidity risk in the foreseeable future. At September 30, 2010, the Company had cash and cash equivalents of $29.4 million, compared to $46.6 million as at March 31, 2010, of which $16.3 million ($32.4 million as at March 31, 2010) had been invested in short-term deposits. It is worth mentioning that the Company also utilized approximately $12 million of its cash to finance the Eagle and E2 acquisition in the first quarter of this year.

Operating Activities

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

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
	($'000)	($'000)	($'000)	($'000)
Cash flows from operations	8,978	11,657	19,245	23,487
Net change in non-cash working capital items related to operations	(702)	364	(9,302)	(25,080)
Cash flows relating to operating activities	8,276	12,021	9,943	(1,593)

For the three- and six-month periods ended September 30, 2010, the decrease of $2.7 million and $4.2 million in cash flows from operations, compared to last year, mainly resulted this quarter from the reduction in net income of $1.0 million ($2.3 million year-to-date) and the variation in future income tax expense of $2.6 million ($3.5 million year-to-date), partially offset by the increase in amortization expense of $0.5 million ($1.1 million year-to-date).

For the six months ended September 30, 2009, the $25.1 million outflow of non-cash related items can be explained mainly by the lower accounts payable and accrued liabilities ($19.5 million) when compared with March 31, 2009, and the lower income tax payable ($3.1 million) following the payment of income taxes from the prior year. It also reflects the negative net impact on working capital items coming from the currency conversion ($4.3 million) of self-sustaining US subsidiaries somewhat offset by the favourable impact of the lower accounts receivable ($9.2 million), in line with the sales volume and lower Canadian/US currency rate for Canadian operations.

The net change in non-cash working capital items can be summarized as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
	($'000)	($'000)	($'000)	($'000)
Accounts payable, accrued liabilities and other liabilities, mainly in line with the reduction in the number of days in payables	1,174	(5,544)	(7,786)	(22,145)
Accounts receivable – in line with the increase in sales in 2010 and lower business activity in 2009	(2,200)	2,900	(1,725)	9,216
Effect of exchange rate on working capital items, for the US subsidiaries	(2,155)	(1,952)	(453)	(4,312)
Inventory decrease (increase)	513	6,014	(506)	(1,293)
Payment of income taxes, for 2009	93	(255)	312	(3,110)
All others	1,873	(799)	856	(3,436)
	(702)	**364**	**(9,302)**	**(25,080)**

Investing Activities

The Company's investing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010 ($'000)	2009 ($'000)	2010 ($'000)	2009 ($'000)
Additions to property, plant and equipment	(5,898)	(971)	(9,093)	(5,200)
Net increase in finite-life intangible assets	(1,579)	(833)	(3,729)	(1,378)
Proceeds on disposal of property, plant and equipment	45	7	70	9
Business acquisition	-	-	(28,813)	-
Cash flows relating to investing activities	**(7,432)**	**(1,797)**	**(41,565)**	**(6,569)**

This quarter, additions to property, plant and equipment totalled $5.9 million, compared to $1.0 million last year, and was $9.1 million, compared to $5.2 million last year, for the first six months ended September 30, 2010. The year-to-date additions include the costs associated to the JSF building extension at the Company's Arlington, Texas plant.

The net increase in finite intangible assets of $1.6 million this quarter and $3.7 million year-to-date represents mainly the increase in capitalized development costs for the Aerospace segment long-tem contracts.

Finally, as already discussed, the Company invested $28.8 million in the first quarter of the current fiscal year to acquire substantially all the net assets of Eagle and E2.

Capital expenditures for fiscal 2011 are expected to be about $31 million including normal maintenance projects and the extension of the facility dedicated to the JSF program. This amount also includes certain capital investments required following the acquisition concluded on April 28, 2010 of Eagle and E2.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010 ($'000)	2009 ($'000)	2010 ($'000)	2009 ($'000)
Increase in long-term debt	1,309	5,663	18,875	5,663
Repayment of long-term debt	(939)	(1,165)	(2,559)	(2,999)
Repurchase of common shares	(330)	(1,042)	(3,498)	(2,879)
Issuance of common shares	688	79	917	159
Cash flows relating to financing activities	**728**	**3,535**	**13,735**	**(56)**

The year-to-date increase in long-term debt comes mostly from the drawings of US$16.5 million from the Company's Credit Facilities to finance the acquisition made in the first quarter.

The year-to-date repayment of long-term debt of $2.6 million ($3.0 million last year) is mainly for capital leases and governmental authorities' loans, those being essentially for the financing of capital expenditures. It also includes the scheduled repayments of the promissory note, following the acquisition of Eagle and E2.

During the three- and six-month periods ended September 30, 2010, the Company issued 15,771 and 32,956 common shares under its stock purchase and ownership incentive plan for a cash consideration of $82,949 and $169,611, respectively. During the same periods, the Company repurchased 59,100 and 605,100 common shares under the normal course issuer bid, launched in

November 2009 (“NCIB” - see Normal Course Issuer Bid below and Note 12 to the interim consolidated financial statements) for a total cash consideration of $0.3 million and $3.5 million respectively. For the three- and six-month periods ended September 30, 2010, the Company also issued 122,221 and 157,221 common shares, respectively, following the exercise of stock options.

During the three- and six-month periods ended September 30, 2009, the Company redeemed 239,400 and 646,400 common shares under the normal course issuer bid launched in November 2008 at an average price of $4.35 and $4.45, respectively.

At September 30, 2010, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants over the next twelve months.

Normal Course Issuer Bid

On November 25, 2009, the Company launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 19, 2009. The repurchase of common shares commenced on November 25, 2009, and will end on November 24, 2010.

All common shares purchased by the Company through the NCIB are made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

To September 30, 2010, the Company had repurchased 698,500 common shares at an average net price of $5.69 per share for a total of $4.0 million (see Note 12 to the interim consolidated financial statements).

Capital Stock, Stock Option Plan and Stock Purchase and Ownership Incentive Plan (Stock Purchase Plan)

At September 30, 2010, the Company had 30,070,552 common shares outstanding (30,485,475 as at March 31, 2010).

During the three-month period ended September 30, 2010, the Company issued 15,771 common shares at a weighted-average price of $5.26 for a total cash consideration of $82,949, under the Company’s stock purchase plan. Year-to-date, 32,956 common shares were issued at a weighted-average price of $5.15 for a total cash consideration of $169,611.

This quarter, the Company also issued 122,221 common shares pursuant to the exercise of stock options at an average price of $4.95 for a total cash consideration of $604,516. At year-to-date, the Company issued 157,221 common shares pursuant to the exercise of stock options at an average price of $4.75 for a total cash consideration of $746,516.

During the three- and six-month periods ended September 30, 2010, 27,000 and 55,000 stock options, respectively, were cancelled.

At September 30, 2010, 1,481,000 stock options were issued and outstanding with a weighted-average of 4.0 years to maturity and a weighted-average exercise price of $5.91 (see Note 12 to the interim consolidated financial statements), but will expire over the next six years.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between September 30, 2010 and March 31, 2010:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(17.2)	See consolidated statements of cash flows. As already mentioned, the Company utilized $12.1 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	7.1	Increase comes mainly from the inclusion in the consolidated figures of the acquisition made in the first quarter ($5.4 million) and the impact of the weakening of the Canadian dollar compared to March 31, 2010, on US-denominated accounts receivable ($0.5 million).
Inventories	18.6	This increase includes the impact from the acquisition ($18.1 million) and from the weaker Canadian dollar on the Company's US self-sustaining subsidiaries ($0.5 million).
Derivative financial instruments (short-term assets)	0.5	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	7.6	Due to: • Acquisition of Eagle and E2 ($8.5 million); • Purchases of capital assets ($9.1 million); • A higher US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.6 million). Net of: • Amortization expense ($10.6 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $4.4 million net backlog)	3.9	Mainly due to: • An increase in finite-life intangible assets ($3.7 million), representing essentially the increase in capitalized development costs for Aerospace long-term contracts; • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); Net of: - Amortization expense on the underlying value of the backlog ($0.7 million). - Amortization of the other finite-life intangible assets ($0.5 million).
Goodwill	6.2	Includes $5.8 million of goodwill associated to the acquisition made in the first quarter of the current fiscal year. It also represents the higher US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining US subsidiaries.
Derivative financial instruments (long-term assets)	(3.7)	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	2.3	Includes $7.4 million coming from the Eagle and E2 acquisition and the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which increased accounts payable and accrued liabilities by $0.4 million. These increases were partially offset by the lower payables, in line with the lower inventory purchases compared to the fourth quarter ended March 31, 2010 and the reduction in number of days in payables.

Item	Change ($ million)	Explanation
Long-term debt (including current portion)	20.9	Due to: • Drawing of US$16.5 million against the Company's US Credit facility to finance the Eagle and E2 acquisition ($17.6 million); • Promissory note, following the acquisition, repayable to the seller ($3.7 million); • Governmental authorities loan received in the second quarter to support development program investments ($1.3 million) • Interest accretion on governmental authorities loans ($0.6 million); • A higher US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($0.3 million); Net of: • Capital repayment of long-term debt ($2.6 million).
Capital stock	(1.0)	Represents the common shares issued under the Company's stock purchase and ownership plan and following the exercise of stock options ($0.9 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($1.9 million).
Retained earnings	4.2	See consolidated statements of changes in shareholders' equity.

At September 30, 2010 and March 31, 2010, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio(1) were as follows:

	September 30, 2010	March 31, 2010
Working capital ratio	2.73:1	2.66:1
Cash and cash equivalents	$29.4 million	$46.6 million
Long-term debt-to-equity ratio	0.44:1	0.35:1
Net debt-to-equity ratio(1)	0.33:1	0.16:1

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

Government assistance

During the second quarter ended September 30, 2010, the Company recorded as a reduction of cost of sales an amount of $0.4 million ($1.1 million in the second quarter of last year), and as a reduction of the related capital expenditures or development costs an amount of $1.0 million ($0.5 million last year) for government assistance. Year-to-date, the Company recorded $1.0 million ($2.4 million last year) as a reduction of cost of sales and $1.5 million ($0.7 million last year) as a reduction of the related capital expenditures or development costs for government assistance.

This government assistance includes mainly the investment tax credits and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $7.8 million as at September 30, 2010, mainly for machinery and equipment. All these amounts are repayable over the next seven years. At September 30, 2010, the Company also had building, machinery and equipment purchase commitments totalling $4.5 million.

At September 30, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$151.1 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.1342. These contracts relate mainly to its export sales, and mature at various dates between October 2010 and March 2015 but mainly over the next two fiscal years (US$150.0 million at a weighted-average rate of 1.1436 at March 31, 2010, and US$166.4 million at a weighted-average rate of 1.1427 at September 30, 2009).

At September 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$9.3 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2372

($US11.3 million at a weighted-average rate of 1.2396 at both March 31, 2010 and September 30, 2009) maturing over the next four fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

In July 2007 and March 2009, 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 entered into a four-year interest-rate swap agreement and a two-year interest-rate swap agreement for an amount of US$15 million and US$10 million, respectively, that fix the Libor U.S. rate at 5.53% and 1.75%, respectively. Both interest-rate swap agreements mature on August 1, 2011.

Impact of Financial and Economic Situation

In light of the financial and economic situation the Company experienced through fiscal 2010, the Company is carefully monitoring its strategy and risk management. Although results remain positive, this economic situation prompted Management to adopt a more conservative approach in its daily decisions, an approach which is being maintained in fiscal 2011.

For the twelve months ended March 31, 2010, and to a lesser extent for the first six months of this current fiscal year, the Company's results were impacted by certain decelerations of production schedules and push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in certain industrial markets. While the Company's backlog remains strong, especially considering the $125 million backlog acquired with the Company's recent acquisition, the prevailing business environment, and deferrals or cancellations of additional purchase orders, could have an adverse impact on upcoming results. The Company is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment sales, which should help reduce the risks associated with any potential slowdown. OEM recent announcements should help the Aerospace segment commercial market while the military side of the Company's business remains solid. Furthermore, the value of the Canadian dollar, when compared to the US currency, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies, cost reduction initiatives and forward foreign exchange contracts strategy to mitigate the negative currency fluctuations.

From a financial standpoint, the Company has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so for the next twelve months. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with high-grade credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011. The Company's Management is working on the renewal of these Credit Facilities.

In light of the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility it usually has in its markets, it will remain prudent.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2010 Annual Report.

There have been no significant changes to our IFRS changeover plan and our project is progressing according to plan. There has been no significant modification in key differences in accounting treatment and potential key impacts as assessed in our Annual Report for fiscal year 2010.

At September 30, 2010, based on the Company's non-exhaustive preliminary assessment of the main differences that may have some impact on its consolidated financial statements, following the change from Canadian GAAP to IFRS, the Company's management estimated the potential effect to represent a negative impact of about 3% on the Company's consolidated equity as at April 1, 2010 and, a favourable but marginal impact on the Company's consolidated net income and EBITDA for the first six months of the current fiscal year.

However, these impacts from the transition from Canadian GAAP to IFRS could change, as a result of changes to international standards currently in development, or in light of new information or other internal or external factors that could arise from now until this changeover has been completed.

FUTURE CHANGES IN ACCOUNTING POLICIES

International Financial Reporting Standards (IFRS) – see section above.

INTERNAL CONTROLS AND PROCEDURES

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

No changes that were made to our internal controls over financial reporting during the quarter and six-month period ended September 30, 2010, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2010.

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

Outlook

Conditions continue to improve in the commercial aerospace market. In the large commercial aircraft market, Boeing and Airbus have announced production rate increases for calendar 2011, 2012 and 2013(1) on leading programs and new orders have increased substantially in the first nine months of calendar 2010. The business jet market appears to have bottomed out and the industry is seeing positive signs, as fewer aircraft are for sale and hours flown have increased (2).

The military aerospace market, while still healthy, is stabilizing as governments address their deficits. As to the JSF program, the ramp-up continues, albeit at a slightly more moderate pace over the near term. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

The North American power generation industry appears to have bottomed out, as leading

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(1) Sources : Boeing press releases Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases July 30, 2010; March 9, 2010.

(2) Sources : Bombardier Business Aircraft Market Forecast 2010-2029, JETNET, FAA, Eurocontrol.

equipment manufacturers have reported rising new orders. While no significant recovery is expected in the short-term, renewable energy sources, including wind, still hold considerable potential over the mid-term.

Capital expenditures for fiscal 2011 are expected to be about $31 million including normal maintenance projects and the extension of the facility, and purchase of equipment, dedicated for the JSF program in Texas. This amount includes any capital investments that could be required in regards to the acquisition concluded on April 28, 2010 of Eagle and E2.

As at September 30, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $574 million, including the backlog of Eagle and E2, up from $545 million three months ago, and remains well diversified. Despite this solid backlog and strong customer relationships, the Company must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

The integration of Eagle and E2 remains a main priority for Héroux-Devtek in fiscal 2011 and the Company is expecting an accretion to earnings per share of up to 10% in the first year. The Company also anticipates a stronger second half for fiscal 2011 with sales being 15% to 20% higher when compared with the first half of the year, given the acquisition and assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on October 28, 2010. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.