Management Discussion and Analysis of Financial Position and Operating Results

This management discussion and analysis (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, 2005 and December 31, 2005. It also compares the operating results and cash flows for the three-and nine-month periods ended December 31, 2005 to those for the same periods the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2005 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, 2005, September 30, 2005 and December 31, 2005. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and US standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2005.

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.

OVERVIEW

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

- landing gear products
- aerostructure products
- aircraft engine components

The Industrial segment includes:

- industrial gas turbine products
- other industrial products

On May 20, 2005, the Company concluded the sale of its Logistics and Defence Division, Diemaco, to Colt Defense LLC. Where required, last year figures were restated to reflect this transaction, which was accounted for as discontinued operations.

During the third quarter ended December 31, 2005, the economic and industry factors influencing Héroux-Devtek's business remained essentially unchanged from those discussed at March 31, 2005, our last fiscal year-end, and at the end of our previous two quarters. Calendar year 2004 showed the first sign of a turnaround in the civil aerospace market. This recovery in the civil aerospace market is having a favourable impact on Héroux-Devtek's sales for fiscal 2006, mainly in the large civil aircraft, business jets and turboprop (commuter) markets. The military aerospace market remains generally strong. On the industrial side, the downturn in the power generation market which was believed to have ended in calendar year 2004, has remained relatively flat and has not shown the modest growth anticipated. Finally, the strength of the Canadian dollar and tight supply and price increases of raw materials continued to have a significant negative impact on Héroux-Devtek's results.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended December 31, 2005 grew by 17.1% to $66.9 million from $57.1 million for the same period last year.

The rise in third quarter sales was mainly due to improved sales for commercial products, consisting of landing gear products for large aircraft and business jets, as well as growth in military repair and overhaul and engineering sales. However, the strength of the Canadian dollar relative to the US dollar (US dollar denominated sales) reduced sales by $3.7 million or 6.4%.

Consolidated sales for the first nine months of the year stood at $183.1 million, up $16.5 million or 9.9% from $166.6 million last year. The increase mainly represents continued growth in sales of landing gear for larger aircraft and business jets since the beginning of the current year. This was partially offset by the stronger Canadian dollar, which had a negative impact of $11.4 million or 6.9% of sales.

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

Segments	Quarters ended December 31				Nine months ended December 31			
	2005 ($'000)	2004 (Restated) ($'000)	VARIANCE ($'000)	%	2005 ($'000)	2004 (Restated) ($'000)	VARIANCE ($'000)	%
Aerospace								
Military	13,638	12,174	1,464	12.0	36,567	36,097	470	1.3
Civil								
Military products sold to civil customers	18,734	15,412	3,322	21.6	52,933	49,429	3,504	7.1
Commercial products	29,422	24,424	4,998	20.5	77,151	65,736	11,415	17.4
Total Civil	48,156	39,836	8,320	20.9	130,084	115,165	14,919	13.0
Total Aerospace	61,794	52,010	9,784	18.8	166,651	151,262	15,389	10.2
Total Industrial	5,059	5,091	(32)	(0.6)	16,422	15,322	1,100	7.2
Total	66,853	57,101	9,752	17.1	183,073	166,584	16,489	9.9

Aerospace Segment

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

Sectors	Quarters ended December 31				Nine months ended December 31			
	2005 ($'000)	2004 (Restated) ($'000)	VARIANCE ($'000)	%	2005 ($'000)	2004 (Restated) ($'000)	VARIANCE ($'000)	%
Landing Gear	38,153	29,277	8,876	30.3	98,185	80,154	18,031	22.5
Aerostructure	20,315	20,195	120	0.6	55,193	58,647	(3,454)	(5.9)
Aircraft Engine Components	3,326	2,538	788	31.0	13,273	12,461	812	6.5
Total	61,794	52,010	9,784	18.8	166,651	151,262	15,389	10.2

For the third quarter ended December 31, 2005, overall sales for the Aerospace segment were up 18.8% to $61.8 million compared to $52.0 million for the same period last year.

During the third quarter, Landing Gear sales increased by $8.9 million or 30.3% compared to the same period last year, with continued growth in sales for large civil and business jets and military sales to civil customers, and the full quarter impact of the supply of materials under the US Air Force (USAF) repair and overhaul contract, which started last August.

Third quarter Aerostructure sales were slightly higher than last year. An increased built rate on business jet and turboprop (commuter) contracts, along with $1.5 million in sales catch-up from previous quarters for deliveries delayed because of raw material shortages, were offset by reduced regional jets sales due to the stoppage of the Bombardier RJ200 program, as well as the negative impact of the stronger Canadian dollar.

For the first nine months of the year, sales for this segment rose 10.2%, from $151.3 million last year to $166.7 million this year, essentially for the reasons explained above.

Industrial Segment

Sales for the Industrial segment were as follows:

Sectors	Quarters ended December 31				Nine months ended December 31			
	2005 ($'000)	2004 ($'000)	VARIANCE ($'000)	%	2005 ($'000)	2004 ($'000)	VARIANCE ($'000)	%
Industrial								
Gas Turbine	2,096	3,086	(990)	(32.1)	8,503	9,707	(1,204)	(12.4)
Other Industrial	2,963	2,005	958	47.8	7,919	5,615	2,304	41.0
Total	5,059	5,091	(32)	(0.6)	16,422	15,322	1,100	7.2

Third quarter sales for the Industrial segment totalled $5.1 million this year, about 1% lower than last year. A year-over-year decline of $1 million in Industrial Gas Turbine sales was partially offset by stronger Wind Energy market sales, which increased Other Industrial sales by approximately $1 million.

Year-to-date Industrial segment sales of $16.4 million were $1.1 million or 7.2% higher than last year.

Sales by Destination

The Company's sales by destination were as follows:

Destinations	Quarters ended December 31		Nine months ended December 31	
	2005 ($'000)	2004 (Restated) ($'000)	2005 ($'000)	2004 (Restated) ($'000)
Canada	25%	26%	26%	24%
US	71%	72%	71%	74%
International	4%	2%	3%	2%
	100%	100%	100%	100%

The year-to-date increase in sales in Canada reflects improved commercial sales to Canadian customers relative to the same period last year.

Gross Profit

For the third quarter ended December 31, 2005, consolidated gross profit as a percentage of sales was 9.4%, up from 3.4% last year in spite of a 1.6% negative impact attributable to the continued strength of the Canadian dollar relative the US currency.

In the third quarter, an insurance recovery of $1.8 million ($1.1 million or $0.04 per share net of income taxes) was recorded against the cost of sales. This recovery, which could have favourably impacted the fourth quarter of our last fiscal year and the first quarter of this fiscal year, could not be recognized earlier in accordance with Canadian Generally Accepted Accounting Principles (GAAP). However, this recovery was partially offset by a provision of $1.0 million ($0.7 million or $0.02 per share net of income taxes) for non-quality and certain terminated parts on aircraft engine components. Aircraft engine components sales have been impacted in prior quarters by ongoing delivery and quality issues at the Gas Turbine Components division that caused the termination of certain manufactured parts by the customer (see Note 7 to the interim financial statements).

At December 31, 2005, this situation has stabilized with improved deliveries and reduced non-quality costs.

Gross profit was also favourably impacted by improved pricing on certain contracts and by overall increased sales, which contributed to a better absorption of manufacturing overhead costs.

Year-to-date consolidated gross profit as a percentage of sales also increased year-over-year from 4.6% to 7.2%, in spite of the 1.4% negative impact of the stronger Canadian dollar.

Selling and Administrative Expenses

Third quarter selling and administrative expenses were up this year, as shown below:

	Quarters ended December 31		Nine months ended December 31	
	2005 ($'000)	2004 (Restated) ($'000)	2005 ($'000)	2004 (Restated) ($'000)
Selling and administrative expenses ($'000)	$4,472	$2,965	$11,831	$11,851
% of sales	6.7%	5.2%	6.5%	7.1%

The increase in selling and administrative expenses in the third quarter of this year can be explained by higher variable costs, in line with the increased sales, and a gain on currency translation of approximately $0.6 million last year.

Year-to-date selling and administrative expenses of $11.8 million were at the same level as last year.

Financial Expenses

	Quarters ended December 31		Nine months ended December 31	
	2005	2004 (Restated)	2005	2004 (Restated)
	($'000)	($'000)	($'000)	($'000)
Interest expense, net	992	1,234	3,336	3,303
Interest revenue	(68)	(33)	(157)	(200)
Gain on financial derivative instrument - net	34	37	104	(411)
Financial expenses – net	958	1,238	3,283	2,692

For the third quarter ended December 31, 2005, financial expenses were $1.0 million, $0.3 million lower than for the same period last year. Year to date, financial expenses were up $0.6 million from last year at $3.3 million. The slight increase in the interest expense reflects the general increase in US interest rates, but was partially offset by the reduction in interest expense due to the net capital repayments of $24.4 million on the Company's long-term debt since the beginning of the current fiscal year. These net capital repayments were made following the sale of Diemaco in the first quarter and the treasury issue of 4.5 million common shares concluded on November 10, 2005.

On May 20, 2004, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $411,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004, net of the amortization of the related deferred loss recorded on April 1, 2004.

Provision for Income Taxes (Income Tax Recovery)

The effective tax rate for the third quarter and nine months ended December 31, 2005, differs from the statutory rate due mainly to the non-recognition of tax benefits relating to certain operating losses incurred by a Canadian subsidiary, which represented $227,000 for the third quarter and $942,000 for the first nine months of this fiscal year. It also reflects the favourable impact of the change in the Quebec provincial income tax rate on the Company's net future income tax assets, which represented $388,000 both for this quarter and the year-to-date.

Discontinued Operations

On May 20, 2005, the Company concluded the sale of its Logistics & Defence Division, Diemaco, to Colt Defense LLC. The final total sale price was $19.0 million. All assets and liabilities related to Diemaco were reclassified as discontinued assets and liabilities in the consolidated balance sheets. Diemaco's revenues, expenses and net income are shown under discontinued operations in the consolidated statements of income (loss), and the impact of Diemaco's operations on the Company's cash and cash equivalents is presented under discontinued operations in the consolidated statements of cash flows (see below and Note 3 to the interim consolidated financial statements).

A significant portion of the net proceeds from the sale of Diemaco was used to repay $15.3 million on the Company's Secured Syndicated Revolving Credit Facilities.

Net Income (Loss)

	Quarters ended December 31		Nine months ended December 31	
	2005	2004 (Restated)	2005	2004 (Restated)
Net income (loss) from continuing operations ($'000)	743	(1,631)	(1,945)	(4,805)
Net income from discontinued operations ($'000)	-	744	8,844	1,041
Net income (loss) ($'000)	743	(887)	6,899	(3,764)
Earnings (loss) per share from continuing operations ($)	0.03	(0.06)	(0.07)	(0.18)
Earnings per share from discontinued operations ($)	-	0.03	0.32	0.04
Earnings (loss) per share ($)	0.03	(0.03)	0.25	(0.14)

The Company posted a net income for the quarter ended December 31, 2005, of $743,000 compared to a net loss of $887,000 for the same period last year.

Year-to-date net income stood at $6.9 million compared to a loss of $3.8 million last year. Net income from discontinued operations includes the $8.6 million gain on the sale of the Company's Logistics and Defence Division (Diemaco), net of income taxes of $2.3 million, and Diemaco's net income from operations of $0.2 million for the period from April 1, 2005 until May 20, 2005, the closing date of the sale transaction.

Earnings (loss) per share figures are based on weighted averages of 29,547,207 common shares outstanding for the third quarter of this year and 26,944,975 for the same period last year. The increase is essentially due to the treasury issue of 4.5 million common shares last November, and the issuance of common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 6 to the interim consolidated financial statements).

On February 1st, 2006, the date of this MD&A, the Company had 31,482,578 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarters ended December 31		Nine months ended December 31	
	2005 ($'000)	2004 (Restated) ($'000)	2005 ($'000)	2004 (Restated) ($'000)
Cash flows from continuing operations	4,686	2,458	12,221	7,791
Net change in non-cash items related to operations	4,117	2,483	(5,108)	(13,162)
Cash and cash equivalents provided by (used for) operating activities	8,803	4,941	7,113	(5,371)

For the third quarter ended December 31, 2005, cash flows from continuing operations was $4.7 million, $2.2 million higher than for the same period last year due mainly to a $2.4 million improvement in net income.

For the third quarter ended December 31, 2005, the net change of $4.1 million in non-cash items was mainly caused by a $3.5 million decrease in accounts receivable following improved accounts receivable collection, and a $1.5 million reduction in inventories, in line with our third quarter increase in deliveries.

For the nine months ended December 31, 2005, cash flows from continuing operations increased from $7.8 million last year to $12.2 million this year, due essentially to a $2.9 million improvement in net income and a $1.2 million increase in the non-cash future tax expense. The net change in non-cash items included an increase of $3.1 million in income taxes receivable due mainly to our income tax recovery related to the Company's operating losses last year and for the first six months this year, and an increase of $2.6 million in inventories, in line with the overall increased business activity.

In the third quarter ended December 31, 2004, the change in non-cash items was impacted by a $2.4 million decrease in accounts receivable and a $2.6 million decrease in inventories. The $13.2 million net change in non-cash items for the first nine months of 2004 consisted primarily of a $3.0 million reduction in accounts receivable, a $4.9 million increase in inventories and a $4.8 million decrease in customers' advances that represented unearned amounts received from customers last year, which are liquidated based on units delivered to customers (see under Consolidated Balance Sheets below and Note 9 to the interim consolidated financial statements).

Investing Activities

The Company's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2005 ($'000)	2004 (Restated) ($'000)	2005 ($'000)	2004 (Restated) ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(4,398)	(2,439)	(7,128)	(9,094)
Proceeds on disposal of property, plant and equipment	271	352	284	1,145
Business acquisition, net of cash acquired	-	-	(2,335)	(71,695)
Proceeds on sale of Logistics and Defence Division, Diemaco	-	-	19,035	-
Cash and cash equivalents provided by (used for) investing activities	(4,127)	(2,087)	9,856	(79,644)

Third quarter purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) were $4.4 million this year compared to $2.4 million last year.

Year-to-date capital expenditures stood at $7.1 million this year compared to $9.1 million last year. Additional capital expenditures of about $8 million are expected to be made during the remaining quarter of the current fiscal year.

On May 20, 2005, the Company concluded the sale of its Logistics and Defence Division, Diemaco. The final total sale price amounted to $19.0 million. The 2004 business acquisition figure reflects the purchase price of Progressive Incorporated on April 1, 2004 (see Notes 2 and 3 to the interim consolidated financial statements).

Financing Activities

The Company's financing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2005 ($'000)	2004 (Restated) ($'000)	2005 ($'000)	2004 (Restated) ($'000)
Increase in long-term debt	7,841	6,276	13,804	49,874
Repayment of long-term debt	(19,887)	(6,519)	(38,202)	(22,970)
Issuance of common shares	15,697	46	15,759	16,358
Other	(210)	(290)	(210)	(450)
Cash and cash equivalents provided by (used for) financing activities	3,441	(487)	(8,849)	42,812

During the first quarter of the current fiscal year, subsequent to the sale of the Logistics and Defence Division, Diemaco, the Company repaid $15.3 million on its Secured Syndicated Revolving Term Credit Facilities (Credit Facilities).

On November 10, 2005, the Company closed a public offering of 4.5 million common shares priced at $3.75 per share for net proceeds of $15.7 million (net of $1.2 million in fees and expenses). This offering was co-led by National Bank Financial and GMP Securities Ltd. Raymond James Ltd. and Versant Partners Inc. also acted as underwriters on the offering (see Note 6 to the interim consolidated financial statements). The Company also applied the net proceeds from the sale of common shares to the reduction of its lines of credit under its credit facilities, but not as a permanent reduction thereof. For the year to date, net capital repayments on the credit facilities totalled $24.9 million (see Note 5 to the interim consolidated financial statements).

In 2004, the Company drew $36.4 million (US $27.7 million) on its credit facilities, issued 3.5 million common shares through private placements for a net cash consideration of $16.2 million, and used $18.7 million of its available cash to finance the acquisition of Progressive (see Note 2 to the interim consolidated financial statements).

Extension of Secured Syndicated Revolving Credit Facilities ("Credit Facilities")

At the end of the third quarter ended December 31, 2005, the Company concluded the annual extension of its Credit Facilities from March 21, 2006 to March 21, 2007. These Credit Facilities allow the Company to borrow up to $80 million (either in Canadian or equivalent US currency), including up to $30 million and $50 million for the revolving operating Credit Facilities and revolving term Credit Facilities respectively, based essentially on the same terms and conditions. These Credit Facilities are used for working capital, capital expenditures and other general corporate purposes. In the event that the Credit Facilities are not extended at the end of the revolving period (March 21, 2007), the revolving operating Credit Facilities will mature. The revolving term Credit Facilities will convert at the end of the revolving period into a three-year term loan with a five-year amortization period. These Credit Facilities are extendible annually from July 1st to October 31st of each year.

The Company was in compliance with all its restrictive debt covenants at December 31, 2005, and expects to remain so for the balance of the current fiscal year.

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to directors, officers and key employees. At December 31, 2005, the Company had 873,021 outstanding stock options at an average strike price of $5.72 that will expire over the next seven years (between June 2007 and August 2012). The Company has also a stock purchase and ownership incentive plan for management employees and a stock appreciation right plan for its non-employee directors. (See Note 6 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, 2005 and December 31, 2005:

Item	Change ($ million)	Explanation
Cash and cash equivalents	7.3	See consolidated statements of cash flows
Accounts receivable	(1.6)	Increased level of business activity more than offset by improved accounts receivable collection
Income tax receivable	3.1	Due mainly to an income tax recovery related to the Company's operating losses last year and for the first six months this year
Other receivables	(1.4)	Collection of other receivables related to tooling invoiced to customers
Inventories	2.6	Mainly related to increased business activity
Property, plant and equipment, net	(6.4)	Due to: • Purchase of capital assets ($7.1 million) Net of: • Amortization ($12.1 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.4 million)
Finite-life intangible assets, net (includes a $6.6 million net backlog)	(1.5)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive
Goodwill	1.4	Due to the variation in additional payments to the sellers related to the profitability performance of Progressive ($2.2 million), net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	0.7	Represents in part the favourable impact of the US exchange rate
Income taxes payable	1.7	Due mainly to the tax impact related to the sale of the Logistics and Defence Division, Diemaco
Long-term debt (including current portion)	(25.9)	Due to: • Net capital repayments of long-term debt ($24.4 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.5 million)

Item	Change ($ million)	Explanation
Capital stock	16.1	Due to: • Net proceeds from 4.5 million common share issue ($15.7 million) • Future income tax impact relating to common share issue fees and expenses ($0.4 million)
Cumulative translation adjustment	(2.3)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	6.9	See consolidated statements of retained earnings

At December 31, 2005 and March 31, 2005, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	December 31, 2005	March 31, 2005
Working capital ratio	1.95:1	1.48:1
Cash and cash equivalents	$16.8 million	$9.6 million
Long-term debt-to-equity ratio	0.37:1	0.51:1

Improvements to the above-mentioned ratios and to cash and cash equivalents reflect the Company's increased cash flows from operations this year, along with the net capital repayment on long-term debt from the net proceeds of the sale of Diemaco and the treasury common share issue already explained above.

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies adopted in the last fiscal year ended March 31, 2005 along with the future changes in accounting policies are discussed in the Company's MD&A included in its annual report for fiscal 2005.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have 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, 2005.

- Reliance on large customers
- 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

OUTLOOK

The Company expects its business to continue to improve through the remainder of this year and into next year as we continue to execute on our business plan. Military sales should remain solid. At this time, sales for large commercial aircraft, business jets and turboprops (commuters) should increase as the civil market continues to improve, while regional jet product sales will remain at a lower level, as seen in the last quarter. Aircraft Engine Component sales have been impacted by ongoing delivery and quality issues at the Gas Turbine Components Division, and while improvements have been made, sales are expected to remain flat or could even decline in the coming quarter. However, the Company's recent move into the wind energy markets is starting to bear fruit and will contribute positively to future industrial product sales.

Additional Information and Continuous Disclosure

This MD&A was prepared as of February 1st, 2006. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.