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, 2007 and December 31, 2007. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 2007 to those for the same periods the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2007 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements of June 30, 2007, September 30, 2007 and December 31, 2007. 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 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, 2007. 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.

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, although the Company will fully exit this market by the end of this fiscal year.

The Industrial segment includes:

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

The Company maintained its good performance in the third quarter of fiscal 2008. The favourable market conditions that have prevailed over the last two years, the lean manufacturing initiatives introduced by the Company and the improved performance of the Industrial sector all helped the Company achieve these good results. Once again, the stronger Canadian dollar had, and will continue to have, a significant negative impact on Héroux-Devtek's results. However, the Company uses forward foreign exchange contracts to mitigate this risk.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the third quarter ended December 31, 2007 grew by 6.6% to $76.3 million from $71.5 million for the same period last year.

The increase in third quarter sales this year was mainly due to higher Landing Gear products sales, mainly on the military products side. The ongoing strength of the Canadian dollar against the US dollar once again had a negative impact on US dollar denominated sales, reducing total sales by $7.8 million or 10.9% compared to last year.

Year-to-date consolidated sales now stand at $224.8 million, $24.3 million or 12.1% higher than the $200.5 million posted nine months into last year. Increased sales of large aircraft, military products and, to a lesser degree, business jet products have all contributed to the year-to-date improvement. The military product sales were somewhat offset by reduced military repair and overhaul work due to a sales mix with lower supplied material content. The exit of the Aircraft Engine Components market reduced the Company's nine-month sales by $1.6 million compared to the same period last year. Year-to-date, the stronger Canadian dollar reduced sales by $12.5 million or 6.2% compared to last year.

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

Segment	**Quarters ended December 31**				**Nine months ended December 31**			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	**%**
Aerospace								
Military								
Military sales to government	**15,929**	12,108	3,821	31.6	**41,746**	39,775	1,971	5.0
Military sales to civil customers	**23,767**	21,883	1,884	8.6	**67,389**	52,209	15,180	29.1
Total Military	**39,696**	33,991	5,705	16.8	**109,135**	91,984	17,151	18.6
Total Commercial	**29,399**	30,784	(1,385)	(4.5)	**94,161**	89,357	4,804	5.4
Total Aerospace	**69,095**	64,775	4,320	6.7	**203,296**	181,341	21,955	12.1
Total Industrial	**7,165**	6,744	421	6.2	**21,498**	19,164	2,334	12.2
Total	**76,260**	71,519	4,741	6.6	**224,794**	200,505	24,289	12.1

Comparative figures for the Aerospace segment of last year have been reclassified to comply with this year presentation.

RESULTS OF OPERATIONS (cont'd)

Aerospace Segment

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

Product	Quarter ended December 31				Nine months ended December 31			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	%
Landing Gear	**45,692**	39,345	6,347	16.1	**132,541**	118,595	13,946	11.8
Aerostructure	**23,009**	24,949	(1,940)	(7.8)	**69,532**	59,966	9,566	15.9
Aircraft Engine Components	**394**	481	(87)	(18.1)	**1,223**	2,780	(1,557)	(56.0)
Total	**69,095**	64,775	4,320	6.7	**203,296**	181,341	21,955	12.1

For the third quarter ended December 31, 2007, overall sales for the Aerospace segment rose 6.7% to $69.1 million compared to $64.8 million for the same period last year.

During the third quarter, Landing Gear sales increased by $6.3 million or 16.1% relative to the same period last year. This increase can be explained, mostly, by increased sales of military products to governments, mainly for the C-130, KC-135, B1B and E3 programs and also by increased business jet sales. The division also started engineering work on the recently-announced Sikorsky CH-53K helicopter program and continued work on other programs such as the JSF, which also contributed to the sales increase.

Third quarter Aerostructure sales were $23.0 million, $1.9 million or 7.8% lower than last year. The increase in sales of Aerostructure parts on the F-16 program and the schedule recovery on the A330-340 programs were more than offset by the impact of the stronger Canadian dollar impact and a decrease in Aerostructure regional jet (RJ700 and RJ900 programs) sales.

Year-to-date sales for the Aerospace segment increased 12.1% to $203.3 million. This increase came from both the Landing Gear and Aerostructure divisions for the above-mentioned reasons. The Landing Gear division benefited from higher sales for large aircraft, business jets and military products, somewhat reduced by lower military repair and overhaul work due to a sales mix with lower supplied material content. Aerostructure sales, for their part, were higher for the above-mentioned reasons and because of higher year-to-date sales for the Joint Strike Fighter (JSF) program.

As previously mentioned, the Company has essentially exited the aircraft engine components market, which explains the $1.6 million drop in sales year-to-date. Residual sales are expected for the remainder of the year.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarter ended December 31				Nine months ended December 31			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	%
Gas Turbine	**3,776**	3,360	416	12.4	**11,167**	9,171	1,996	21.8
Other Industrial	**3,389**	3,384	5	0.1	**10,331**	9,993	338	3.4
Total	**7,165**	6,744	421	6.2	**21,498**	19,164	2,334	12.2

Third quarter sales for the Industrial segment totalled $7.2 million this year, 6.2% higher than last year, while year-to-date sales increased 12.2% to $21.5 million when compared to the first nine months of last year. The positive trend in Industrial Gas Turbine sales that started in the second quarter of fiscal 2007 continued in fiscal 2008, with sales improving by $0.4 million for the second quarter and $2.0 million for the first nine months when compared to the same periods last year.

RESULTS OF OPERATIONS (cont'd)

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
Canada	**34%**	27%	**32%**	29%
US	**65%**	71%	**67%**	69%
International	**1%**	2%	**1%**	2%
	100%	100%	**100%**	100%

Increased Canadian commercial sales and the exit of the Aircraft Engine market explain both the quarter and year-to-date variances to last year.

Gross Profit

For the quarter ended December 31, 2007, consolidated gross profit as a percentage of sales was 14.8%, up 1.6% from 13.2% last year.

Gross profit improvement was essentially due to the continued turnaround at the Gas Turbine division. The stronger Canadian dollar had a 1.6% negative impact on the consolidated gross profit margin in the quarter ended December 31, 2007, compared to the same period last year. The Company uses forward foreign exchange contracts to mitigate the risks related to fluctuations in the Canadian currency against the US currency.

For the nine months ended December 31, 2007, consolidated gross profit as a percentage of sales stood at 13.9%, 3.2% higher than last year. The higher sales volume and improved margins on certain contracts at the Landing Gear and Aerostructure divisions favourably impacted gross profit margin while the reduced military repair and overhaul sales at the Landing Gear Division had a year-to-date negative impact on the gross profit margin, as already explained above. The improved operational performance at the Aerostructure Dorval operation also positively contributed to the gross profit improvement. The stronger Canadian dollar had a 0.8% negative impact on consolidated gross profit year-to-date, when compared to the same period last year.

The impact of the stronger Canadian dollar against the US currency on the Company's 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.

The implementation of changes in accounting policies (see below) reduced the amortization expense in the second quarter of this year by $127,000 ($356,000 for the first nine months) and marginally increased gross profit by 0.2% (0.2% year-to-date).

Selling and Administrative Expenses

Third quarter selling and administrative expenses were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
Selling and administrative expenses ($'000)	**4,744**	5,607	**13,213**	13,784
% of sales	**6.2**	7.8	**5.9**	6.9

RESULTS OF OPERATIONS (cont'd)

Third quarter selling and administrative expenses were $0.9 million lower than last year and 1.6% lower as a percentage of sales. Year-to-date, selling and administrative expenses were $0.6 million lower than last year and 1.0% lower as a percentage of sales. These reductions are explained by the impact from the gain on conversion of the Company's net monetary items which are shown against selling and administrative expenses ($0.5 million for the quarter, $0.8 million year-to-date), a concerted effort to curtail these costs, and, to a lesser extent, to the lower exchange rate used to convert the US base operations' selling and administrative expenses.

Operating Income (Loss)

Aerospace Segment

Aerospace operating income for the third quarter ended December 31, 2007, increased to $6.3 million or 9.1% of sales from $4.3 million or 6.6% of sales in the third quarter of last year, essentially reflecting higher sales and improved performance, mainly from the Landing Gear division, improved margins following the exit of the aircraft engine components market at the Gas Turbine division, and, to a lesser degree, the improved Aerostructure division results.

Year-to-date, Aerospace operating income stood at $18.1 million or 8.9% of sales, $8.6 million better than the $9.5 million or 5.2% of sales reported for the first nine months of last year, for the same reasons explained above.

Industrial Segment

The Industrial operating income of $0.3 million for the third quarter of this year compares to a $0.4 million operating loss for the same period last year, while the year to-date Industrial operating income was $0.1 million compared to a loss of $1.8 million for the first nine months of last year. These favourable variances reflect continued operational improvements, increased margins and an increase in overall Industrial sales compared to last year.

Financial Expenses	**Quarters ended December 31**		**Nine months ended December 31**	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Interest expense	**1,440**	1,049	**4,106**	2,635
Amortization of deferred financing costs	**50**	57	**126**	194
Standby fees	**47**	46	**156**	142
Accretion expense of asset retirement obligations	**51**	47	**153**	141
Amortization of net deferred loss related to financial derivative instrument	**-**	30	**46**	104
Interest revenue	**(334)**	(111)	**(581)**	(344)
Financial expenses – net	**1,254**	1,118	**4,006**	2,872

Third quarter financial expenses stood at $1.3 million, $136,000 higher than last year, while the year-to-date financial expenses stood at $4.0 million, $1.1 million higher than last year. These increases can be explained by the higher average long-term debt due to additional working capital and capital expenditure investments required to support the Company's sales growth, somewhat offset by higher interest revenue ($220,000) from a non-recurring, one-time item.

The implementation of the changes in accounting policies (see below) increased the financial expenses by $214,000 in the third quarter and $577,000 year-to-date, this year.

RESULTS OF OPERATIONS (cont'd)

Income Tax Expense

The Company's effective income tax rate for the nine months ended December 31, 2007 was 11.2% compared to its blended Canadian statutory rate of 32.7%. This difference can be mainly explained by the favourable impact of permanent differences of $594,000 ($198,000 in each quarter of this fiscal year) and by the recognition of $1,620,000 ($300,000 in the first quarter, $420,000 in the second quarter and $900,000 in the third quarter) in income tax benefits 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 of the impact on future income taxes of the reduction in the federal income tax rate ($260,000) announced this quarter.

At December 31, 2007, the Company had tax losses carried forward and other temporary differences of $2.6 million at December 31, 2007 ($7.8 million at March 31, 2007), for which no related income tax assets or benefits ($0.8 million) have yet been recognized in the consolidated financial statements.

Net Income

	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
Net income ($'000)	**5,287**	2,198	**12,545**	4,382
Earnings per share – basic ($)	**0.17**	0.07	**0.40**	0.14
Earnings per share – diluted ($)	**0.17**	0.07	**0.39**	0.14

The Company posted net income of $5.3 million for the third quarter ended December 31, 2007, compared to net income of $2.2 million for the quarter ended December 31, 2006. Year-to-date, net income stood at $12.5 million, $8.1 million higher than last year's net income of $4.4 million. These results reflect the increased sales volume and improved gross profit margins in all three divisions and the favourable impact of the tax loss utilization, from prior years, already mentioned.

The implementation of the changes in accounting policies (see below) reduced net income by $41,000 in the third quarter of this year and $129,000 for the first nine months of fiscal 2008.

Basic earnings per share figures are based on weighted averages of 31,629,197 common shares outstanding for the third quarter of this year and 31,518,561 for the same period last year. Year-to-date basic earnings per share figures are based on weighted averages of 31,601,154 common shares outstanding this year and 31,507,054 for the same period last year. The increase in the number of shares is essentially due to the issuance of 6,751 common shares in the third quarter this year (20,602 common shares year-to-date) pursuant to the Company's stock purchase and ownership incentive plan, and the issuance of 83,300 common shares pursuant to the exercise of stock options in the first quarter of this year (see Note 6 to the interim consolidated financial statements).

Diluted earnings per share figures are based on the weighted average numbers of common shares including the impact of the 'in-the-money' outstanding options (see stock option plan section below). Certain basic and diluted earnings per share covered by this MD&A are the same, as the 'in-the-money' outstanding options had no material impact on the weighted average number of common shares outstanding.

On February 6, 2008, the date of this MD&A, the Company had 31,634,139 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Cash flows from operations	**8,664**	6,579	**25,882**	17,639
Net change in non-cash items related to operations	**(4,504)**	2,154	**(19,146)**	(19,050)
Cash flows relating to operating activities	**4,160**	8,733	**6,736**	(1,411)

The third quarter improvement in cash flows from operations of $2.1 million comes mainly from the improvement in net income, somewhat offset by the future income taxes impact. Year-to-date, the $8.2 million improvement in cash flows from operations is mainly coming from the improved net income.

The net negative change of $4.5 million in non-cash items for the third quarter ended December 31, 2007, arose mainly from an increase of $0.5 million in inventories, in line with the upcoming increase in business activities, and an increase of $1.4 million in other current assets. These were partially offset by a combined reduction of $1.4 million in accounts receivable, income tax receivable and other receivables and a $4.0 million decrease in accounts payable and accrued liabilities and other liabilities (see Consolidated Balance Sheet section below).

The net change of $2.2 million in non-cash items for the third quarter ended December 31, 2006, was mainly caused by a $2.1 million increase in accounts payable and accrued liabilities and other liabilities and a $1.0 million favourable impact from the effect of changes in the exchange rate on US denominated non-cash balance sheet items. These changes were somewhat offset by an increase of $1.7 million in inventories, in line with the rising level of business activity.

The net negative change of $19.1 million in non-cash items for the first nine months ended December 31, 2007, can be mainly explained by a decrease of $21.8 million in accounts payable and accrued liabilities which included the payment in the first quarter of this year of capital expenditures outstanding as at March 31, 2007, and payment for raw materials received late in the last fiscal year. It also includes a $4.7 million negative impact from the translation of US denominated non-monetary items and a $3.4 million decrease in inventory. These were somewhat offset by a $7.2 million reduction in accounts receivable driven by an improvement in accounts receivable collection (see Consolidated Balance Sheet section below).

The net negative change of $19.0 million in non-cash items for the period ended December 31, 2006, included a $18.4 million increase in inventories from the beginning of the previous fiscal year to support upcoming activity levels, a $3.6 million reduction in accounts payable and accrued liabilities and other liabilities and a $2.4 million reduction in income tax payable, offset by a $4.5 million reduction in accounts receivable.

The implementation of the change in accounting policies (see below) had no impact on the cash flows from operations and cash flows relating to operating activities for the third quarter and the first nine months ended December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

Investing Activities

The Company's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Purchase of property, plant and equipment and finite-life intangible assets	**(12,051)**	(9,157)	**(27,165)**	(15,098)
Proceeds on disposal of property, plant and equipment	**-**	134	**-**	2,305
Business acquisition, additional payments	**-**	-	**-**	(1,577)
Cash flows relating to investing activities	**(12,051)**	(9,023)	**(27,165)**	(14,370)

Purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) totalled $12.1 million in the third quarter of this fiscal year and $27.2 million for the nine months ended December 31, 2007. This compares to $9.2 million in the third quarter last year and $15.1 million after nine months last fiscal year. In all, capital expenditures of about $37 million are still planned for the current fiscal year, including $23 million which are related to the completion of the new manufacturing facility in Arlington, Texas, for the JSF program and for the renovation of the plating facility at the landing gear plant in Longueuil, Quebec.

The $2.3 million proceeds on disposal of property, plant and equipment last year came from the sale of the Company's facility in Tampa, Florida, which was closed some years ago when its operations were transferred to the facility in Cincinnati, Ohio. The $1.6 million business acquisition made last year represents final additional payments related to fiscal 2006 profitability performance in relation to the acquisition of Progressive on April 1, 2004.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Increase in long-term debt	**11,924**	7,019	**11,924**	13,514
Repayment of long-term debt	**(282)**	(644)	**(4,469)**	(3,607)
Issuance of common shares	**56**	33	**585**	128
Other	**(61)**	-	**(56)**	-
Cash flows relating to financing activities	**11,637**	6,408	**7,984**	10,035

The $11.9 million increase in long-term debt comes mainly from new non-interest bearing loans to support capital investments made in the Aerospace segment and from new obligations under capital leases (see Note 5 to the interim consolidated financial statements). The year-to-date increase in common shares issued resulted from the exercise of 83,300 options at an exercise price of $4.96 per common share for a total of $0.4 million, all in the first quarter of this fiscal year, and the issuance of 20,602 common shares under the employee stock purchase and ownership incentive plan for a total of $0.2 million.

The issuance of common shares for the three- and nine-month periods ended December 31, 2006, was for the employee stock purchase and ownership incentive plan (see Note 6 to the interim consolidated financial statements).

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

Extension of Secured Syndicated Revolving Credit Facilities (Credit Facilities)

Last year, in the third quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period, whereby the previous banks' revolving operating and term credit facilities were combined into Senior Secured Revolving credit facilities of $80 million that will mature in about five years, on October 4, 2011, with no extension. These facilities are secured by all the assets of the Company and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. This agreement was concluded with a syndication of banks comprising National Bank of Canada, which also acted as the administrative agent, Bank of Nova Scotia, Toronto -Dominion Bank and Laurentian Bank of Canada (see Note 5 to the interim consolidated financial statements).

Furthermore, subsequent to the end of the quarter, on January 21, 2008, the Company announced it had received approval from its syndicate of banks to increase its existing $80 million Credit Facilities to an amount of up to $125 million. The final amount must be confirmed by the Company before March 31, 2008.

These Credit Facilities allow Héroux-Devtek and its subsidiaries to borrow (either in Canadian or US currency equivalent) from the above-mentioned group of banks for working capital, capital expenditures and other general corporate purposes, including acquisitions.

The Company was in compliance with all its restrictive debt covenants at December 31, 2007, and expects to remain so for the next twelve months.

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At December 31, 2007, the Company had 1,362,221 outstanding stock options at a weighted average exercise price of $7.28 that will expire over the next six years (between January 2008 and August 2014). Included in these outstanding stock options is the granting of 355,000 stock options in the second quarter ended September 30, 2007, at an exercise price of $9.90. In the second quarter ended September 30, 2006, 325,000 stock options were granted at an exercise price of $4.79.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 336,718 had not yet been granted at December 31, 2007. 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 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, 2007 and December 31, 2007:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(12.4)	See consolidated statements of cash flows.
Accounts receivable	(7.2)	Increased level of business activity more than offset by improved accounts receivable collection. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts receivable ($3.5 milliona) also explains this reduction.
Inventories	(3.6)	Mainly reflects the invoicing of JSF development costs during the first quarter this year, somewhat offset by an increase in line with the upcoming activity level.
Other current assets	11.1	Essentially reflects the recognition in the Company's balance sheets of financial instruments measured at fair value – see "Changes in accounting policies" below, and the increase ($1.1 million) in deposits for machinery and equipment purchase commitments – see "Off-balance sheet items and commitments" below.
Property, plant and equipment, net	6.8	Due to: • Purchase of capital assets ($27.1 million); Net of: • Amortization ($11.1 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($6.0 million). • recognition in the Company's balance sheets of financial instruments measured at fair value - see "Changes in accounting policies" below ($3.2 million)
Finite-life intangible assets, net (includes a $4.8 million net backlog)	(2.1)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Other assets	5.2	Essentially reflects the recognition in the Company's balance sheets of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Goodwill	(2.9)	Due to the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Accounts payable and accrued liabilities	(21.5)	Mainly reflects the impact of the payment of increased raw material purchased at the end of the fourth quarter of last year and the outstanding payment of capital expenditures, both made in the first quarter of this fiscal year. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts payable and accrued liabilities ($3.4 million) also explains this reduction.

CONSOLIDATED BALANCE SHEETS (cont'd)

Item	Change ($ millions)	Explanation
Future income taxes (Current liabilities)	3.2	Reflects mainly the future income tax impact of the recognition in the Company's balance sheets of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Long-term debt (including current portion)	(4.9)	Due to: • Capital repayment of long-term debt ($3.9 million); • Deferred financing costs presented as a reduction of long-term debt since the implementation of the new accounting rules ($0.7 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($6.1 million); and Recognition in the Company's balance sheets of financial instruments measured at fair value – see "Changes in accounting policies" below ($6.1 million) Net of: • Proceeds from new debt: • Non-interest bearing loans ($7.3 million) • Obligations under capital leases ($4.6 million)
Future income taxes (Long-term liabilities) (Long-term liabilities)	2.0	Reflects mainly the future income tax impact of the recognition in the Company's balance sheets of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Accumulated other comprehensive loss	1.7	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the unrealized net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges – see "Changes in accounting policies" below.
Retained earnings	14.3	See consolidated statements of changes in shareholders' equity and "Changes in accounting policies", below.

At December 31, 2007 and March 31, 2007, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	December 31, 2007	March 31, 2007
Working capital ratio	**2.21:1**	1.89:1
Cash and cash equivalents	**$7.7 million**	$20.1 million
Long-term debt-to-equity ratio	**0.36:1**	0.41:1

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $10.2 million as at December 31, 2007 ($12.9 million as at March 31, 2007), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2007, the Company had also purchase commitments totalling $14.6 million ($20.2 million to March 31, 2007), mainly for machinery and equipment and construction in progress, for which $3.1 million ($2.0 million to March 31, 2007) deposits 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 new capital investments at the Company's Kitchener plant and, construction of a new manufacturing facility in Arlington, Texas.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS (cont'd)

At December 31, 2007, the Company had entered into forward foreign exchange contracts to sell US$123.8 million at an average exchange rate of 1.1248 (US$129.5million at an average rate of 1.2110 as at March 31, 2007 and US$128.8 million at an average rate of 1.2241 as at December 31, 2006) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between January 2008 and March 2011, with the majority maturing in fiscal 2008 and 2009.

On July 11, 2007, in order to limit the effect of interest rate variations over the portion of its long-term debt in US currency, the Company entered into a four-year interest rate swap agreement for an amount of US$15 million that fixes the Libor US rate at 5.53% and that will mature on August 1, 2011.

CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". The Company adopted these new accounting standards effective April 1, 2007.

A new statement entitled "consolidated statement of changes in shareholders' equity" has been added to the Company's interim consolidated financial statements and includes the changes in capital stock, contributed surplus and retained earnings, as well as comprehensive income and accumulated other comprehensive income (loss).

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents changes in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI includes unrealized gains and losses, net of taxes, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of taxes, arising from changes in fair value of available-for-sale financial assets and the effective portion of changes in fair value of cash flow hedging instruments.

Section 3855 requires that financial instruments be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855, including embedded derivatives financial instruments that are not closely related to the host contract, are measured at fair value. The Company has selected April 1, 2003, as the date for identification of embedded derivatives. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value, with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses, including changes in foreign exchange rates, are recognized directly to OCI, except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period.

The Company has made the following classification of its financial instruments:

- Cash and cash equivalents are classified as HFT.
- Amounts receivable are classified as L&R.
- Amounts payable in current liabilities, long-term debt (including current portion) and other liabilities are classified as other than HFT liabilities.

CHANGES IN ACCOUNTING POLICIES (cont'd)

Section 3865 specifies that in a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income.

The Company elected to continue to apply hedge accounting for its forward foreign exchange contracts and for its interest rate swap agreement as cash flow hedges.

The impact of the implementation of these new accounting standards was recognized as an adjustment to the carrying amount of the related financial instruments and recorded in shareholders' equity as at April 1, 2007. This transition adjustment resulted in an increase of $5.6 million recorded to accumulated OCI and an increase of $1.7 million recorded to retained earnings. The impact of these changes on the Company's consolidated balance sheet accounts at April 1, 2007, can be summarized as follows:

	April 1, 2007 Increase (decrease) ($ million)
Current Assets - Other Current Assets	5.2
Long-term assets - Property, plant and equipment, net	(1.0)
Long-term Assets - Other Assets	4.1
Current Liabilities - Accounts Payable and accrued liabilities	0.6
Current Liabilities - Future Income Taxes	1.5
Long-term liabilities - Long-term debt	(3.6)
Long-term Liabilities - Other Liabilities	0.4
Long-term Liabilities - Future Income Taxes	2.0
Accumulated other comprehensive income	5.6
Retained earnings	1.7

The implementation of these new accounting standards reduced the Company's consolidated net income by $41,000 for the third quarter this year and $129,000 for the nine months ended December 31, 2007, while it had no impact on cash flows from operations and cash flows relating to operating activities for the same periods.

Impact on the Company's consolidated net income for the three- and nine-month periods ended December 31, 2007:

	Quarter ended December 31,2007 ($ '000)	Nine-month period ended December 31, 2007 ($ '000)
• Decrease in cost of sales	26	26
• Decrease in amortization expense	127	356
• Increase in financial expenses	(214)	(577)
	(61)	(195)
• Income tax impact	20	66
• Reduction in consolidated net income	(41)	(129)

These accounting standards and the impact of these changes on the Company's consolidated financial statements are discussed in Note 2 - Changes in Accounting Policies (see also the new Consolidated Statement of Changes in Shareholders' Equity).

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 three- and nine-month periods ended December 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's 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, 2007.

- 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

The order books of large commercial aircraft manufacturers continue to be strong, a situation conducive to further business opportunities for suppliers such as Héroux-Devtek. The military aerospace market also remains solid. Meanwhile, the power generation industry continues to improve, which should help further increase operating profitability in the Industrial segment. Nevertheless, economic risk caused by a recession in the United States could impact the Company's key sectors of activity.

The collective labour agreement at the Laval, Quebec, plant expired in December 2007. Negotiations are still in progress. Meanwhile, the collective labour agreement at the Longueuil, Quebec plant will expire in April 2008. The Company enjoys good relations with its employees and expects a successful renewal of both agreements.

Given the Company's solid backlog, it continues to expect approximately 10% internal sales growth in fiscal 2008 compared with fiscal 2007. In light of the sustained strength of the Canadian dollar against the US currency, Héroux-Devtek must continue to improve and make productivity gains to maintain its competitiveness. The Company's significant capital expenditure and employee training investment programs, along with continuous lean manufacturing initiatives, should contribute to improving its productivity.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and the Board of Directors on February 6, 2008. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.