Management Discussion and Analysis
of Financial Position and Operating Results

This Management Discussion and Analysis of Financial Position and Operating Results (MD&A) is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2008 and December 31, 2008. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 2008 to those for the same periods the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2008 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements to June 30, 2008, September 30, 2008 and December 31, 2008. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2008. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive. Undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

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

- landing gear products;
- aerostructure products;
- other aerospace products.

The Industrial segment includes:

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

The impact of the worldwide financial turmoil is discussed later in this MD&A (see under Impact of the International Financial Crisis and Economic Situation), but after three quarters, the Company continues to post better results than last year. Other than the Landing Gear division, the Company's divisions have improved their top and bottom lines, both for the third quarter and year-to-date, when compared to the same periods last year. Although the Canadian currency lost ground against its US counterpart during the quarter, the Company was not significantly impacted due to its hedging policy. That being said, recent fluctuations in these currencies will affect upcoming results and remain a point of focus for the Company.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended December 31, 2008, grew by 12.2% to $85.6 million from $76.3 million for the same period last year.

The increase in third quarter sales was mainly due to higher military sales to civil customers, business jet sales and commercial helicopter parts and repair and overhaul sales. Industrial sales also maintained their upward trend with improved industrial and wind energy sales. These increases were somewhat offset by lower large commercial sales, including deferred sales attributable to the Boeing Company labour strike that ended earlier in the third quarter. The weaker Canadian dollar relative to the US dollar had a $7.4 million or 9.7% favourable impact on sales when compared to the third quarter of last year.

For the first nine months ended December 31, 2008, consolidated sales totalled $245.5 million, 9.2% higher than sales of $224.8 million last year.

This increase resulted from the same elements mentioned above. Year-to-date, currency fluctuations reduced sales by $2.7 million or 1.2% compared to last year.

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

Segment	Quarter ended December 31, 2008 ($000)	2007 ($000)	VARIANCE ($000)	%	Nine months ended December 31, 2008 ($’000)	2007 ($’000)	VARIANCE ($’000)	%
Aerospace								
Military								
Military sales to government	13,943	15,048	(1,105)	(7.3)	40,651	41,478	(827)	(2.0)
Military sales to civil customers	28,088	22,610	5,478	24.2	72,634	61,306	11,328	18.5
Total Military	42,031	37,658	4,373	11.6	113,285	102,784	10,501	10.2
Total Commercial	33,016	31,437	1,579	5.0	103,882	100,512	3,370	3.4
Total Aerospace	75,047	69,095	5,952	8.6	217,167	203,296	13,871	6.8
Total Industrial	10,531	7,165	3,366	47.0	28,322	21,498	6,824	31.7
Total	85,578	76,260	9,318	12.2	245,489	224,794	20,695	9.2

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, 2008 ($’000)	2007 ($’000)	VARIANCE ($’000)	%	Nine months ended December 31, 2008 ($’000)	2007 ($’000)	VARIANCE ($’000)	%
Landing Gear	44,986	45,692	(706)	(1.5)	136,002	132,541	3,461	2.6
Aerostructure	29,763	23,009	6,754	29.4	80,201	69,532	10,669	15.3
Other aerospace products	298	394	(96)	(24.4)	964	1,223	(259)	(21.2)
Total	75,047	69,095	5,952	8.6	217,167	203,296	13,871	6.8

For the third quarter ended December 31, 2008, overall sales for the Aerospace segment were up 8.6% to $75.0 million from $69.1 million for the same period last year. Within this segment, commercial sales showed a 5.0% increase when compared with last year third quarter while total military sales increased by 11.6% for the same period.

During the third quarter, Landing Gear sales decreased by $0.7 million or 1.5% relative to the same period last year. Increases in regional jet, business jet and commercial helicopter parts and military helicopter repair and overhaul sales. These were more than offset by reduced throughput on manufacturing military sales and the impact of deferred sales attributable to the Boeing Company labour strike.

Third quarter Aerostructure sales were $29.8 million, $6.8 million or 29.4% higher than last year. This reflects an increase in military sales to civil customers, arising mainly from catch-up on deliveries on the F-15 and F-22 programs, increased business jet sales and the impact of a favourable exchange rate on sales for the quarter. Furthermore, the favourable variance also includes additional sales coming from the low rate initial phase (LRIP) from the Joint Strike Fighter (JSF) F35 program.

On a year-to-date basis, total Aerospace sales increased by $13.9 million or 6.8% over the same period last year, to $217.2 million.

The Landing Gear Division improved its revenues, with sales of $136.0 million, $3.5 million or 2.6% higher than last year. Improved military repair and overhaul throughput and sales and, increased business jet and commercial helicopter parts sales are behind this positive variance, offset by the completion of the B-777 retrofit program, as well as the negative impact of the stronger Canadian dollar versus the US dollar when compared to last year.

Year-to-date Aerostructure sales increased by $10.7 million, or 15.3%, to $80.2 million for the reasons mentioned above as well as an increase in F-16 sales, including kit sales for the same program. These were negatively impacted by the reduction in a large commercial OEM program.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarter ended December 31,				Nine months ended December 31,			
	2008	2007	VARIANCE		2008	2007	VARIANCE	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	4,077	3,777	300	7.9	12,919	11,167	1,752	15.7
Other Industrial	6,454	3,388	3,066	90.5	15,403	10,331	5,072	49.1
Total	10,531	7,165	3,366	47.0	28,322	21,498	6,824	31.7

Third quarter sales, which are mainly value-added, for the Industrial segment totalled $10.5 million this year, 47.0% higher than last year, while year-to-date sales were up 31.7% at $28.3 million, $6.8 million higher than last year.

Gas Turbine sales continued the positive trend started last year, with year-over-year increases of 7.9% for the third quarter and 15.7% for the first nine months of the year. Other Industrial sales benefitted from a $1.0 million increase in wind energy sales, while the heavy industry market increased its sales for the quarter by $2.1 million. For the first nine months, the combined wind energy and heavy-industry markets were up $5.1 million or 49.1%.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarter ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Canada	32%	34%	33%	32%
US	67%	65%	66%	67%
International	1%	1%	1%	1%
	100%	100%	100%	100%

The third quarter increase in US sales as a percentage of total sales can be explained by the improved performance of the Industrial segment, which is all US-based, while the year-to-date change in the sales-by-destination mix can be explained by the winding down of a large commercial retrofit program for a US customer, somewhat offset by increased industrial sales.

Gross Profit

For the quarter ended December 31, 2008, consolidated gross profit as a percentage of sales was 15.8%, up 1.0% from 14.8% last year.

The increase for the third quarter is mainly attributable to higher value-added Industrial sales at the Gas Turbine Components Division. Both the Landing Gear and Aerostructure divisions had margins similar to their performance for the third quarter of last year. In spite of the favourable impact for the quarter, the currency fluctuation reduced gross profit expressed as a percentage of sales by 0.5% considering the Company's hedging policy.

Year-to-date, consolidated gross profit as a percentage of sales stood at 16.7%, up 2.8% from the 13.9% reported last year. Increases in value-added Industrial sales at the Gas Turbine Components Division and the Company's overall higher volume had a positive impact on margins. Aerostructure margins were favourably impacted by a much-improved year-to-date sales mix in the first quarter of this fiscal year, while the Landing Gear Division gross profit, although showing a marginal increase, was again negatively impacted by fluctuations of the Canadian dollar against the US dollar, as all this division's operating units are in Canada. It is also worth noting that the Aerostructure Division was negatively impacted last year by the development phase of the JSF program.

The Canadian dollar had a 1.7% negative impact on the consolidated gross profit margin for the nine months ended December 31, 2008, compared to the same period last year.

Besides the natural hedging that arises from the purchasing of materials in US dollars, the Company uses forward foreign exchange contracts to mitigate the risks related to fluctuations in the Canadian/US dollar currency fluctuations (see below).

Selling and Administrative Expenses

Third quarter and year-to-date selling and administrative expenses were as follows:

	Quarter ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Selling and administrative expenses ($'000)	5,703	4,744	16,526	13,213
% of sales	6.7	6.2	6.7	5.9

Third quarter selling and administrative expenses were $1.0 million higher than last year, or 0.5% higher as a percentage of sales. Selling and administrative expenses of $16.5 million for the nine months ended December 31, 2008, were $3.3 million or 0.8% of sales higher than last year.

Selling and administrative expenses increased, both for the quarter and year-to-date, in line with greater business activity and also includes the impact of the higher exchange rate used to convert these costs arising from the Company's US operations. The increase also includes a $0.4 million loss on currency translation on net monetary items in the third quarter ended December 31, 2008, compared to a $0.3 million loss for the same period last year. Some $2.5 million of the total increase year-to-date is due to a currency translation loss of $0.9 million for this year compared to a $1.6 million gain last year.

Operating Income

Consolidated operating income for the third quarter ended December 31, 2008 increased by 19.4% when compared with last year and now stands at $7.8 million or 9.2% of consolidated sales, compared to $6.6 million or 8.6% of sales for the same period last year. For the nine-month period ended December 31, 2008, operating income was $24.4 million or 10.0% of sales, compared to $18.1 million or 8.1% last year. This year-to-date increase represents a 34.7% year-over-year improvement for the operating income.

Aerospace Segment

Aerospace operating income was $6.3 million or 8.4% of sales in the third quarter compared to $6.3 million or 9.1% of sales in the third quarter of last year. Despite higher sales, the operating income as a percentage of sales was negatively impacted by the currency translation loss on monetary items, particularly at the Landing Gear division, as already mentioned above.

On a year-to-date basis, Aerospace operating income was $20.0 million or 9.2% of consolidated sales, compared to $18.1 million or 8.9% of sales for the same period last year.

Industrial Segment

Operating income of $1.6 million or 14.8% of sales for the third quarter of this year compares to a $0.3 million operating income for the same period last year, and reflects continued operational improvements, improved pricing and the increase in value-added Industrial Gas Turbine and Wind Energy sales for the third quarter.

For the nine months ended December 31, 2008, operating income stood at $4.5 million or 15.8% of consolidated sales, compared to an operating income of $0.1 million for the same period a year ago, for the reasons explained above.

Financial Expenses

Financial expenses of $1.1 million for the third quarter were $0.2 million lower than last year, while year-to-date financial expenses were $0.8 million lower, at $3.2 million. A lower average net debt position and lower average interest rates when compared with last year explains most of these favourable variances. The net debt position is defined as the long-term debt, including the current portion, less cash and cash equivalents.

Income Tax Expense

For the quarter ended December 31, 2008, the Company had an income tax expense of $1.6 million compared to an income tax expense of $0.9 million for the same period last year. The latter expense was further reduced by the $0.9 million impact from the tax loss utilization in the third quarter last year. The third quarter effective income tax rate for this fiscal year was 23.2% compared to a Canadian blended statutory rate of 31.0%. This difference can be explained by a positive $0.3 million in future tax adjustments and $0.2 million in permanent differences.

Year-to-date, the Company had an income tax expense of $6.3 million for the nine months ended December 31, 2008, compared to an expense of $1.6 million last year, which included $1.6 million coming from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years.

For the nine months ended December 31, 2008, the effective income tax rate was 29.7% compared to a Canadian blended statutory rate of 31.0%. The difference can be explained by higher income from the Company's self-sustaining US subsidiaries with a higher income tax rate, more than offset by the impact of favourable future tax adjustments ($0.3 million), and the impact of permanent differences ($0.5 million).

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 was mainly explained by the favourable impact of permanent differences ($0.6 million) and the recognition of $1.6 million in income tax benefits from the utilization of tax losses from prior years.

Net Income

	Quarter ended December 31,		Nine months ended December 31,	
	2008	2007	2008	2007
Net income ($'000)	5,178	5,287	14,932	12,545
Earnings per share – basic ($)	0.16	0.17	0.47	0.40
Earnings per share – diluted ($)	0.16	0.17	0.47	0.39

The Company posted net income of $5.2 million for the third quarter ended December 31, 2008, compared to net income of $5.3 million for the quarter ended December 31, 2007. As already highlighted above, last year third quarter net income was favourably impacted by a $0.9 million tax loss utilization, which meant that on a comparative basis, net income improved by $0.8 million.

Year-to-date net income of $14.9 million is $2.4 million higher than the $12.5 million posted for the first nine months of last year. Again, tax loss utilization favourably impacted last year's year-to-date net income by $1.6 million. In addition this favourable variance resulted from increased sale volume at all three divisions and improved margins at the Aerostructure and Gas Turbine Components divisions, net of the currency translation impact included in selling and administrative expenses, as explained above.

Earnings-per-share figures are based on weighted averages of 31,647,603 common shares outstanding for the first nine months of this year and 31,601,154 for the same period last year. The increase in the number of shares is essentially due to the issuance of 43,634 common shares pursuant to the Company's stock purchase and ownership incentive plan, somewhat reduced by the redemption of 193,800 shares following the normal course issuer bid initiated this quarter by the Company (see Note 8 to the interim consolidated financial statements).

On February 4, 2009, the date of this MD&A, the Company had 31,457,253 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarter ended December 31,		Nine months ended December 31,	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Cash flows from operations	11,709	8,664	33,986	25,882
Net change in non-cash items related to operations	4,204	(4,504)	(1,369)	(19,146)
Cash flows relating to operating activities	15,913	4,160	32,617	6,736

For the third quarter ended December 31, 2008, cash flows from operations were $11.7 million, $3.0 million higher than for the same period last year, due mainly to higher amortization expense ($1.2 million) and the increase in future income taxes ($1.9 million).

The net change of $4.2 million in non-cash items for the quarter ended December 31, 2008, was significantly impacted by deterioration of the Canadian currency against its US counterpart, and can be explained by a $24.2 million increase in accounts payable and accrued liabilities and other liabilities arising from the variation in the Company's balance sheet of short-term derivative financial instruments measured at fair value and the increase in business activity. This variance was partially offset by a $7.0 million increase in accounts receivable, also in line with the increased business activity, and a $14.0 million negative impact of the translation of US-denominated non-cash balance sheet items (see Consolidated Balance Sheet section below and note 10 to the interim consolidated financial statements).

Cash flows from operations for the nine months ended December 31, 2008, stood at $34.0 million, $8.1 million higher than for the same period last year. The increase resulted from the $2.4 million improvement in net income and increases of $2.4 million in amortization expense and by $3.2 million in future income taxes.

The net change of $1.4 million in non-cash items for the nine months ended December 31, 2008, can be explained by higher accounts receivable ($5.9 million), in line with the increased business activity, higher inventories ($8.4 million) before the inventory adjustment following the implementation of new accounting guidelines (see below), and the negative impact of the translation of US-denominated non-cash balance sheet items ($13.1 million). These outflows were offset by a $22.3 million increase in accounts payable and accrued liabilities and other liabilities, for the reasons already mentioned above.

The net negative change of $4.5 million in non-cash items for the third quarter ended December 31, 2007, arose mainly from increases of $0.5 million in inventories, in line with the increase in business activity, and $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.

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 last year of capital expenditures outstanding as at March 31, 2007, and payment for raw materials received late in the previous fiscal year. It also includes a $4.7 million negative impact from the translation of US denominated non-monetary items.. These were somewhat offset by a $7.2 million reduction in accounts receivable driven by improved collection and a $3.4 million decrease in inventories.

Investing Activities

The Company's investing activities were as follows:

	Quarter ended December 31,		Nine months ended December 31,	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Purchase of property, plant and equipment	(10,414)	(11,974)	(20,430)	(27,082)
Increase in finite-life intangible assets	(192)	(77)	(1,710)	(83)
Cash flows relating to investing activities	(10,606)	(12,051)	(22,140)	(27,165)

Third quarter purchases of property, plant and equipment totalled $10.4 million this year compared to $12.0 million last year. To date, $20.4 million has been invested in capital expenditures compared to $27.1 million last year. Capital expenditures of about $40 million are planned for the current fiscal year, including $14 million for investments following the award in November 2007 of a $115 million, 10-year sales contract to manufacture major landing gear components for the Boeing B-787, Airbus A-320 and Sukhoi RRJ programs, and more than $2 million to complete the modernization of the plating department at the Landing Gear plant in Longueuil, Quebec (see "Off-Balance-Sheet Items and Commitments", below).

The $1.7 million year-to-date increase in finite-life intangible assets represents the purchase of $0.7 million in computer software and an increase in capitalized development costs ($1.0 million) for Aerospace long-term contracts following the implementation of new accounting guidelines on inventories (see "Changes in Accounting Policies", below).

Financing Activities

The Company's financing activities were as follows:

	Quarter ended December 31,		Nine months ended December 31,	
	2008 ($'000)	2007 ($'000)	2008 ($'000)	2007 ($'000)
Increase in long-term debt	-	11,924	2,106	11,924
Repayment of long-term debt	(5,389)	(282)	(7,542)	(4,469)
Issuance of common shares	81	56	242	585
Repurchase of common shares	(717)	-	(717)	-
Other	(89)	(61)	(274)	(56)
Cash flows relating to financing activities	(6,114)	11,637	(6,185)	7,984

The $5.4 million capital repayment of long-term debt consists mainly of the repayment of $4.0 million on the Canadian Banks' Credit Facility (see under Consolidated Balance Sheets, below).

To date this year, 43,634 common shares have been issued under the Company's share purchase plan, for a total value of $0.2 million. At December 31, 2008, 193,800 common shares had been bought back at an average price of $3.70 pursuant to a normal course issuer bid launched by the Company earlier in the quarter (see under Normal Course Issuer Bid, below).

Last year, 83,300 options were exercised at a price of $4.96 per common share for a total of $0.4 million, all during the quarter ended June 30, 2007, while no option have yet been exercised this year, the balance of the increase following issuance under the Company's share purchase plan.

On April 14, 2008, the Company increased its $80 million Credit Facilities to $125 million on essentially the same terms and conditions. The Credit Facilities mature in October 2011 (see Note 7 to the interim consolidated financial statements).

Normal Course Issuer Bid

On November 20, 2008, the Company announced that it was launching a normal course issuer bid (NCIB), with the approval of the Toronto Stock Exchange (TSX). Under the term 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 11, 2008. The repurchase of common shares commenced on November 24, 2008, and will end on November 23, 2009. All common shares purchases by the Company are made on the open market through the facilities of the TSX or other Canadian market places in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

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, 2008, the Company had

1,384,221 outstanding stock options at a weighted average exercise price of $6.27 that will expire over the next six years (between June 2009 and November 2015).

During the nine months ended December 31, 2008, 65,000 options were cancelled, all in the first quarter (none in the same period last year), having reached their expiry dates.

For the nine months ending December 31, 2008, 175,000 stock options were granted (all in the third quarter) at an exercise price of $4.58, while for the same period last year, 355,000 stock options were granted (all in the second quarter) at an exercise price of $9.90.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 314,718 had not been granted yet at December 31, 2008. The Company also has a stock purchase and ownership incentive plan for management employees, and a stock appreciation rights plan for its non-employee directors. (See Note 8 to the interim consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2008 and December 31, 2008:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	7.3	See consolidated statements of cash flows.
Accounts receivable	5.9	Increase essentially coming from the impact of the weakening of the Canadian dollar since March 31, 2008, on US-denominated accounts receivable ($6.2 million).
Inventories	2.6	Inventories were reduced ($5.7 million) following the implementation of new accounting guidelines on inventories (see “Changes in Accounting Policies”, below). This was more than offset by the increase in inventories related to the increase in business activity and the reduced throughput on manufacturing military sales at the Landing Gear division. The impact of the lower Canadian dollar also increased inventories for the Company’s US self-sustaining subsidiaries by $4.2 million.
Future income taxes (Current assets)	1.8	Reflects mainly the future income tax impact of the recognition in the Company’s balance sheets of the derivative financial instruments measured at fair value
Other current assets	(5.6)	Essentially reflects the variation in the Company’s balance sheets of short-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Property, plant and equipment, net	17.2	Due to: • Purchase of capital assets ($20.4 million); • Implementation of new accounting guidelines on inventories ($1.7 million) (see “Changes in Accounting Policies”, below); • A higher US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($9.5 million). Net of: • Amortization expense ($13.8 million); • Recognition in the Company’s balance sheets of the impact of loans bearing no interest measured at present value for the related property, plant and equipment ($0.6 million).
Finite-life intangible assets, net (includes a $5.3 million net backlog)	2.9	Mainly due to: • Implementation of new accounting guidelines on inventories (see “Changes in Accounting Policies”, below) ($1.2 million); • An increase in finite-life intangible assets ($1.0 million), representing the increase in capitalized Aerospace development costs for long-term contracts and following the implementation of new accounting guidelines on inventories; • The higher US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.9 million); • Purchase of computer software ($0.7 million); Net of: • Amortization expense on the underlying value of the backlog ($0.9 million).
Other assets	(2.1)	Essentially reflects the variation in the Company’s balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	13.6	Essentially reflects the variation in the Company’s balance sheets of short-term derivative financial instruments measured at fair value ($7.2 million) and the impact of the weakening of the Canadian dollar since March 31, 2008, on US-denominated accounts payable and accrued liabilities at December 31, 2008 ($3.7 million), and the related increase in inventories.
Long-term debt (including current portion)	4.1	Due to: • New non-interest bearing loan ($2.1 million); • A higher US exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($9.9 million). Net of: • Capital repayments of long-term debt ($7.5 million).

Item	Change ($ millions)	Explanation
Other liabilities	8.0	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accumulated other comprehensive loss	(3.7)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries, and the unrealized gains (losses), net of taxes, of the fair value of derivative financial instruments designated as cash flow hedges.
Retained earnings	12.9	See consolidated statements of changes in shareholders' equity and "Changes in Accounting Policies", below.

At December 31, 2008 and March 31, 2008, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio[(1)] were as follows:

	December 31, 2008	March 31, 2008
Working capital ratio	2.11:1	2.20:1
Cash and cash equivalents	$31.7 million	$24.4 million
Long-term debt-to-equity ratio	0.41:1	0.40:1
Net debt-to-equity ratio[(1)]	0.26:1	0.29:1

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

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

At December 31, 2008, the Company had entered into operating leases amounting to $8.4 million ($9.4 million as at March 31, 2008), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2008, the Company also had purchase commitments totalling $15.7 million ($16.5 million to March 31, 2008), mainly for machinery and equipment and construction in progress, for which deposits of $2.9 million ($2.3 million to March 31, 2008) on machinery and equipment were made and are included in the Company's other current assets. These commitments mainly relate to the modernization of the Longueuil plant plating department and the investments required following the award of new sales contracts, including the $115 million sales contract mentioned above (see "Investing Activities", above).

At December 31, 2008, the Company had entered into forward foreign exchange contracts to sell US $156.5 million at an average exchange rate of 1.1112 (US$145.5 million at an average rate of 1.0922 as at March 31, 2008 and US $123.8 million at an average rate of 1.1248 as at December 31, 2007) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between January 2009 and September 2013, with the majority maturing over the next twenty-four months.

CHANGES IN ACCOUNTING POLICIES

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

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

Section 3031, Inventories

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

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

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

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

Section 1535, Capital Disclosures

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

Section 3862, Financial Instruments - Disclosures

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

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

Section 3863, Financial Instruments - Presentation

This section carries forward unchanged the presentation requirements of the old Section 3861, "Financial Instruments – Disclosure and Presentation" (see Note 5 to the December 31, 2008 interim consolidated financial statements).

The new disclosure and presentation requirements under Sections 1535 and 3862 referred to above are further outlined in Notes 3 and 4 to the interim consolidated financial statements to December 31, 2008.

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

In light of the recent financial market situation, the Company is carefully monitoring its strategy and risk management. Although the results of the Company are positive, some effects are becoming apparent, prompting management to take a conservative approach in its daily decisions.

To December 31, 2008, the Company's results had not yet been affected by the recent downturn, and the Company does not expect to see a short-term decline in its operating results. Backlog is still strong, but push-backs or cancellations of certain purchase orders could have an adverse impact on upcoming results. It is worth mentioning that the Company has a well balance portfolio, split approximately 50%-50% between commercial and military Aerospace sales, which should also help it better manage any potential slowdown.

From a financial standpoint, the Company has a strong balance sheet. In April 2008, the banks' Credit Facilities were extended to $125 million, maturing in October 2011, and the Company is presently meeting all of its financial covenants and expects to do so for the next twelve months. Capital expenditure requirements are closely monitored by management. 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 good credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields.

Considering 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 that it usually has in its markets, the Company will nevertheless continue to closely monitor the situation in the coming months and will update this section, along with its risk and uncertainties section in its annual report for this fiscal year.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

At December 31, 2008, the Company ran a diagnostic to identify the differences between current GAAP and IFRS that would have an impact on its financial statements. These differences have been identified and the Company is presently in the process of assessing the required changes and their importance. Starting in February, the Company will provide training for key employees involved in the transition to IFRS. Over the next couple of weeks, further analysis will be performed and a preliminary changeover plan will be disclosed in the Company's annual report for this year.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Company has filed certificates signed by the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and on 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, 2008, 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, 2008.

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

Please also refer to the Impact of the International Financial Crisis and Economic Situation section above.

OUTLOOK

In the face of mounting economic uncertainty, the volume of order intake for large commercial aircraft manufacturers has been reduced in recent months. While backlogs are sound, existing orders can be deferred or cancelled. The military aerospace market remains solid with major programs progressing as expected, although the new U.S. administration may reduce funding of future military budgets. In the power generation industry, the wind energy market continues to experience robust demand, while the currently solid industrial gas turbine market may be impacted over the mid-term by the financial crisis given the significant capital requirements of these projects.

Despite this uncertainty, Héroux-Devtek's backlog remains solid and the Company anticipates an internal sales growth of close to 10% for the current fiscal year ending March 31, 2009. The recent deterioration of the Canadian dollar versus the U.S. currency will not have an immediate favourable impact on sales in light of the Company's hedging policy, but it will contribute to improving its competitiveness for new potential sales contracts.

Management is committed to investments in training and lean manufacturing initiatives, while continuing to focus on achieving further productivity improvements to maintain the Company's competitiveness. The Company enjoys strong relationships with a customer base mainly comprised of large-scale and financially-sound global players in their respective fields. Combined with a favourable positioning in all its key markets and a solid balance sheet, these superior attributes should enable Héroux-Devtek to maintain its current industry leader status.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on February 4, 2009. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.