Management Discussion and Analysis
of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or the "Company") changed between March 31, 2008 and March 31, 2009. It also compares the operating results and cash flows for the year ended March 31, 2009 to those for the previous year.

This analysis should be read in conjunction with the unaudited consolidated financial statements dated March 31, 2009. 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; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rates fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

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

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry.

On April 1, 2004, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft, thereby boosting its aerostructure capability and gaining access to the important aerostructure military sector.

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

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment, with its largest customer being The General Electric Company (GE). It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry sectors.

The Company's sales by segment are as follows:

	2009	**2008**
Aerospace	89%	91%
Industrial	11%	9%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as Lockheed-Martin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2009, sales to these six customers represented approximately 63% of total sales.

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

Business Management

The Company's segments or Divisions are decentralized operations that encourage entrepreneurship and the involvement of every employee. Each Division has the management, engineering, manufacturing and marketing resources required to meet the needs of its specific market segments. The growth and profitability of each Division is the responsibility of a Vice-President - General Manager who reports directly to the Company's President and Chief Executive Officer, while the Vice-President Finance of each Division reports directly to the Company's Executive Vice-President and Chief Financial Officer.

The Company's Corporate Office is responsible for the Company's public financial and other reporting and disclosure requirements and for all financial and major business development decisions. It also provides each Division with support in establishing budget and strategic plans, developing new products and markets, and with assistance for public relations, financial controls and reporting, legal counsel, human resources and information technology.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: landing gear, aerostructure and power generating equipment. For the Company, being a key supplier means providing not only manufactured components but also other services, such as design, assembly and program management, in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Company aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its market segments, while maintaining a solid financial position.

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component and services;
- Standard, compatible information systems across the Company;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants;
- Revenue stability through long-term agreements with its customers;
- A balanced sales mix between civil and military aerospace markets and industrial sales; and
- Building and maintaining a culture of entrepreneurship through the participation, dedication and commitment of its employees.

Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the Company aims to:

- Develop value-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small to medium landing gear, and complete structural assemblies for commercial and military aircraft OEMs; and
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural components and industrial products.

Key Performance Indicators

Héroux-Devtek measures its performance on a company-wide basis through key financial indicators that include sales, gross profit, earnings before interest, tax, depreciation and amortization (EBITDA), operating income, working capital, long-term-debt-to-equity ratio, net debt-to-equity ratio, return on equity and earnings per share. These items are discussed in the appropriate sections below.

Management also tracks performance through certain indicators related to operations. These include Return On Net utilized Assets ("RONA"), backlog, value-added as a percentage of sales, percentage of on-time deliveries, non-quality costs, attainment of cost reduction targets, and capacity utilization.

Risk Management

The Company's Risk Management process includes essentially the identification and assessment of business risks and opportunities and the implementation of strategies and controls to manage, monitor and communicate these risks. To help achieve its risk management objectives, the Company has included risk management activities and controls in the operational responsibilities of management in each Division. The Company's Board of Directors is ultimately responsible for identifying and assessing the Company’s principal business risks, reviewing overall business risks and ensuring the implementation of appropriate systems to manage these risks. The Human Resources and Corporate Governance Committee and the Audit Committee, composed of independent Directors, assist the Board of Directors in its general management responsibilities.

The Company operates in industry segments subject to various risks and uncertainties. Some of these risks are inherent to the nature of the Company's operations. See *Risks and Uncertainties* below.

MARKET TRENDS

The global economic downturn that began in calendar 2008 represents by far the most important change in today’s business environment. Although Héroux-Devtek is still posting favourable results, the Company does not have the visibility it usually has on its markets.

As can be seen from recent OEM announcements, the commercial aerospace market is entering a slowdown and clearly some segments will be more affected than others. Despite all the turmoil, calendar year 2008 concluded with an increase of 1.5[1]% of international passenger traffic over 2007. Regarding aircraft manufacturers, Airbus delivered 483[2] aircraft maintaining its delivery leadership over Boeing which delivered 375[3]. Boeing deliveries were impacted by an estimated

[1] Source: IATA, Industry Statistics

[2] Source: Airbus press release, January 15, 2009

[3] Source: Boeing press release, January 8, 2009.

105 aircraft due to the 58 days strike that began in September of 2008. Total booking for the two large commercial aircraft OEMs totalled 1,446 units in calendar 2008, down from 2,754 in 2007.

The market for regional jets with 70 or more seats saw Embraer increase its deliveries from 130 in calendar 2007 to 162[4] in 2008, while Bombardier deliveries declined from 128 aircraft for their fiscal 2007-2008 to 110[5] in 2008-2009. However, the turboprop market is still strong for Bombardier.

The business jet market saw its deliveries in calendar 2008 increasing to 1,315 from 1,138[6] in 2007. Nevertheless, the significant downturn in the industry indicates that 2008 was most probably the peak in deliveries. In January 2009, business jet activities were down 28%[7] from a year before while the first quarter of calendar 2009 saw business jet deliveries down 35.7%[8] from the year before.

The military market remained strong in calendar 2008 and, with the recent announcement made by the US administration, the Company remains well positioned with its participation on the Joint Strike Fighter F35 (JSF) program. On the Canadian side, following recent military procurement, the Company is still looking for potential offsets that would complement its current portfolio of work.

Since the end of fiscal 2009, the power generation market also started feeling the pressure from the financial crisis since most of these projects require large capital outlays. The wind energy market is still showing huge potential, more so now with the recent announcements from US President Obama, but is suffering through growing pains; infrastructures are not yet ready to accept this additional energy volume, and financing is scarce.

Finally, the fluctuation of the Canadian dollar versus its US counterpart continued to impact the Company’s results, but not as significantly as in prior years.

Major Achievements of Fiscal 2009

- The Company received a silver-level Performance Excellence Award from The Boeing Company recognizing outstanding delivery and quality performances;

- The LAHAV division of Israel Aerospace Industries (IAI-LAHAV) has awarded the Company’s Progressive business unit a ten-year contract to manufacture the structural detail components being used in IAI’s production of F-15 and F-16 structural assemblies;

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[4] Source : Embraer press release, January 12, 2009.

[5] Source : Bombardier press release, February 5, 2009.

[6] Source : GAMA, February 17, 2009.

[7] Source : Merrill Lynch, February 20, 2009.

[8] Source : GAMA, May 5, 2009.

- Bombardier Aerospace awarded the Company's Landing Gear division a contract to provide the landing gear for the newly launched Learjet 85 business aircraft program;

- Embraer awarded the Landing Gear division a contract to provide the landing gear for the new Embraer Legacy 450 and Legacy 500 business aircraft programs;

- The Company's Aerostructure division signed an agreement with Bell Helicopter Textron to manufacture primary structural components for the new Bell Helicopter 429, such as cabin, cockpit and aft fuselage components and sub-assemblies;

- The Landing Gear division received $15.8 million in new orders, essentially from the US Air Force and the US Navy for the repair and production of landing gear components for the B2, C5, F-16, P3 and T37 aircraft;

- The Company was granted up to $27M, that can extend over a six-year period, from the Federal Government in repayable investment to further strengthen the research and development programs of its Landing Gear division;

- Fokker Services BV awarded the Landing Gear division a contract to manufacture major replacement landing gear components for the Fokker 100 aircraft;

- The U.S. Navy awarded the Landing Gear Division an important landing gear repair and overhaul contract for its entire P-3 patrol aircraft fleet. The contract is for at least two years and guarantees a certain amount of components to be repaired and overhauled. Furthermore, the U.S. Navy has the option to extend the agreement for an additional three-year period.

- Subsequent to year-end, the Company's Progressive business unit announced a multi-year contract to manufacture structural aluminum components for all three variants of the JSF.

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. The year-end and average exchange rates were as follows at March 31, 2009 and 2008 and for the fiscal years then ended:

Canada / US Exchange Rates		**2009**	**2008**
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/ US $ equivalent	1.2613	1.0265
	1$ US/ Canadian $ equivalent	0.793	0.974
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/ US $ equivalent	1.1274	1.0322
	1$ US/ Canadian $ equivalent	0.887	0.969

The Company makes use of derivative contracts, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At March 31, 2009, the Company had forward foreign exchange contracts totalling US$162.8 million at a weighted average exchange rate of 1.1396 maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

At March 31, 2009, the Company also entered into foreign exchange contracts totalling US$11.3 million at a weighted average rate of 1.2396 maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives (See under Off-Balance-Sheet Items and Commitments, below.).

Selected Annual Financial Information

The following table presents selected financial information for the past three financial years:

Years ended March 31 ($'000, except per share data)	**2009**	**2008**	**2007**
Sales	337,635	307,882	283,286
EBITDA	54,559	44,286	31,050
Net income	21,363	19,019	8,906
Earnings per share ($) – basic	0.68	0.60	0.28
Earnings per share ($) – diluted	0.67	0.59	0.28
Total assets	417,174	356,454	339,461
Long-term debt	83,047	72,242	67,086
Cash and cash equivalents	39,759	24,431	20,124

The Company's EBITDA from continuing operations is calculated as follows:

Years ended March 31 ($'000)	**2009**	**2008**	**2007**
Net income	21,363	19,019	8,906
Income tax expense	8,605	3,750	1,685
Financial expenses	4,485	4,999	3,681
Amortization	20,106	16,518	16,778
EBITDA	54,559	44,286	31,050

The Company maintained the favourable trend of recent years and again posted improved year-over-year results. All three of the Company's division improved their top lines while the bottom lines of the Aerostructure and Gas Turbine divisions showed increase over last year. As will be highlighted below, the Landing Gear division has been negatively impacted in fiscal 2009 by the fluctuation of the Canadian dollar against the US currency and, more specifically, from the significant impact of the loss on currency translation of the division's net monetary items.

Consolidated Sales

Consolidated sales for the year ended March 31, 2009 rose 9.7% to $337.6 million from $307.9 million last year, due mainly to increased military sales to civil customers, increased business jet sales and, higher commercial helicopter parts and repair and overhaul sales. These increases were somewhat offset by a reduction in large commercial and regional jet market sales. Industrial sales also increased compared with last year with increases in the power, wind and large equipment markets. The impact of the Canadian dollar, against the US currency, increased sales by $6.9 million or 2.2% compared to last year.

The Company's sales by segment were as follows:

	2009 ($'000)	**2008 ($'000)**	**% Change**
Aerospace			
Military			
Military sales to government	75,424	67,138	12.3
Military sales to civil customers	93,717	86,498	8.3
Total Military	169,141	153,636	10.1
Total Commercial	130,277	125,283	4.0
Total Aerospace	299,418	278,919	7.3
Total Industrial	38,217	28,963	32.0
Total	**337,635**	**307,882**	**9.7**

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

Aerospace Segment

Sales for the Aerospace segment were as follows:

	2009 ($'000)	**2008 ($'000)**	**% Change**
Landing Gear	190,701	181,876	4.9
Aerostructure	107,563	95,053	13.2
Other aerospace products	1,154	1,990	(42.0)
Total	**299,418**	**278,919**	**7.3**

Total aerospace sales increased by $20.5 million or 7.3% when compared with last year. Landing Gear sales increased 4.9% driven by increased sales volume coming from the business jet and helicopter market and also by improved throughput on repair and overhaul work. This increase was negatively impacted by the unfavourable currency rates stemming from the Company's hedging position for fiscal 2009. Although the Landing Gear division experienced higher sales on some large commercial programs such as the B-777, B-737 and A-380, the conclusion late last year of a major retrofit program and the impact of the strike at Boeing last fall more than offset these increases.

Aerostructure sales increased 13.2% over last year with some schedule catch-up on military sales and, to a lesser degree, the increasing sales on the JSF program. The favourable impact of the Canadian dollar, against the US currency, increased the division sales compared to last year. The regional jet and business jet sectors showed improvement for the Aerostructure division while the large commercial market, mostly from the A330/340 program, was lower when compared to last year. Finally, the Other aerospace products mostly relates to residual sales following the gradual exit in prior years from the aircraft engine market.

Industrial Segment

Sales for the Industrial segment were as follows:

	2009 ($'000)	**2008 ($'000)**	**% Change**
Gas Turbine	17,630	15,154	16.3
Wind	6,159	3,245	89.8
Other Industrial	14,428	10,564	36.6
Total	**38,217**	**28,963**	**32.0**

The increase in industrial sales was driven by value-added Gas Turbine sales and from increased sales to the heavy equipment industry sector, showed above under the Other Industrial caption, powered by growing mining and oil and gas activities. The Wind market, although still relatively small, showed interesting growth.

Sales by Destination

Sales by destination remained almost at the same level as last year, as shown below:

	2009 (%)	**2008 (%)**
Canada	33	31
US	66	68
International	1	1
Total	**100**	100

The winding-up of a major aerospace retrofit program with a US customer was counterbalanced by additional sales to Canadian customers.

Gross Profit

Consolidated gross profit improved from 15.2% to 16.9% of sales in fiscal 2009 while the negative impact attributable to the continued strength of the Canadian dollar relative to the US currency, during the year, only had a 0.3% impact on the gross profit margin. This 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 contracts and the natural hedging from the purchase of material paid in US dollars.

Gross profit was favourably impacted by the continued manufacturing improvement and increased sales with better pricing at the Gas Turbine division. The already mentioned sales volume increases and additional volume coming from the JSF program along with a favourable sales mix at the Aerostructure division also had a favourable impact on gross margins. It is worth mentioning that this development program had a negative impact on gross profit last year considering that the Company was still in development mode for this major program.

Last year, in the fourth quarter ended March 31, 2008, the Company wrote-off a loan bearing no interest of $1.3 million ($851,000 net of income taxes) which was accounted for as a reduction of cost of sales for that year. This loan was initially granted as a Government incentive to favour and support the development of an aerospace program. This write-off was made as the forgiveness of this loan by the related Government was granted, following the conclusion that the conditions of repayment of this loan could not be met (see Note 7 to the consolidated financial statements). Excluding this one time item, the gross profit as a percentage of sales for fiscal 2008 would have been 14.7%.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2009	**2008**
Selling and administrative expenses ($'000)	22,466	18,879
% of sales	6.7	6.1

Selling and administrative expenses of $22.5 million were $3.6 million higher than last year, and 0.6% higher as a percentage of sales. The Selling and administrative expenses includes a loss on currency translation on net monetary assets of $1.2 million compared to a gain last year of $0.8 million. Furthermore, selling and administrative expenses in fiscal 2009 includes a $0.9 million bad debt expense due to the unstable financial situation of one of the Company's customers. The balance of the increase reflects higher expenses to support the Company's sales growth.

Operating Income

Consolidated operating income increased from $27.8 million or 9.0% of sales last year to $34.5 million or 10.2% of sales this year.

Aerospace Segment

Aerospace operating income was $29.3 million or 9.8% of sales this year, compared to $27.4 million or 9.8% of sales last year. The improved sales and gross profit margins were somewhat offset by the additional overhead required to manage the additional development programs and increased sales volumes and by the above-mentioned loss on currency translation.

Industrial Segment

Operating income increased from $0.4 million or 1.4% of sales last year to $5.2 million or 13.5% of sales this year, in line with the increased sales volume, production efficiency and better absorption of manufacturing overhead costs.

Financial Expenses	**2009 ($'000)**	**2008 ($'000)**
Interest	3,230	4,321
Interest accretion on loans bearing no interest	1,147	743
Amortization of deferred financing costs	168	183
Standby fees	210	157
Accretion expense of asset retirement obligations	210	204
Amortization of net deferred loss related to a financial derivative instrument	-	51
Interest revenue	(480)	(660)
Total	**4,485**	**4,999**

Financial expenses, at $4.5 million were $0.5 million lower than last year. The lower interest rates and the reimbursement of $9 million from the Canadian Credit facility during the year ended March 31, 2009, explain most of this favourable variance.

Income Tax Expense and Income Tax Receivable

Income Tax Expense

The income tax expense for fiscal 2009 stood at $8.6 million compared to $3.8 million last year. The Company's effective income tax rate for fiscal 2009 was 28.7% compared to the Company's Canadian blended statutory income tax rate of 31.2%, the difference coming from the favourable impact of permanent differences ($0.9 million) and the recognition ($0.2 million) of income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years. These were somewhat offset by the income tax rate difference coming from the Company's US subsidiaries which are taxed at a higher rate.

The income tax expense for fiscal 2008 amounted to $3.8 million. The Company's effective income tax rate for fiscal 2008 was 16.5% compared to the Company's Canadian blended statutory income tax rate of 32.5%. The main factors positively affecting the income tax expense for fiscal 2008 were $0.7 million in permanent differences and the recognition of $2.4 million 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 of $0.5 million, net of the impact of the reduction in the federal income tax rate ($0.3 million) announced in the last quarter of fiscal 2008.

At March 31, 2009, there were no operating losses carried forward and other temporary differences for which no related income tax assets have been recognized in the consolidated financial statements (see Note 18 to the consolidated financial statements).

Income Tax Receivable (Payable)

Income tax receivable increased $0.2 million compared to last year, the $5.6 million balance mainly representing research and development tax credits. The $3.2 million income tax payable represents the income tax payable on this year’s taxable income, net of the utilization of prior years' tax losses.

Net Income

For fiscal 2009, the Company posted net income of $21.4 million compared to net income of $19.0 million last year. Excluding the undernoted items, net income would have increased $5.5 million or 35%.

	2009 ($ million)	**2008 ($ million)**
Net income from operations, before undernoted items	21.2	15.7
Loans bearing no interest – forgiveness of debt included as a reduction in the cost of sales, net of income taxes	-	0.9
Income tax benefits, from utilization of prior years’ tax losses	0.2	2.4
Net income	**21.4**	**19.0**

	2009	**2008**
Net income ($ million)	21.4	19.0
Earnings per share – basic ($)	0.68	0.60
Earnings per share – diluted ($)	0.67	0.59

Earnings per share figures are based on weighted-averages of 31,583,173 common shares outstanding for fiscal 2009 and 31,609,638 for the previous year. This year’s variance is essentially due to the issuance of 66,669 common shares under the Company’s stock purchase and ownership incentive plan less the 534,000 shares redeemed under the normal course issuer bid launched by the Company in November 2008 (see Note 17 to the consolidated financial statements).

On May 28, 2009, the date of this MD&A, the Company had 30,909,876 common shares and 1,384,221 stock options outstanding with a weighted average of 4.1 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2009, the Company had cash and cash equivalents of $39.8 million, compared to $24.4 million a year earlier.

Operating Activities

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

	2009 ($'000)	2008 ($'000)
Cash flows from operations	48,042	37,848
Net change in non-cash working capital items related to operations	(2,783)	(14,780)
Cash flows relating to operating activities	**45,259**	**23,068**

The $10.2 million increase in cash flows from operations for fiscal 2009 can mainly be explained by the $2.3 million increase in net income, a $3.6 million increase in amortization resulting from the significant state-of-the-art capital investments made mainly over the last three years and a $3.1 million increase in future income taxes.

In fiscal 2009, the $2.8 million net change in non-cash working capital items can be explained by a $7.3 million increase in accounts receivable, in line with the strong sales volume at the end of the fourth quarter and an increase of $14.5 million in inventories which also reflects the higher business activity and new aerospace programs. These were partially offset by the higher accounts payable and accrued liabilities and other liabilities ($7.1 million) in line with the increased business activities and the effect of changes in the exchange rate on US-denominated non-cash balance-sheet items ($5.2 million) (see Consolidated Balance Sheet section below).

In fiscal 2008, the $14.8 million net change in non-cash working capital items is primarily due to the $20.1 million reduction in accounts payable and accrued liabilities and other liabilities, which included $5.3 million in outstanding amounts for raw materials at the end of last fiscal year, and a $3.7 million negative effect of changes in the exchange rate on US-denominated non-cash balance-sheet items. These were partially offset by a $10.7 million reduction in inventories reflecting the reduction in the number of days in inventories and the invoicing of capitalized development costs for the JSF program.

Investing Activities

The Company's investing activities were as follows:

	2009 ($'000)	2008 ($'000)
Purchases of property, plant and equipment	(23,489)	(26,773)
Increase in finite-life intangible assets	(3,721)	(321)
Proceeds on disposal of property, plant and equipment	18	291
Cash flows relating to investing activities	**(27,192)**	**(26,803)**

Purchases of property, plant and equipment stood at $23.5 million in fiscal 2009, lower than the $26.8 million of last year. These investments were made to complete the plating facility modernization at our Landing Gear Longueuil plant and to add machinery and equipment following the award last fiscal year 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.

These purchases of property, plant and equipment are net of $9.9 million for fiscal 2009 ($1.5 million for fiscal 2008) relating to machinery and equipment which were delivered late in the respective years and not yet paid by the Company, as of year-end. The $23.5 million purchases of property, plant and equipment are also shown net of machinery and equipment of $5.2 million ($9.6 million for fiscal 2008) which were acquired through capital leases.

Capital investments for fiscal 2008 stood at $26.8 million and included investments to complete the plant expansion for the JSF program at the Aerostructure plant in Arlington, Texas and to continue work on modernizing the plating department at the Landing Gear plant in Longueuil, Quebec, which was completed in the third quarter of fiscal 2009.

Capital expenditures for fiscal 2010 are expected to be about $20 million mostly for normal maintenance projects. This amount also includes the extension of the facility dedicated for the JSF program. After more than $100 million in investments over the last three years, the Company plans to optimize these state-of-the-art investments in the coming quarters.

Financing Activities

The Company's financing activities were as follows:

	2009 ($'000)	**2008 ($'000)**
Increase in long-term debt	8,268	15,621
Repayment of long-term debt	(15,387)	(8,990)
Repurchase of common shares	(2,099)	-
Issuance of common shares	321	640
Other	273	(743)
Cash flows relating to financing activities	**(8,624)**	**6,528**

The increase in long-term debt comes mostly from two new non-interest bearing debts related to the Company's eligible development and engineering costs associated to new programs while the capital repayment includes the $9 million repayment of the Canadian Credit facility and of capital leases (See Note 15 to the consolidated financial statements).

The Company issued 66,669 common shares under its stock purchase and ownership incentive plan while it redeemed 534,000 common shares under the normal course issuer bid launched by the Company in November 2008 (see Normal Course Issuer Bid below and Note 17 to the consolidated financial statements).

For fiscal 2008, the increase in long-term debt mainly reflects drawings against the Senior Secured Revolving Credit Facilities (Credit Facilities). It also includes the addition of new loans bearing no interest to support capital expenditures made in the Aerospace segment. The Company issued 27,702 common shares under its stock purchase and ownership plan and 83,300 common shares were also issued pursuant to the exercise of stock options.

Earlier this fiscal year, on April 14, 2008, the Company announced that it had increased its $80 million in Credit Facilities to $125 million, under essentially the same terms and conditions (see Note 15 to the consolidated financial statements).

At March 31, 2009, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants in fiscal 2010.

Pension Plans

Some of the Company's employees are covered by defined benefit pension plans. The funded status of these plans is as follows:

	2009 ($'000)	2008 ($'000)
Deficit	9,601	14,489
Accrued benefit liability (included in other liabilities)	5,288	6,330

The pension plan deficit of $9.6 million at March 31, 2009 includes $5.7 million in pension plan obligations related to unregistered pension plans, primarily for former executives of Devtek Corporation, which was acquired by the Company in June 2000 and whose pension plan deficits do not require funding. Funding occurs as pension benefits are paid to the retired executives. In accordance with Canadian GAAP, the Company modified the accrued benefit obligation discount rate (from 5.20% last year to 7.5% this year) which reduced the deficit by $3.6 million (see Note 20 to the 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 terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 11, 2008. The repurchase of common shares commenced on November 24, 2008, and will end on November 23, 2009. All common share purchases by the Company are made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

To May 28, 2009, date of this MD&A, the Company had repurchased 810,100 common shares for a total of $3.4 million.

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

At March 31, 2009, the Company had 31,171,688 common shares outstanding (31,639,019 as at March 31, 2008).

During fiscal 2009, the Company issued 66,669 common shares at a weighted-average price of $4.81 for a total cash consideration of $320,842 all under the Company's stock purchase plan.

During fiscal 2008, the Company issued 111,002 common shares at a weighted-average price of $5.77 for a total cash consideration of $640,152, including 83,300 common shares issued pursuant to the exercise of stock options for a total cash consideration of $413,168. The other 27,702 common shares were issued under the Company's stock purchase plan for a total cash consideration of $226,984.

At March 31, 2009, 1,384,221 stock options were issued and outstanding with a weighted-average of 4.5 years to maturity and a weighted-average exercise price of $6.27 (see Note 17 to the consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2008 and March 31, 2009:

Item	Change ($ million)	Explanation
Cash and cash equivalents	15.3	See consolidated statements of cash flows.
Accounts receivable	7.3	Increase essentially coming from the impact of the weakening of the Canadian dollar since March 31, 2008, on US-denominated accounts receivable ($7.4 million).
Inventories	9.0	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. The impact of the lower Canadian dollar also increased inventories for the Company's US self-sustaining subsidiaries by $5.3 million.
Future income taxes (short-term assets)	2.0	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	(9.2)	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	30.9	Due to: • Gross purchases of capital assets ($38.7 million), including $5.3 million of machinery and equipment acquired through capital leases and $9.9 million of machinery and equipment which were delivered in the last two months of the year but not paid as of March 31, 2009, and thus presented in the accounts payable – others

Item	Change ($ million)	Explanation
		caption; • Implementation of new accounting guidelines on inventories ($1.7 million) (see “Changes in Accounting Policies” below); • A higher US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($10.0 million). Net of: • Amortization expense ($18.8 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 ($0.7 million).
Finite-life intangible assets, net (includes a $5.4 million net backlog)	5.4	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 ($2.2 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/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.9 million); • Purchase of computer software ($1.5 million); Net of: - Amortization expense on the underlying value of the backlog ($0.5 million). - Amortization of the finite-life intangible assets ($0.7 million). - Recognition in the Company’s balance sheets of the impact of loans bearing no interest measured at present value for the related finite-life intangible assets ($0.2 million).
Other assets	(3.3)	Essentially reflects the variation in the Company’s balance sheets of long-term derivative financial instruments measured at fair value.
Goodwill	4.2	Represents the higher US/CAD exchange rate used to convert the goodwill included in the Company’s self-sustaining US subsidiaries.

Item	Change ($ million)	Explanation
Accounts payable and accrued liabilities	15.5	Reflects the increase in business activities and the related increase in inventories. The impact of the Canadian dollar since March 31, 2008, on US-denominated accounts payable and accrued liabilities at March 31, 2009 ($6.8 million) also increased this caption.
Accounts payable - Others	15.7	Essentially reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value ($7.3 million) and the increase of accounts payable associated to capital expenditures made late in fiscal 2009 but not paid yet ($8.4 million).
Future income taxes (short-term liabilities)	(3.1)	Represents the future income tax impact from the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Long-term debt (including current portion)	10.0	Due to: • New non-interest bearing loans ($13.5 million) to support new eligible development and engineering costs related to new programs ($5.3 million of which being the first amount received from the $27 million of Federal investment – see major Achievements of Fiscal 2009 section above) ; • A higher US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($12.5 million). Net of: • Capital repayment of long-term debt ($15.4 million). • Recognition in the Company's balance sheets of the impact of loans bearing no interest measured at present value for the related long-term debt ($0.6 million).
Other liabilities	7.4	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Capital stock	(1.4)	Represents the common shares issued under the Company's stock purchase and ownership plan ($0.3 million) net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($1.7 million).

Item	Change ($ million)	Explanation
Accumulated other comprehensive loss	(2.2)	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.
Retained earnings	19.1	See consolidated statements of changes in shareholders' equity.

At March 31, 2009 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:

	March 31, 2009	March 31, 2008
Working capital ratio	1.86:1	2.20:1
Cash and cash equivalents	$39.8 million	$24.4 million
Long-term debt-to-equity ratio	0.42:1	0.40:1
Net debt-to-equity ratio[(1)]	0.24:1	0.29:1

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

The summary of the Company's contractual obligations, including payments due over the next five years and thereafter, is as follows:

Contractual obligations ($'000)	Payments due by period Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Loans bearing no interest (including the effective accumulated interest expenses)	**24,814**	1,651	2,302	5,737	15,124
Capital leases (including interest expenses)	**16,864**	3,419	5,394	7,301	750
Operating leases – Machinery and equipment	**7,171**	1,940	2,922	1,893	416
Operating leases – Buildings and facilities	**2,029**	576	974	479	-
Subtotal, contractual obligations	**50,878**	7,586	11,592	15,410	16,290
Credit Facilities	**54,235**	-	54,235	-	-
Total contractual obligations	**105,113**	**7,586**	**65,827**	**15,410**	**16,290**

Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $9.2 million as at March 31, 2009, mainly for machinery and equipment. All these amounts are repayable over the next seven years. At March 31, 2009, the Company also had machinery and equipment and purchase commitments totalling $4.7 million (see Note 21 to the consolidated financial statements).

At March 31, 2009, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$162.8 million at a weighted average exchange rate of 1.1396. These contracts relate mainly to its export sales, and mature at various dates between April 2009 and March 2014 (see Note 4 to the consolidated financial statements). This compares to US$145.5 million in forward foreign exchange contracts held at March 31, 2008 at a weighted average exchange rate of 1.0922.

At March 31, 2009, the Company also entered into foreign exchange contracts totalling US$11.3 million at a weighted average rate of 1.2396 maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

Changes in Accounting Policies

ADOPTED IN FISCAL YEAR 2009

On April 1, 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

<u>Section 1535, Capital Disclosures</u>

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

- Its objective, policies and processes for managing capital;
- Summary quantitative data about what it manages as capital;
- Whether during the period it complied with any imposed capital requirements to which it is subject;
- When the entity has not complied with such requirements, the consequences of such non-compliance.

<u>Section 3862, Financial Instruments - Disclosures</u>

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.

<u>Section 3863, Financial Instruments - Presentation</u>

This section carries forward unchanged the presentation requirements of the old Section 3861, "Financial Instruments – Disclosure and Presentation" (see Note 6 to the March 31, 2009 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 consolidated financial statements to March 31, 2009.

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 March 31, 2009, the Company's results had not yet been affected by the recent downturn. The Company's backlog is still strong, but the prevailing business environment, the push-backs or the cancellations of certain purchase orders could have an adverse impact on upcoming results. It is worth mentioning that the Company is striving to maintain a well balanced portfolio, split approximately 50%-50% between commercial and military Aerospace sales, which should also help it better manage any potential slowdown. This being said, the impact of the recent OEM announcements will adversely impact the commercial market while the military side of the Company's business is not yet impacted.

From a financial standpoint, the Company has a strong balance sheet. In April 2008, the banks' Credit Facilities were extended from $80 million 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 acceptable 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 (see Risks and Uncertainties and Outlook sections below).

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standard Board (AcSB) confirmed that Canadian GAAP for publicly accountable entities would be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. 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 changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date.

The changeover to IFRS will be required for the Company's interim and annual consolidated financial statements beginning April 1, 2011. However, comparative IFRS-compliant financial information of the preceding year will be disclosed along with these consolidated financial statements. For this reason, results for the year ending March 31, 2011 and for related interim periods and the statements of financial position as of March 31, 2011 and 2010 will be restated in accordance with IFRS, when they will be disclosed alongside the March 31, 2012 consolidated financial statements.

The Company is currently developing a phased changeover plan. Here are highlighted the main phases of this transition plan:

I. Identify differences between IFRS and Canadian GAAP

- Determine whether differences apply to the Company.

II. Assess the impact of applicable differences on the consolidated financial statements

- Estimate present and potential impact on reported results, cash flows and financial position
- Review options or alternatives where applicable.

III. Evaluate changes required to internal data-gathering and reporting processes

- Design system changes
- Identify transitional issues

IV. Implement system changes

V. Train personnel

VI. Rollout transition

At this stage, phases I and II are substantially completed, except for changes to IFRS that are contemplated by the International Accounting Standard Board (IASB). The Company is in the process of completing phases III and IV.

The adoption of IFRS brings about several changes from Canadian GAAP. However, a number of changes are not expected to have a material impact on the Company's consolidated financial statements. Following is the Company's, non-exhaustive preliminary assessment of the main differences that may have some impact on its consolidated financial statements:

Area	IFRS requirement	Potential impact
Provisions	Provisions with predictable settlement dates should be discounted.	Under review
Property, plant and equipment	Breakdown assets by major components based on useful life	Under review
Impairment of long-lived assets	Impairment tests should be based on discounted future cash flows	Under review
Leases	Certain operating leases may have to be accounted for as finance leases	Under review
Borrowing costs	Borrowing costs should be capitalized as part of the cost of certain inventories	Under review

In addition, IFRS 1 requires that first-time adopters select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (March 31, 2012 for the Company), and apply those policies to all periods presented in its first IFRS financial statements.

However, IFRS 1 provides selected optional exemptions to the full retrospective application. The following are the Company's, non-exhaustive, key IFRS 1 optional exemptions:

• Business combinations – This optional exemption is under review.

• Long-lived assets – The Company will use the historical cost method for its property, plant and equipment and intangible assets.

• Pension – The Company will recognize the cumulative net unrecognized actuarial gains and losses on its opening balance sheet by adjusting retained earnings at the transition date.

• Cumulative Translation Adjustment (CTA) – The Company will eliminate its CTA balance by adjusting retained earnings at the transition date (no impact on shareholders' equity).

• Borrowing costs – The Company will not capitalize borrowing costs as part of capitalized development costs as of transition date.

As indicated above, the IASB currently contemplates a number of changes to existing IFRS. It is thus not possible to determine all IFRS that will be effective at transition date, nor the impact of the revised standards on the Company's financial statements.

Critical Accounting Estimates

- *Inventories, capitalized development costs and cost of sales*

Company management uses estimates to value inventory and cost of sales related to design-to-manufacture contracts and major assembly manufacturing contracts. A 1% change in the estimated future costs to complete the remaining quantities under the design-to-manufacture contracts and major assembly-manufacturing contracts would have an impact of approximately $0.3 million on the Company's cost of sales.

The non-recurring costs (development, pre-production and tooling costs) are now included in finite-life intangible assets. Recovery of these costs is expected from related sales contracts through their amortization, based on pre-determined contract guarantees.

Production accounting quantities for a particular contract are essentially established at the inception of the contract or contract date, and are based on management's assessment of the anticipated demand for the related aircraft or product, taking into account mainly firm order and committed order backlog and options, as well as prevailing market and economic conditions.

Management reviews this major assumption on a quarterly basis, and a more detailed review is made at fiscal year-end. The effect of any revision to this assumption is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

Goodwill and intangible assets

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Company selected its fourth quarter as its annual testing period for goodwill. A goodwill impairment charge is recorded when the discounted value of the expected future cash flows of the entire related reporting unit is less than its carrying value. Future cash flows are forecast based on management's best estimates of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, labour agreements and general market conditions, and are subject to review and approval by the Company's senior management. Future cash flows are discounted using an estimated weighted average cost of capital rate.

- *Pension plans and other employee post-retirement benefits*

  Certain critical assumptions are used to determine pension plan and other employee post-retirement benefit costs and obligations. In particular, the discount rate and the expected long-term rate of return on plan assets are important assumptions used to measure these costs and obligations. Other assumptions include the rate of increase in employee compensation, as well as demographic factors such as employee retirement ages, mortality rates and turnover. These assumptions are reviewed annually.

  A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $2.5 million, respectively, on the Company's pension plan expense and accrued benefit obligations.

  A lower expected rate of return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $213,000 on the Company's pension plan expense.

- *Income tax*

  The Company accounts for future income tax assets mainly from loss carry-forwards and deductible temporary differences. Company management assesses and reviews the realization of these future income tax assets at least annually, at year-end, to determine whether a valuation allowance is required. Based on that assessment, it determines whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors taken into account include future income based on internal forecasts, losses in recent years and their expiry dates, and a history of loss carry-forwards, as well as reasonable tax planning strategies.

FUTURE CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064, 'Goodwill and Intangible Assets', which replaces Section 3062, 'Goodwill and Other Intangible Assets' and Section 3450, 'Research and Development Costs'. For the Company, this section is effective for interim and annual financial statements beginning on April 1, 2009. This section establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38, 'Intangible Assets'.

Business Combinations, Consolidated Financial Statements and Non-Controlling Interests

In January 2009, the AcSB released Section 1582, which replaces Section 1581 "Business Combinations". It provides the Canadian equivalent to IFRS 3 "Business Combinations". For the Company, this section applies prospectively to business combinations for which the acquisition is subsequent to fiscal year 2011. Earlier application is permitted. Section 1582 must be applied together with Section 1601 and section 1602 if it is implemented for a fiscal year beginning before April 1, 2011.

In January 2009, The AcSB also released Section 1601 “Consolidated financial statements” and Section 1602 “Non-controlling interest”, which replace Section 1600 “Consolidated Financial statements”. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in the consolidated financial statements of the parent, subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IAS 27, “Consolidated and Separate Financial Statements”.

For the Company, these sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after April 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. These sections must be applied together with Section 1582 “Business Combinations” if they are implemented for a fiscal year beginning before April 1, 2011.

Company management is currently assessing the impact of these new standards.

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

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators’ Multilateral Instrument 52-109 (“MI 52-109”), the Company has filed certificates signed by the Chief Executive Officer and Chief Financial Officer that, among other things, report on disclosure controls and procedures and the design and effectiveness of internal controls over financial reporting. The implementation of MI 52-109 represents a continuous improvement process, which has prompted the Company to ensure that all relevant processes and controls were formalized.

Disclosure controls and procedures

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2009, an evaluation of the design and effectiveness of the Company’s disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Company’s disclosure policy and its disclosure committee.

Internal controls over financial reporting

The Company's Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

At March 31, 2009, the evaluation of the design and effectiveness of the Company’s internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles.

However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting
No changes were made to our internal controls over financial reporting that occurred during the year ended March 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 63% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

The Company mitigates this risk through the increase of long-term sales contracts, when possible, with its main customers.

Availability and Cost of Raw Materials

The main raw materials purchased by the Company are aluminium, steel and titanium. Supply and cost of these materials is somewhat outside the Company's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion, along with cost increases for these materials, could also have a material adverse effect on the Company's operations and financial condition.

In the past two years, as this situation has escalated with the improvement of the global economy and the explosive growth of the Chinese economy in particular, the Company has begun to take steps to mitigate this risk. It now includes clauses in its long-term sales contracts of importance to share the risk of raw materials availability and cost with its customers. It also negotiates long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

Operational Risks

The activities conducted by the Company are subject to operational risks that include competition from other businesses, performance of key suppliers, product performance warranties, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the Company’s ability to meet its obligations.

However, the Company has implemented certain risk-mitigation strategies and controls, in light of these operational risks, which include the following:

- Processes to ensure proper bid approvals, planning, execution and use of quality standards at all stages of new design or built-to-print products and assemblies, and repair and overhaul services. This includes the risk assessment of achieving the targeted revenues and related product costs as well as the development of long-term agreements and competitive bidding processes with main suppliers.

- Use of proper cash flow arrangements through the use of customer advances, with certain customers, and foreign exchange hedging.

Impact of Terrorist Activity

There continues to be uncertainty over the future impact in the commercial aerospace sector from the threat of terrorist activity and the ongoing situations in the Middle East. Such issues typically have a negative impact on commercial air traffic and a positive impact on defense spending.

General Economic Conditions

Unfavourable economic conditions may adversely affect the Company’s business. For example, the large civil aerospace industry has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. In fiscal 2006, the regional jet market was negatively impacted by lower demand. Furthermore, the industrial power generation market collapsed in 2002 and is now recovering. This could adversely affect the Company’s financial condition and results of operation. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

Although significant increases in military budgets, particularly in the United States, were announced in recent years, these expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations

The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. In an effort to mitigate those risks, the Company makes use of derivative contracts to hedge this exposure.

The Company's foreign exchange hedging policy requires it to mitigate the foreign currency exposure, essentially to the US currency, arising from its Canadian operations.

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

Liquidity and Access to Capital Resources

The Company requires continued access to capital markets to support its activities. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. Any impediments to the Company’s ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company’s financial condition or prospects, could have a material adverse effect on the Company’s financial condition and results of operation.

Restrictive Debt Covenants

The indentures governing certain of the Company’s indebtedness and, in particular, its Credit Facilities, contain covenants that, among other things, restrict the Company’s ability to:

- sell all or substantially all of its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- invest in capital expenditures over a certain amount per year; or
- engage in transactions with affiliates.

These restrictions could impair the Company’s ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

Changing Interest Rates

The Company’s profitability may be directly affected by the level of and fluctuations in interest rates. When appropriate, the Company considers using derivatives as an integral part of its asset/liability management program to mitigate or reduce its overall financial risk.

To mitigate these fluctuations, the Company has established a short-term investment policy that dictates the level and type of investments it should seek. The Company also maintains a well-balanced portfolio of financing, choosing between fix and variable rates.

External Business Environment

The Company faces a number of external risk factors, specifically including general economic conditions, government policies and changing priorities or possible spending cuts by governments.

Warranty Casualty Claim Losses

The products manufactured by the Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customers. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business. In addition, due to the nature of the Company's business, the Company may be subject to liability claims involving its products or products for which it provides services. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future. See under 'Operational Risks', above.

Environmental Matters

The Company's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements

The Company is party to some collective bargaining agreements that expire at various times in the future. If the Company is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Company's business.

Early, in fiscal 2009, the Company renewed the collective labour agreements at its Laval and Longueuil plants for four- and three-year periods, respectively. The Company now has collective labour agreements in place with all its unionized employees for, at least, the next fiscal year.

Skilled Labour

Héroux-Devtek's ability to meet its future goals and objectives depends in part on its ability to attract and retain the necessary skilled labour. The skilled labour market in the aerospace industry is expected to continue to be highly competitive in the future. The Company's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

The Company is addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture. Héroux-Devtek therefore does not anticipate a substantial increase in its manpower requirements over the next few years.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2009					
Sales	**337,635**	82,571	77,340	85,578	92,146
Net income	**21,363**	5,698	4,056	5,178	6,431
Earnings per share ($) – basic	**0.68**	0.18	0.13	0.16	0.20
Earnings per share ($) – diluted	**0.67**	0.18	0.13	0.16	0.20
For the fiscal year ended March 31, 2008					
Sales	**307,882**	78,776	69,758	76,260	83,088
Net income, from operations before undernoted items	**15,748**	3,851	2,687	4,387	4,823
Loans bearing no interest – forgiveness of debt, net of income taxes	**851**	-	-	-	851
Income tax benefits, from utilization of prior years' tax losses	**2,420**	300	420	900	800
Net income	**19,019**	4,151	3,107	5,287	6,474
Earnings per share ($) – basic	**0.60**	0.13	0.10	0.17	0.20
Earnings per share ($) – diluted	**0.59**	0.13	0.10	0.17	0.20

Fourth Quarter 2009 Results

The Company ended fiscal 2009 on a strong note with record sales for the quarter of $92.1 million, $9.1 million or 10.9% higher than for the fourth quarter last year. All three divisions improved their respective top lines. Gross profit, at 17.3%, is 0.4% higher as last year when excluding the 1.5% favourable impact coming from the forgiveness of a loan bearing no interest in the fourth quarter of fiscal 2008. The Aerostructure division gross profit was negatively impacted by an unfavourable sales mix in the fourth quarter this year while the continued turnaround at the Gas Turbine division, with its value added sales, partially counterbalanced this negative variance. The weaker Canadian dollar increased sales, in the fourth quarter ended March 31, 2009, by $9.2 million while it had a favourable 1.8% impact on the gross profit margin. Net income, at $6.4 million was at the same level than for the same period last year but $1.6 million higher when excluding the above mentioned forgiveness of debt and excluding the $0.8 million income tax benefits from the utilization of prior years' tax losses.

Cash flow from operations yielded $14.1 million compared to $12.0 million for the fourth quarter last year, while the negative change in non-cash items related to operations deducted $1.4 million to cash flow this year compared to $5.5 million in the last quarter in fiscal 2008. The $1.4 million cash outflow for the quarter ended March 31, 2009, came from the increase of the income tax payable ($2.2 million), in line with the improved results and a reduction of the other current assets. These were partially offset by the $6.4 million increase in inventories, in line with the additional business activity late in fiscal 2009 and new aerospace programs (see Consolidated Balance Sheet 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 remain sound, existing orders can be deferred or cancelled which could lead to further reductions in production schedules

- The military aerospace market remains solid with major programs progressing as expected, particularly the JSF program, for which the U.S. Department of Defense recently recommended increasing the number of aircraft to be purchased throughout the U.S. government's 2010 fiscal year. Still, the new U.S. administration may reduce funding of future military budgets.

- In the power generation industry, the industrial gas turbine and wind energy markets will be impacted over the short-term by the financial crisis given the significant capital requirements of these projects and the infrastructure issues associated with the distribution of power from these new energy sources.

- Capital expenditures for fiscal 2010 are expected to be about $20 million mostly for normal maintenance projects. After more than $100 million in investments over the last three years, the Company plans to optimize these state-of-the-art investments in the coming quarters.

- Héroux-Devtek still intends to pursue acquisition opportunities that complement its existing core Landing Gear and Aerostructure operations, supported by a strong balance sheet and Credit Facilities extending up to $125 million.

- Although the Company can count on strong customer relationships and a solid backlog, the Company is not anticipating sales growth for fiscal 2010 considering the prevailing economic environment. Furthermore, in light of the recent volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency, the Company will seek further productivity gains and streamline its cost base to remain globally competitive.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 27, 2009 and by the Board of Directors on May 28, 2009. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.