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Quarterly report

THIRD QUARTER ENDED
DECEMBER 31, 2005

message to shareholders

On behalf of the Board of Directors, I would like to take this opportunity to present the financial results for Héroux-Devtek's third quarter ended December 31, 2005.

As I mentioned earlier in the fiscal year, our single most important objective at the moment is a return to profitability. I am pleased to report that we took another positive step in that direction, reporting net income of $0.7 million for the quarter, up $1.6 million from the same quarter last year.

Earnings were impacted positively by increased sales which contributed to a better absorption of manufacturing overhead costs, but were tempered somewhat by the high value of the Canadian dollar, as well as high prices and tight supply conditions for certain raw materials.

Our sales for the period were $66.9 million, up 17.1% compared to the same period a year ago. This growth was totally attributable to the Aerospace segment, which accounts for 92% of our total sales. The Aerospace segment continues to benefit from increasing demand in the commercial and military aerospace markets. Sales for the Industrial segment were flat with last year.

Just following the quarter, the United States Air Force and the United States Navy awarded our Landing Gear Division another $20.0 million worth of contracts for the production of landing gear components for the KC135R, C-130, B1B aircraft and the P-3, to be delivered over the next four years.

Our Aerostructure Division in Arlington, Texas was also awarded a series of contracts by Lockheed Martin Aeronautics for the Joint Strike Fighter ("JSF") Program valued at an estimated $12.0 million. They will manufacture, develop and produce wing carry-through bulkheads, wing structural components, and numerous other complex machined components for the Lockheed Martin F-35 program. It will also be responsible for developing the most effective manufacturing, tooling and fabrication approaches with Lockheed Martin, as well as completing production of the first seven shipsets of component assemblies for the Conventional Take-Off and Landing (CTOL) variant of the F-35 aircraft. Deliveries are expected to begin in fiscal 2007 and be completed by fiscal 2008.

In the medium term, we see particular potential in the Joint Strike Fighter program, which has been called the largest program in US Department of Defense history. The JSF is expected to be the world's premier strikes aircraft through 2040. The program is a joint initiative of the US Navy, Marines, and Air Force, as well as the British military, all of which are looking to replace large numbers of several models of fighter and attack aircraft in the next decade. At present, about 2,600 aircraft are scheduled for delivery under this program to the US and UK Military markets. Sales to international markets are expected to be for as many as 2,000 planes.

This brings the total of major multi-year contracts received from customers such as Lockheed Martin, Boeing, Goodrich, the United States Air Force and the United States Navy to approximately $217 million since the beginning of the fiscal year.

We also strengthened our financial position over the quarter with an improved balance sheet. Our total debt, net of cash and cash equivalents, at the end of the quarter was $43.1 million, down $20.4 million from the end of the preceding quarter. The Company used proceeds from the equity issue closed during the quarter to pay down the revolving credit facilities. The term of our existing $80 million in credit facilities was also extended for one year, to March 21, 2007, with essentially the same terms and conditions.

The execution of our business plan has led to a significant improvement in third quarter results over last year and, as we mentioned last quarter, we still expect the business to continue to improve through the remainder of this year and into the next.

We look forward to reporting back to you on our progress over the coming quarters.

Gilles Labbé
President and Chief Executive Officer
February 1, 2006

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED DECEMBER 31, 2005 AND 2004.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the periods ended December 31, 2005 and 2004, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's external auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the external auditors of an entity.

Dated this 1st day of February 2006.

CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 and March 31, 2005
(In thousands of dollars) (Unaudited)

	Notes	December 2005	March 2005
Assets	5		
Current assets			
Cash and cash equivalents		$ 16,819	$ 9,550
Accounts receivable		34,355	35,955
Income taxes receivable		5,750	2,660
Other receivables		5,257	6,671
Inventories		74,335	71,726
Prepaid expenses		1,673	828
Future income taxes		7,898	7,211
Other current assets		1,846	2,339
Discontinued operations	3	–	7,834
		147,933	144,774
Property, plant and equipment, net		96,910	103,294
Finite-life intangible assets, net		9,501	11,023
Other assets		878	1,092
Future income taxes		7,196	7,572
Goodwill		36,628	35,276
Discontinued operations	3	–	9,099
		$ 299,046	$ 312,130
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 66,599	$ 65,932
Income taxes payable		2,710	994
Future income taxes		2,217	1,329
Current portion of long-term debt	5	4,298	20,185
Discontinued operations	3	–	9,266
		75,824	97,706
Long-term debt	5	55,639	65,660
Other liabilities		7,342	7,613
Future income taxes		9,680	9,820
Discontinued operations	3	–	1,650
		148,485	182,449
Shareholders' Equity			
Capital stock	6	103,416	87,269
Contributed surplus	6	490	340
Cumulative translation adjustment		(7,654)	(5,338)
Retained earnings		54,309	47,410
		150,561	129,681
		$ 299,046	$ 312,130

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the periods ended December 31, 2005 and 2004
(In thousands of dollars, except per share data) (Unaudited)

	Notes	Quarters ended December 31		Nine months ended December 31	
		2005	2004 (Restated, Note 3)	2005	2004 (Restated, Note 3)
Sales		$ 66,853	$ 57,101	$ 183,073	$ 166,584
Cost of sales	7	56,169	50,771	156,933	145,709
Amortization		4,430	4,390	12,971	13,195
Gross profit		6,254	1,940	13,169	7,680
Selling and administrative expenses		4,472	2,965	11,831	11,851
Operating Income (loss)		1,782	(1,025)	1,338	(4,171)
Financial expenses	5	958	1,238	3,283	2,692
Income (loss) before income taxes (recovery) and discontinued operations		824	(2,263)	(1,945)	(6,863)
Provision for income taxes (recovery)		81	(632)	–	(2,058)
Net income (loss) from continuing operations		743	(1,631)	(1,945)	(4,805)
Net income from discontinued operations	3	–	744	8,844	1,041
Net income (loss)		$ 743	$ (887)	$ 6,899	$ (3,764)
Earnings (loss) per share from continuing operations – basic and diluted		$ 0.03	$ (0.06)	$ (0.07)	$ (0.18)
Earnings per share from discontinued operations – basic and diluted		$ –	$ 0.03	$ 0.32	$ 0.04
Earnings (loss) per share – basic and diluted		$ 0.03	$ (0.03)	$ 0.25	$ (0.14)
Weighted average number of shares outstanding during the periods		29,547,207	26,944,975	27,825,100	26,939,395

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the periods ended December 31, 2005 and 2004
(In thousands of dollars) (Unaudited)

	Quarters ended December 31		Nine months ended December 31	
	2005	2004	2005	2004
Balance at beginning of period	$ 53,566	$ 46,662	$ 47,410	$ 49,539
Net Income (loss)	743	(887)	6,899	(3,764)
Balance at end of period	$ 54,309	$ 45,775	$ 54,309	$ 45,775

The accompanying notes are an integral part of these interim consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended December 31, 2005 and 2004
(In thousands of dollars) (Unaudited)

	Notes	Quarters ended December 31 2005	2004 (Restated, Note 3)	Nine months ended December 31 2005	2004 (Restated, Note 3)
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income (loss) from continuing operations		$ 743	$ (1,631)	$ (1,945)	$ (4,805)
Items not requiring an outlay of cash:					
Amortization		4,430	4,390	12,971	13,195
Future income taxes		(748)	(481)	516	(674)
Gain on sale of property, plant and equipment		(12)	(9)	(18)	(2)
Amortization of deferred financing costs	5	140	102	304	247
Gain on financial derivative instrument	5	–	–	–	(528)
Amortization of net deferred loss related to financial derivative instrument	5	34	37	104	117
Accretion expense of asset retirement obligation		45	50	139	150
Stock-based compensation	6	54	–	150	91
Cash flows from continuing operations		4,686	2,458	12,221	7,791
Net change in non-cash items related to operations	9	4,117	2,483	(5,108)	(13,162)
Cash and cash equivalents provided by (used for) operating activities		8,803	4,941	7,113	(5,371)
Investing activities					
Purchase of property, plant and equipment and finite-life intangible assets		(4,398)	(2,439)	(7,128)	(9,094)
Proceeds on disposal of property, plant and equipment		271	352	284	1,145
Business acquisition, net of cash acquired	2	–	–	(2,335)	(71,695)
Proceeds from the sale of a business	3	–	–	19,035	–
Cash and cash equivalents provided by (used for) investing activities		(4,127)	(2,087)	9,856	(79,644)
Financing activities					
Increase in long-term debt	5	7,841	6,276	13,804	49,874
Repayment of long-term debt	5	(19,887)	(6,519)	(38,202)	(22,970)
Issuance of common shares	6	15,697	46	15,759	16,358
Other		(210)	(290)	(210)	(450)
Cash and cash equivalents provided by (used for) financing activities		3,441	(487)	(8,849)	42,812

CONSOLIDATED STATEMENTS OF CASH FLOWS (cont'd)

For the periods ended December 31, 2005 and 2004
(In thousands of dollars) (Unaudited)

	Notes	Quarters ended December 31 2005	2004 (Restated, Note 3)	Nine months ended December 31 2005	2004 (Restated, Note 3)
Effect of changes in exchange rates on cash and cash equivalents		299	(1,321)	(52)	(1,637)
Cash and cash equivalents provided by (used for) discontinued operations	3	–	449	(799)	411
Change in cash and cash equivalents		8,416	1,495	7,269	(43,429)
Cash and cash equivalents at beginning of period		8,403	8,675	9,550	53,599
Cash and cash equivalents at end of period		$ 16,819	$ 10,170	$ 16,819	$ 10,170
Supplemental information:					
Interest paid		$ 1,012	$ 1,054	$ 2,985	$ 2,604
Income taxes paid		$ 1,097	$ 800	$ 2,367	$ 1,833

The accompanying notes are an integral part of these interim consolidated financial statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended December 31, 2005 and 2004
(All dollar amounts in thousands, except share data) (Unaudited)

NOTE 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Interim consolidated financial statements include the accounts of Héroux-Devtek Inc. (the "Company") and its subsidiaries, all of which are wholly-owned.

The interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual consolidated financial statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim consolidated financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2005.

NOTE 2. BUSINESS ACQUISITION

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 to acquire all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector. The earnings of Progressive have been accounted for in the Company's consolidated statement of income (loss) since the acquisition date and are included in the Aerospace segment. The total initial purchase price representing $74,193 (US$56,356) at the acquisition date (April 1, 2004) was adjusted downward by $921 to $73,272 at December 31, 2005 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments related to additional profitability performance made or accrued for. At December 31, 2005, the total adjusted purchase price and purchase price allocation of $73,272 can be detailed as follows:

Total Adjusted Purchase Price		
Basic purchase price		$ 62,924
Tax impacts		3,421
Acquisition of a large specialized manufacturing equipment		4,246
Transaction costs and other		2,681
		$ 73,272
Purchase Price Allocation		
Cash		$ 2,498
Tangible assets		
Accounts receivable and other receivables	$ 3,913	
Inventories	14,739	
Other current assets	301	
	18,953	
Property, plant and equipment	25,983	44,936
Backlog		9,601
Goodwill		20,247
		77,282
Accounts payable and accrued liabilities		(4,010)
		$ 73,272

NOTE 2. BUSINESS ACQUISITION (cont'd)

As part of the asset purchase agreement and plan for merger, total additional payments of up to $15,798 in total (US$6,000 for fiscal years 2004 and 2005 and US$6,000 for fiscal year 2006), could also be made based on additional profitability performance.

At December 31, 2005, additional payments of $2,993 (US$2,400) were made. Additional payments related to profitability performance of up to $8,723 (US$7,500) could still be made or provided for in fiscal year 2006. Should these payments be made, the basic purchase price will be adjusted accordingly.

Financing of the Acquisition

In order to finance this acquisition, the Company used $36,409 of its existing Secured Syndicated Revolving Credit Facilities, issued 3,500,000 common shares through private placements for a total net cash consideration of $16,180 and used $20,683, net of the adjustments to the initial purchase price, of its available cash up to December 31, 2005. The financing and the total outlay of cash and cash equivalents related to this business acquisition can be broken down as follows:

Secured Syndicated Revolving Credit Facilities		$ 36,409
Issuance of common shares		16,180
Cash	$ 13,442	
Sale balance in escrow	7,241	20,683
		73,272
Less:		
Cash and cash equivalents acquired		2,498
Additional payments related to profitability performance accrued for		1,090
		$ 69,684

Last year, as at December 31, 2004, the Company had paid $71,695 for the basic purchase price, the large specialized manufacturing equipment, the tax impacts on the acquisition transaction and the related transaction costs.

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO

On February 10, 2005, the Company entered into an agreement with Colt Defense LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a manufacturer of small arms for military forces and law enforcement agencies. The final total sale price amounted to $19,035.The sale transaction closed on May 20, 2005. The gain on the sale transaction amounted to $8,568, net of income taxes of $2,338.

All assets and liabilities in the Company's consolidated balance sheets along with revenues and expenses in the Company's consolidated statements of income (loss) and the cash and cash equivalents in the Company's consolidated statements of cash flows related to the Logistics and Defence Division, Diemaco were segregated and presented as discontinued operations.

Sales, income before income taxes and net income related to Diemaco's operations for the period from April 1, 2005 to May 20, 2005 this year, compared to the third quarter last year and the nine-month period ended December 31, 2004, were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2005	2004	**2005**	2004
Sales	$ –	$ 5,906	$ 2,440	$ 13,857
Income before taxes	–	1,152	418	1,630
Net income (including the gain on sale of Diemaco of $8,568 in 2005)	–	744	8,844	1,041

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO (cont'd)

All the activities of the Logistics & Defence Division, Diemaco operations were excluded from the Company's Aerospace segment and Canadian geographical segment in the segmented information disclosure.

NOTE 4. FINANCIAL INSTRUMENTS: FORWARD FOREIGN EXCHANGE CONTRACTS

At December 31, 2005, the Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.2840 an amount of US$138,500 (US$128,000 at an average rate of 1.3308 as at March 31, 2005) for the purpose of foreign exchange risk management related to its export sales and maturing at various dates between January 1, 2006 and December 31, 2009.

NOTE 5. LONG-TERM DEBT

	December 31, 2005	March 31, 2005
Secured Syndicated Revolving Credit Facilities of up to $80,000 ($100,000 at March 31, 2005 and $90,000 at June 30 and September 30, 2005) (see below), either in Canadian or U.S. currency equivalent, maturing March 21, 2007 if not extended, extendible annually, nil for the Canadian Facilities at December 31, 2005 (Bankers' acceptance plus 2.0% at March 31, 2005 for the Canadian operating and term facilities), at Libor plus 2.0% for the U.S. operating and term facilities (Libor plus 2.0% at March 31, 2005). At December 31, 2005, the Company used US$5,000 ($10,000 and US$5,000 at March 31, 2005) on operating facilities and used US$25,656 ($5,000 and US$32,656 at March 31, 2005) on term facilities.	$ 35,653	$ 60,549
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	15,044	14,117
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between July 2006 and October 2009, with amortization periods varying between five (5) to eight (8) years, secured by the related property, plant and equipment.	9,240	11,179
	59,937	85,845
Less: current portion	4,298	20,185
	$ 55,639	$ 65,660

Secured Syndicated Revolving Credit Facilities

These Secured Syndicated Revolving Credit Facilities ("Credit Facilities") allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian or U.S. currency equivalent) and are used for its operations, acquisitions and foreign exchange risks from a group of banks and their American subsidiaries or branches and consist of revolving operating credit facilities of up to $30,000 and revolving term credit facilities of up to $50,000, each having up to 21 month revolving period (2 years in fiscal 2005), extendible annually, secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. At the end of the third quarter ended December 31, 2005, the Company concluded the annual extension of its Credit Facilities from March 21, 2006 to March 21, 2007. In the event that the Credit Facilities are not extended at the end of the revolving period (March 21, 2007), the revolving operating Credit Facilities will mature. As to the revolving term Credit Facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five (5) years. These Credit Facilities are extendible annually within the period from July 1st and October 31st of each year.

At December 31, 2005, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply for the current fiscal year.

NOTE 5. LONG-TERM DEBT (cont'd)

Interest rates vary based on Prime, Bankers' acceptance, Libor or US base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows. These Secured Syndicated Revolving Credit Facilities are governed by two credit agreements (Canadian and American).

The financial expenses, for the quarters and the nine-month periods ended December 31 are comprised of:

	Quarters ended December 31		Nine months ended December 31	
	2005	2004 (Restated, Note 3)	**2005**	2004 (Restated, Note 3)
Interest	$ 781	$ 1,074	$ 2,823	$ 2,924
Amortization of deferred financing costs	140	102	304	247
Standby fees	71	58	209	132
Gain on financial derivative instrument	–	–	–	(528)
Amortization of net deferred loss related to financial derivative instrument	34	37	104	117
Interest revenue	(68)	(33)	(157)	(200)
Financial expenses	$ 958	$ 1,238	$ 3,283	$ 2,692

NOTE 6. CAPITAL STOCK

Authorized capital stock

The authorized capital stock of the Company consists of the following:

An unlimited number of voting common shares, without par value

An unlimited number of first preferred shares, issuable in series

An unlimited number of second preferred shares, issuable in series

The rights, privileges, restrictions and conditions related to the preferred shares may be established by the Board of Directors.

The issued and outstanding capital stock of the Company consists of the following:

	December 31, 2005	March 31, 2005
31,479,774 common shares (**26,954,552** at March 31, 2005)	$ 103,416	$ 87,269

Issuance of common shares

During the quarter and the nine-month periods ended December 31, 2005, the Company issued 4,508,276 and 4,525,222 common shares respectively at weighted average prices of $3.75 for a total net cash consideration of $16,085 and $16,147 under the stock purchase and ownership incentive plan and following the closing of the treasury common share issue last November (see below).

On April 1, 2004, in conjunction with the closing of the acquisition of Progressive, the Company issued 3,500,000 common shares for a total net cash consideration of $16,180. During the quarter and the nine-month periods ended December 31, 2004, the Company also issued 11,221 and 46,221 common shares at a weighted average price of $4.14 and $3.85 respectively for a total net cash consideration of $46 and $178 under the stock option plan and the stock purchase and ownership incentive plan (see below).

Treasury common share issue

On November 10, 2005, the Company closed the public offering of 4,500,000 common shares at a price of $3.75 per share for net proceeds of $15,670 (net of $1,205 fees and expenses). This offering was co-lead by National Bank Financial and GMP Securities Ltd. Raymond James Ltd. and Versant Partners Inc. also acted as underwriters in this offering. The net proceeds from the sale of the common shares was applied by the Company in reduction of its lines of credit under its Credit Facilities, but not as a permanent reduction thereof.

NOTE 6. CAPITAL STOCK (cont'd)

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black & Scholes valuation model to determine their fair value. The expense related to stock options recorded in the quarter ended December 31, 2005 amounted to $54 (nil in 2004) and to $150 ($91 in 2004) for the nine-month period ended December 31, 2005.

During the quarter ended December 31, 2005, no stock options were granted or exercised.

During the nine-month period ended December 31, 2005, 200,000 stock options were granted at a strike price of $3.98 per share that are vesting over a three-year period and can be exercised over a seven-year period. During the same period, 135,800 stock options were cancelled, all in the first quarter.

During the quarter ended December 31, 2004 last year, no stock options were granted or exercised.

During the nine-month period ended December 31, 2004, 200,000 stock options were granted at a strike price of $5.00 per share that are vesting over a three-year period and can be exercised over a seven-year period. During the same period, 35,000 stock options were exercised at an average granted price of $3.79 for a total cash consideration of $132. A total of 149,059 stock options were also cancelled during the nine-month period ended December 31, 2004.

At December 31, 2005, the Company had 873,021 outstanding stock options at an average strike price of $5.72 which will expire over the next seven years (between June 2007 and August 2012).

Stock purchase and ownership incentive plan

On September 2, 2004, the Board of Directors of the Company approved a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Company.

Under this plan, eligible employees can subscribe monthly, by salary deductions, up to 10% of their base salary, a number of common shares issued by the Company corresponding to their monthly contribution. The subscription price of the issued common shares represents 90% of the average closing price of the Company's common share on the TSX over the five trading days preceding the common share subscription. Also, the Company matches 50% of the employee's contribution by attributing to the employee, on a monthly basis, additional common shares acquired on the TSX at market price. However, the Company's matching attribution cannot exceed 4% of the employee's annual base salary. Common shares attributed to the employee, as well as the subscribed common shares, will be earned and released over a three-year period, the first period beginning July 1, 2005.

A trustee is in charge of the administration of the plan, including market purchases and subscriptions to the Company's common shares for and on behalf of the participating employees.

The aggregate number of shares reserved for issuance under this plan represent 90,000 common shares and has been taken out from the common shares already reserved for the Company's stock option plan.

During the quarter and the nine-month periods ended December 31, 2005, 8,276 and 25,222 common shares respectively were issued (43,215 since the beginning of the plan) and 3,695 and 11,317 common shares were attributed to the participating employees (19,195 since the beginning of the plan). For the quarter and the nine-month periods ended December 31, 2005, the expense related to the attributed common shares amounting to $13 and $44 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the quarter ended December 31, 2004, 11,221 common shares were issued and 4,491 common shares were attributed to the participating employees. The expense related to the attributed common shares during the quarter ended December 31, 2004 amounted to $22.

NOTE 6. CAPITAL STOCK (cont'd)

Stock Appreciation Right plan

The Company has a Stock Appreciation Right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR during the quarters and the nine-month periods ended December 31, 2005 and 2004.

During the quarters ended December 31, 2005 and 2004, no SAR were granted.

During the nine-month period ended December 31, 2005, 15,000 SAR were granted at a strike price of $3.84 (15,000 at a strike price of $5.00 for the same period in 2004).

NOTE 7. COST OF SALES

In December 2005, the Company recorded an insurance recovery of $1,800 relating to a business interruption claim following a fire at one of its business units. This incident, which took place in January 2005, mainly impacted the results of the fourth quarter of the Company's last fiscal year and the first quarter of this fiscal year. In accordance with Canadian Generally Accepted Accounting Principles, this favourable amount could not be recognized in previous quarters because of the uncertainty of the materialization of the claim and the determination of the amount involved.

In December 2005, the Company also recorded a $1,000 provision for non-quality and for certain terminated parts on aircraft engine components following delivery and quality issues at the Company's Gas Turbine Components division.

The net impact of the two above-mentioned items, which were recorded in the cost of sales, increased the gross profit by $800 and the gross profit margin in the quarter ended December 31, 2005, by 1.2% expressed as a percentage of sales.

NOTE 8. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

The Company has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are either based on years of service and flat amount, years of service and final average salary or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amounts are not significant, they are not included in figures below.

Defined pension plan obligations are impacted by factors including interest rate, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The total pension plan costs are as follows:

	Quarters ended December 31		Nine months ended December 31	
	2005	2004 (Restated, Note 3)	**2005**	2004 (Restated, Note 3)
Defined benefit pension costs	**$ 323**	$ 535	**$ 970**	$ 1,498
Defined contribution pension costs	**350**	247	**946**	929
	$ 673	$ 782	**$ 1,916**	$ 2,427

NOTE 9. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations for the quarters and the nine-month periods ended December 31 can be detailed as follows:

	Quarters ended December 31 2005	Quarters ended December 31 2004 (Restated, Note 3)	Nine months ended December 31 2005	Nine months ended December 31 2004 (Restated, Note 3)
Accounts receivable	$ 3,469	$ 2,378	$ 1,605	$ 2,993
Income taxes receivable	131	920	(3,090)	(60)
Other receivables	(1,315)	(689)	1,414	(412)
Inventories	1,459	2,636	(2,609)	(4,928)
Prepaid expenses	246	(317)	(845)	(918)
Other current assets	(9)	–	493	–
Accounts payable and accrued liabilities, and other liabilities	704	(479)	(612)	(2,738)
Customers' advance	–	(1,362)	–	(4,765)
Income taxes payable	(564)	16	(534)	(331)
Effect of changes in exchange rate	(4)	(620)	(930)	(2,003)
	$ 4,117	$ 2,483	$ (5,108)	$ (13,162)

NOTE 10. SEGMENTED INFORMATION

Quarter ended December 31

Activity Segments

	2005			2004 (Restated, Note 3)		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	$ 61,794	$ 5,059	$ 66,853	$ 52,010	$ 5,091	$ 57,101
Operating income (loss)	3,097	(1,315)	1,782	(102)	(923)	(1,025)
Financial expenses			958			1,238
Income (loss) before income tax (recovery) and discontinued operations			824			(2,263)
Assets from continuing operations	279,554	19,492	299,046	262,833	23,313	286,146
Purchase of property, plant and equipment and finite-life intangible assets	3,947	451	4,398	2,408	31	2,439
Goodwill acquired	1,354	–	1,354	–	–	–
Amortization	3,892	538	4,430	3,793	597	4,390

Geographic Segments

	2005			2004 (Restated, Note 3)		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$ 44,668	$ 22,185	$ 66,853	$ 36,976	$ 20,125	$ 57,101
Property plant and equipment, net	59,253	37,657	96,910	59,889	42,235	102,124
Finite-life intangible assets, net	2,162	7,339	9,501	3,033	8,590	11,623
Goodwill	17,534	19,094	36,628	17,535	20,410	37,945
Export sales			$ 28,312			$ 22,037

71% of the Company's sales (72% in 2004) were to US customers.

NOTE 10. SEGMENTED INFORMATION (cont'd)

Nine-month periods ended December 31

Activity Segments

	2005			2004 (Restated, Note 3)		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	$ 166,651	$ 16,422	$ 183,073	$ 151,262	$ 15,322	$ 166,584
Operating income (loss)	3,045	(1,707)	1,338	(1,426)	(2,745)	(4,171)
Financial expenses			3,283			2,692
Loss before income tax recovery and discontinued operations			(1,945)			(6,863)
Assets from continuing operations	279,554	19,492	299,046	262,833	23,313	286,146
Purchase of property, plant and equipment and finite-life intangible assets	6,491	637	7,128	6,892	2,202	9,094
Goodwill acquired	2,212	–	2,212	21,168	–	21,168
Amortization	11,408	1,563	12,971	11,368	1,827	13,195

Geographic Segments

	2005			2004 (Restated, Note 3)		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$115,225	$ 67,848	$183,073	$ 97,715	$ 68,869	$166,584
Property plant and equipment, net	59,253	37,657	96,910	59,889	42,235	102,124
Finite-life intangible assets, net	2,162	7,339	9,501	3,033	8,590	11,623
Goodwill	17,534	19,094	36,628	17,535	20,410	37,945
Export sales			$ 69,119			$ 58,706

71% of the Company's sales (74% in 2004) were to US customers.

NOTE 11. RECLASSIFICATION

Comparative figures for the financial statements as at December 31, 2004 have been reclassified to comply with the December 31, 2005 presentation.

management discussion and analysis of financial position and operating results

This management discussion and analysis (MD&A) is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2005 and December 31, 2005. It also compares the operating results and cash flows for the three-and nine-month periods ended December 31, 2005 to those for the same periods the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2005 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements to June 30, 2005, September 30, 2005 and December 31, 2005. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

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

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

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

- landing gear products
- aerostructure products
- aircraft engine components

The Industrial segment includes:

- industrial gas turbine products
- other industrial products

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

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

RESULTS OF OPERATIONS

Consolidated Sales

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

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

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

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

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

Aerospace Segment

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

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

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

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

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

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

Industrial Segment

Sales for the Industrial segment were as follows:

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

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

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

Sales by Destination

The Company's sales by destination were as follows:

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

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

GROSS PROFIT

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

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

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

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

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

SELLING AND ADMINISTRATIVE EXPENSES

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

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

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

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

FINANCIAL EXPENSES

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

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

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

PROVISION FOR INCOME TAXES (INCOME TAX RECOVERY)

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

DISCONTINUED OPERATIONS

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

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

NET INCOME (LOSS)

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

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

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

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

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

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

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

INVESTING ACTIVITIES

The Company's investing activities were as follows:

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

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

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

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

FINANCING ACTIVITIES

The Company's financing activities were as follows:

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

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

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

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

EXTENSION OF SECURED SYNDICATED REVOLVING CREDIT FACILITIES ("CREDIT FACILITIES")

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

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

STOCK OPTION PLAN

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

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2005 and December 31, 2005:

Item	Change ($ million)	Explanation
Cash and cash equivalents	7.3	See consolidated statements of cash flows
Accounts receivable	(1.6)	Increased level of business activity more than offset by improved accounts receivable collection
Income tax receivable	3.1	Due mainly to an income tax recovery related to the Company's operating losses last year and for the first six months this year
Other receivables	(1.4)	Collection of other receivables related to tooling invoiced to customers
Inventories	2.6	Mainly related to increased business activity
Property, plant and equipment, net	(6.4)	Due to: • Purchase of capital assets ($7.1 million) Net of: • Amortization ($12.1 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.4 million)
Finite-life intangible assets, net (includes a $6.6 million net backlog)	(1.5)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive
Goodwill	1.4	Due to the variation in additional payments to the sellers related to the profitability performance of Progressive ($2.2 million), net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	0.7	Represents in part the favourable impact of the US exchange rate
Income taxes payable	1.7	Due mainly to the tax impact related to the sale of the Logistics and Defence Division, Diemaco
Long-term debt (including current portion)	(25.9)	Due to: • Net capital repayments of long-term debt ($24.4 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.5 million)
Capital stock	16.1	Due to: • Net proceeds from 4.5 million common share issue ($15.7 million) • Future income tax impact relating to common share issue fees and expenses ($0.4 million)
Cumulative translation adjustment	(2.3)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	6.9	See consolidated statements of retained earnings

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

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

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

CHANGES IN ACCOUNTING POLICIES

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

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2005.

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

OUTLOOK

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

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

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