HÉROUX DEVTEK

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Héroux-Devtek – Quarterly Report

Third Quarter Ended December 31, 2008

MESSAGE TO SHAREHOLDERS
Third quarter ended December 31, 2008

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's third quarter ended December 31, 2008.

Our third-quarter results continue to reflect a solid order book and favourable market positioning. While the Landing Gear Division was somewhat affected by a labour conflict at a major customer, both the Aerostructure and Gas Turbine Components divisions posted good results. The latter also continued to strongly contribute to overall profitability improvements. While pressures from a strong Canadian dollar have abated for the time being, we aim to further leverage our productivity in all operating aspects supported by investments in state-of-the-art equipment made in recent years, and continued training and lean manufacturing initiatives throughout the organization.

Consolidated sales for the third quarter amounted to $85.6 million, an increase of 12.2% over sales of $76.3 million in the same period last year. Sales of the Landing Gear Division declined 1.5% to $45.0 million, mainly as a result of the strike at Boeing and reduced throughput on certain military sales which offset greater sales for regional jet, business jet and commercial helicopter parts as well as military helicopter repair and overhaul sales. Aerostructure sales grew 29.4% to $29.8 million driven by increased military sales to civil customers, business jet sales and favourable currency movements during the quarter. Industrial sales totalled $10.5 million, up 47.0% from $7.2 million last year led by strong sales increases to the wind energy and heavy industry markets.

The weaker Canadian dollar increased third-quarter sales by $7.4 million, or 9.7%, compared with last year. However, in spite of this favourable variance, the currency fluctuation had a 0.5% negative impact on gross profit expressed as a percentage of sales considering the Company's hedging policy. Effectively, the impact of currency movements on the Company's gross profit margin, expressed as a percentage of sales, is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in US dollars.

Operating income for the third quarter increased by 19.4% when compared with last year and now stands at $7.8 million, or 9.2% of sales, compared with $6.6 million, or 8.6% of sales, last year. In the Aerospace segment, operating income for the third quarter was stable at $6.3 million. As a percentage of sales, it reached 8.4% in the current fiscal year versus 9.1% a year ago. Despite higher sales, the reduction as a percentage of sales stems from the currency translation loss on monetary items at the Landing Gear Division. Operating income for the Industrial segment amounted to $1.6 million, or 14.8% of sales, versus $0.3 million last year. This improvement mirrors the increase in value-added sales to the industrial gas turbine and wind energy markets as well as sustained operational improvements.

Given an effective tax rate of 23.2% in the third quarter of the current fiscal year, versus a tax rate of only 0.4% a year ago due to the utilization of tax losses carried forward, net income was $5.2 million, or $0.16 per share, fully diluted, compared with $5.3 million, or $0.17 per share, fully diluted, a year ago.

For the first nine months of the current fiscal year, sales increased by 9.2% to reach $245.5 million, versus $224.8 million last year. Operating income of $24.4 million, or 10.0% of sales, compares favourably with $18.1 million, or 8.1% of sales, a year earlier. This year-to-date increase represents a 34.7% year-over-year improvement for the operating income. Net income amounted to $14.9 million, or $0.47 per share, fully diluted, versus $12.5 million, or $0.39 per share, fully diluted, a year ago. Net income for the nine months ended December 31, 2007, benefitted from $1.6 million in tax loss utilization. Year-to-date, currency fluctuations reduced sales by $2.7 million, or 1.2%, in comparison with last year and reduced the gross profit margin by 1.7%.

Shortly after the end of the third quarter, more specifically on January 15, 2009, the Landing Gear Division announced it had signed a contract with Fokker Services to supply complete aftermarket kits including major components, such as pistons and cylinders, for the Fokker 100 aircraft. Deliveries are expected to begin in the spring of 2010 and should be completed by the end of calendar year 2013. Based on current projections, the total value of the contract is estimated to be between $15 and $24 million.

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

Héroux-Devtek is privileged to have long-standing and strong relationships with its customers, most of which consist of large-scale and financially-sound global players in their respective fields. Combined with a favourable positioning in all our key markets and a solid balance sheet, these superior attributes should enable the Company to maintain its current industry leader status. In spite of the uncertain environment, our backlog remains solid and we continue to anticipate an internal sales growth of close to 10% for the current fiscal year ending March 31, 2009.

Gilles Labbé
President and Chief Executive Officer
February 4, 2009

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters and nine-month periods ended December 31, 2008 and 2007.

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 quarters and nine-month periods ended December 31, 2008 and 2007, 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 4th day of February, 2009.

CONSOLIDATED BALANCE SHEETS
As at December 31, 2008 and March 31, 2008
(In thousands of dollars) (Unaudited)

	Notes	December 2008	March 2008
Assets	7		
Current assets			
Cash and cash equivalents		$ 31,685	$ 24,431
Accounts receivable		50,820	44,887
Income tax receivable		6,475	5,415
Other receivables		3,656	5,420
Inventories	2,6	89,229	86,625
Prepaid expenses		2,178	1,458
Future income taxes		10,927	9,142
Other current assets		3,652	9,235
		198,622	186,613
Property, plant and equipment, net	2	141,819	124,596
Finite-life intangible assets, net	2	8,686	5,787
Other assets		1,596	3,646
Goodwill		39,223	35,812
		$ 389,946	$ 356,454
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 84,619	$ 70,977
Income tax payable	2	1,060	2,349
Future income taxes		4,606	6,680
Current portion of long-term debt	7	4,047	5,011
		94,332	85,017
Long-term debt	7	77,339	72,242
Other liabilities		16,590	8,564
Future income taxes		11,711	9,853
		199,972	175,676
Shareholders' equity			
Capital stock	8	103,862	104,260
Contributed surplus	8	1,462	1,115
Accumulated other comprehensive loss		(13,600)	(9,932)
Retained earnings	2	98,250	85,335
		189,974	180,778
		$ 389,946	$ 356,454

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

CONSOLIDATED STATEMENTS OF INCOME

For the periods ended December 31, 2008 and 2007
(In thousands of dollars, except share and per share data) (Unaudited)

	Notes	Quarters ended December 31 2008	Quarters ended December 31 2007	Nine months ended December 31 2008	Nine months ended December 31 2007
Sales		$ 85,578	$ 76,260	$ 245,489	$ 224,794
Cost of sales, including amortization expense		72,041	64,955	204,530	193,440
Gross profit		13,537	11,305	40,959	31,354
Selling and administrative expenses		5,703	4,744	16,526	13,213
Operating income		7,834	6,561	24,433	18,141
Financial expenses, net	7	1,090	1,254	3,182	4,006
Income before income tax expense		6,744	5,307	21,251	14,135
Income tax expense		1,566	20	6,319	1,590
Net income		$ 5,178	$ 5,287	$ 14,932	$ 12,545
Earnings per share – basic		$ 0.16	$ 0.17	$ 0.47	$ 0.40
Earnings per share – diluted		$ 0.16	$ 0.17	$ 0.47	$ 0.39
Weighted-average number of shares outstanding during the periods		31,639,589	31,629,197	31,647,603	31,601,154

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the periods ended December 31, 2008 and 2007
(In thousands of dollars) (Unaudited)

For the quarter ended December 31, 2008

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at September 30, 2008		$104,421	$1,351	$(12,230)	$93,149	$ -
Common shares issued:						
Under the stock purchase and ownership incentive plan	8	81	-	-	-	-
Repurchase of common shares	8	(640)	-	-	(77)	-
Stock-based compensation expense	8	-	111	-	-	-
Net income		-	-	-	5,178	5,178
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $5,484		-	-	(11,275)	-	(11,275)
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $455		-	-	1,004	-	1,004
Cumulative translation adjustment		-	-	8,901	-	8,901
Balance at December 31, 2008		$103,862	$1,462	$(13,600)	$98,250	$3,808

For the nine-month period ended December 31, 2008

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2008, as previously reported		$104,260	$1,115	$(9,932)	$85,335	$ -
Changes in accounting policy:						
Inventories	2	-	-	-	(1,940)	-
Balance at March 31, 2008, adjusted		104,260	1,115	(9,932)	83,395	-
Common shares issued:						
Under the stock purchase and ownership incentive plan	8	242	-	-	-	-
Repurchase of common shares	8	(640)	-	-	(77)	-
Stock-based compensation expense	8	-	347	-	-	-
Net income		-	-	-	14,932	14,932
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $6,295		-	-	(12,940)	-	(12,940)
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $907		-	-	(1,832)	-	(1,832)
Cumulative translation adjustment		-	-	11,104	-	11,104
Balance at December 31, 2008		$103,862	$1,462	$(13,600)	$98,250	$ 11,264

For the quarter ended December 31, 2007

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at September 30, 2007		$104,149	$872	$(3,276)	$ -	$73,574	$ -
Common shares issued:							
Under the stock option plan	8	-	-	-	-	-	-
Under the stock purchase and ownership plan	8	56	-	-	-	-	-
Stock-based compensation expense	8	-	122	-	-	-	-
Net income		-	-	-	-	5,287	5,287
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $168		-	-	(404)	-	-	(404)
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $1,187		-	-	(2,465)	-	-	(2,465)
Cumulative translation adjustment		-	-	(206)	-	-	(206)
Balance at December 31, 2007		$104,205	$994	$(6,351)	$ -	$78,861	$2,212

For the nine-month period ended December 31, 2007

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007, as previously reported		$103,620	$691	$ -	$(8,034)	$64,571	$ -
Change in accounting policies:							
Loans bearing no interest		-	-	-	-	1,745	-
Cumulative translation adjustment		-	-	(8,034)	8,034	-	-
Accumulated gains on derivative financial instruments designated as cash flow hedges, net of taxes of $2,753		-	-	5,597	-	-	-
Balance at March 31, 2007, adjusted		103,620	691	(2,437)	-	66,316	-
Common shares issued:							
Under the stock option plan	8	413	-	-	-	-	-
Under the stock purchase and ownership plan	8	172	-	-	-	-	-
Stock-based compensation expense	8	-	303	-	-	-	-
Net income		-	-	-	-	12,545	12,545
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $4,957		-	-	9,567	-	-	9,567
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $2,521		-	-	(5,237)	-	-	(5,237)
Cumulative translation adjustment		-	-	(8,244)	-	-	(8,244)
Balance at December 31, 2007		$104,205	$994	$(6,351)	$ -	$78,861	$8,631

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended December 31, 2008 and 2007
(In thousands of dollars) (Unaudited)

	Notes	Quarters ended December 31 2008	Quarters ended December 31 2007	Nine months ended December 31 2008	Nine months ended December 31 2007
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 5,178	$ 5,287	$ 14,932	$ 12,545
Items not requiring an outlay of cash:					
Amortization		5,268	4,038	14,757	12,345
Future income taxes		824	(1,098)	2,993	(213)
Loss on sales of property, plant and equipment		-	-	2	-
Amortization of deferred financing costs	7	42	50	126	126
Amortization of net deferred loss related to a financial derivative instrument	7	-	-	-	46
Accretion expense of asset retirement obligations and loans bearing no interest	7	286	265	829	730
Stock-based compensation expense	8	111	122	347	303
Cash flows from operations		11,709	8,664	33,986	25,882
Net change in non-cash items related to operations	10	4,204	(4,504)	(1,369)	(19,146)
Cash flows relating to operating activities		15,913	4,160	32,617	6,736
Investing activities					
Purchase of property, plant and equipment		(10,414)	(11,974)	(20,430)	(27,082)
Increase in finite-life intangible assets		(192)	(77)	(1,710)	(83)
Cash flows relating to investing activities		(10,606)	(12,051)	(22,140)	(27,165)
Financing activities					
Increase in long-term debt	7	-	11,924	2,106	11,924
Repayment of long-term debt	7	(5,389)	(282)	(7,542)	(4,469)
Repurchase of common shares	8	(717)	-	(717)	-
Issuance of common shares	8	81	56	242	585
Other		(89)	(61)	(274)	(56)
Cash flows relating to financing activities		(6,114)	11,637	(6,185)	7,984
Effect of changes in exchange rates on cash and cash equivalents		2,414	(241)	2,962	64
Change in cash and cash equivalents during the period		1,607	3,505	7,254	(12,381)
Cash and cash equivalents at beginning of period		30,078	4,238	24,431	20,124
Cash and cash equivalents at end of period		$ 31,685	$ 7,743	$ 31,685	$ 7,743
Supplemental information:					
Interest paid		$ 816	$ 802	$ 1,944	$ 2,346
Income taxes paid		$ 227	$ -	$ 2,479	$ 489

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, 2008 and 2007
(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 financial statements, except for the changes in accounting policies mentioned in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim 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 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, 2008.

Note 2. Changes in Accounting Policies

ADOPTED IN FIRST QUARTER OF FISCAL YEAR 2009 AND EFFECTIVE APRIL 1, 2008
In the first quarter ended June 30, 2008, the Company adopted four new Handbook Sections issued by the Canadian Institute of Chartered Accountants (CICA):

Section 3031 Inventories
In June 2007, the Accounting Standard Board ("AcSB") released 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. These required additional disclosures relating to inventories are:

- The amount of inventories recognized as an expense
- The amount of any write-down of inventories
- The amount of any reversal of any write-down
- The circumstances or events that led to the reversal of a write-down

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 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 was as follows:

	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

Inventory categories

Inventories consist of raw materials, work in process and finished goods which are valued at the lower of cost (unit cost method) and net realizable value.

Progress billings received from customers are deducted from related costs in inventories. Progress billings received in excess of related costs in inventories are classified as customers' advances in accounts payable and accrued liabilities.

Revenue recognition

Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered, the sale price is determinable and collectability is reasonably assured.

Provision for losses on contract, if any, are made as soon as it is determined that total estimated contract costs are expected to exceed the total contract revenue.

Section 1535 Capital Disclosures

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 objectives, 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.

Section 3862 Financial Instruments - Disclosures

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

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

Section 3863 Financial Instruments - Presentation

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

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

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'.

International Financial Reporting Standards

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

The Company is evaluating the effect of these new standards on its consolidated financial statements and is currently developing its IFRS changeover plan.

Note 3. Financial Risk Management

The Company is primarily exposed to market risk, credit risk and credit concentration risk, and liquidity risk as a result of holding financial instruments.

Market risk	Risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is primarily exposed to the following market risks: • Foreign exchange risk • Interest rate risk
Credit risk and Credit concentration risk	Credit risk – Risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge its obligation Credit concentration risk - Risk that the business is concentrated on a limited number of customers and financial institutions, which could cause an increased Credit risk as defined above
Liquidity risk	Risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities

Market risk

Foreign exchange risk

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. Based on the last full fiscal year ended March 31, 2008, the Company's sales made from its Canadian and American operations and in the related currencies were as follow (calculated based on the Company's consolidated sales):

	CANADIAN OPERATIONS	AMERICAN OPERATIONS	TOTAL
U.S. Currency	49%	28%	77%
Canadian Currency	23%	-	23%
% consolidated sales	72%	28%	100%

In an effort to mitigate the foreign currency fluctuation exposure on sales, the Company makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian operations.

The Company's foreign exchange 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 forecasted cash inflows generated by sales in US currency made by its Canadian operations and related to long-term sales contracts, net of the forecasted cash outflows in US currency made by its Canadian operations and related essentially to its raw material and certain other material costs. This hedging policy also applies to the net forecasted 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.

At December 31, 2008 the Company had forward foreign exchange contracts totalling US $156.5 million at an average rate of 1.1112 (US $145.5 million at an average rate of 1.0922 at March 31, 2008) maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

The foreign exchange rate sensitivity is calculated by aggregation of the net foreign exchange rate exposure of the Company's financial instruments including the above mentioned forward foreign exchange contracts as of the balance sheet date. As of December 31, 2008, a 1% strengthening of the Canadian dollar over the US currency, while all other variables would remain fixed, would have decreased the consolidated net income by $145 and increased other comprehensive income by $813.

Interest rate risk

The Company is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Banks Credit Facilities (see Note 7 to the interim consolidated financial statements). In addition, the interest rate fluctuations could also have an impact on the Company's interest revenue which is derived from its cash and cash equivalents.

The Company's interest rate policy requires, in general, maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rate.

In July 2007, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company has entered into a four-year interest rate swap agreement for an amount of U.S. $15,000 that fixes the Libor U.S. rate at 5.53% and matures on August 1, 2011.

The interest credit risk sensitivity is calculated on the floating rate liability at the end of the quarter. Assuming a 100-basis point increase in interest rate as at December 31, 2008, while all other variables would remain fixed, this would have reduced the Company's consolidated net income for the quarter by $67. For the derivative financial instrument (interest rate swap agreement), a shift of 100-basis point increase in the yield curve, as of December 31, 2008, would have increased the Company's other comprehensive income by $327 while a 100-basis point decrease would have reduced it by $315.

Credit risk and Credit Concentration risk

The credit and credit concentration risks represent counterparty risks where the parties with which the Company enters into the related agreements or contracts could not be able to fulfill their commitments.

Credit risk is primarily related to the potential inability of customers to discharge their obligations in regard to the Company's accounts receivable and, of financial institutions in regard to the Company's cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments.

Credit concentration risk is related to the fact that a significant portion of the Company's sales, approximately 68%, are made to a limited number of customers and that the Company deals mainly with a limited number of financial institutions.

Accounts receivable

The credit and credit concentration risks related to this financial instrument are limited due to the fact that the Company deals generally with large corporations and Government agencies, with the exception of sales made to non-governmental agencies outside North America which represent approximately 1% of the Company's total annual consolidated sales.

Historically, the Company has not made any significant write-off of accounts receivable and the number of days in accounts receivable at December 31, 2008, was at acceptable levels in the industries where the Company evolves.

The credit quality of accounts receivable is monitored on a regular basis through the Company's decentralized operations.

HÉROUX DEVTEK

Changes in the allowance for doubtful accounts were as follows for the nine months ended December 31, 2008:

Balance as at April 1, 2008	$ 936
Provision for doubtful accounts	95
Amounts written off	(85)
Effect of foreign exchange rate changes	28
Balance as at December 31, 2008	$ 974

The Company's trade receivables that are past due but not impaired amounted to $8,357 as at December 31, 2008, of which $716 were more than 90 days past due.

Cash and cash equivalents, Bank's Credit Facilities and derivative financial instruments
The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Company deals only with Canadian chartered banks and their subsidiaries which have acceptable credit ratings.
On that basis, the Company does not anticipate any breach of agreement by counterparties.
The maximum exposure to credit and credit concentration risks for financial instruments represented the following as at December 31, 2008 (See Note 5 to the interim consolidated financial statements):

	Held for Trading (HFT)	Hedging items [1]	Loans and Receivables (L&R)
Cash and cash equivalents	$ 31,685	$ -	$ -
Accounts receivable	-	-	50,820
Other receivable	-	-	1,346
Other current assets	-	778	2,874
Other assets	-	1,520	-

(1) Represents the fair value of certain derivative financial instruments designated in a hedging relationship.

Liquidity Risk

The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set and under the terms of such commitments and at a reasonable price. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

The maturity analysis of financial liabilities represented the following as at December 31, 2008 (See Note 5 to the interim consolidated financial statements):

	Less than 1 year	1 to 3 years	4 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$ 54,920	$ -	$ -	$ -	$ 54,920
Long-term debt [2]	4,162	63,612 [1]	9,565	9,694	87,033
Other liabilities	-	11,045	85	-	11,130

(1) Includes the used Bank's Credit Facilities of $57,374 maturing on October 4, 2011.
(2) Includes interest accretion on loans bearing no interest.

Note 4. Capital Risk Management

The general objectives of the Company's management, in terms of capital management, reside essentially in the preservation of the Company's capacity to continue operating, to continue providing benefits to other stakeholders, and also, in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Company.

The Company thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risk characteristics of the underlying assets.

In order to maintain or adjust its capital structure, the Company can:

- Issue new common shares from treasury;
- Redeem common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders;
- Modify dividends paid to shareholders. However, the Company does not anticipate paying dividends on its outstanding common shares in the near future.

In the Company's current activity sectors involving long-term contracting and major capital expenditures, the total cash flows generated by the Company must be consistent with its net debt-to-equity ratio and comparable with wide-spread practices in these sectors. This net debt-to-equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Company's capital management and monitoring practices.

The net debt is equal to total debt representing the current portion of long-term debt and long-term debt, less cash and cash equivalents. Shareholders' equity includes capital stock, contributed surplus, accumulated other comprehensive income (loss) and retained earnings. In some cases, shareholders' equity may be adjusted by amounts recorded in accumulated other comprehensive income (loss), particularly those related to cash flow hedges, depending on their nature and materiality. Moreover, in some cases and for the same reasons as those indicated above, total debt and shareholders' equity may be adjusted by the amount of subordinated or unsecured loans and off-balance sheet items.

During the three- and nine-month periods ended December 31, 2008, the Company pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt to equity ratio, so as to allow access to financing at a reasonable or acceptable cost in relation to risk taken. The Company's net debt to equity ratio, as at December 31, 2008 and as at the end of the fiscal year ended March 31, 2008 was 0.26:1 and 0.29:1, respectively.

Moreover, the Company is not subject to any regulatory capital requirements and the Company's capital management has not changed since the prior year.

Note 5. **Financial Instruments**

The classification of financial instruments and their carrying amounts and fair values were as follows as at:

	December 31, 2008					March 31, 2008				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	L&R	Hedging items	Total (1)		HFT	L&R	Hedging items	Total (1)	
Financial Assets										
Cash and cash equivalents	$ 31,685	$ -	$ -	$31,685	$31,685	$ 24,431	$ -	$ -	$ 24,431	$ 24,431
Accounts receivable[2]	-	50,820	-	50,820	50,820	-	44,887	-	44,887	44,887
Other receivables[3]	-	1,346	-	1,346	1,346	-	3,804	-	3,804	3,804
Other current assets[4]	-	2,874	778	3,652	3,652	-	2,529	6,706	9,235	9,235
Other assets[6]	-	-	1,520	1,520	1,520	-	-	3,641	3,641	3,641
	$31,685	$55,040	$2,298	$89,023	$89,023	$ 24,431	$ 51,220	$10,347	$ 85,998	$ 85,998

	December 31, 2008					March 31, 2008				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	Other than HFT	Hedging items	Total (1)		HFT	Other Than HFT	Hedging items	Total (1)	
Financial Liabilities										
Accounts payable and accrued liabilities[5]	$ -	$46,349	$8,571	$ 54,920	$ 54,920	$ -	$48,537	$1,391	$ 49,928	$ 49,928
Long-term debt, including current portion	-	81,948	-	81,948	84,184	-	77,890	-	77,890	79,195
Long-term liabilities – Other liabilities[6]	-	265	10,865	11,130	11,130	-	-	2,234	2,234	2,234
	$ -	$128,562	$19,436	$147,998	$150,234	$ -	$ 126,427	$3,625	$130,052	$131,357

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprised of trade receivables.
(3) Comprised of certain other receivables.
(4) Includes the fair value of short-term derivative financial instruments designated in a hedging relationship.
(5) Comprised of trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities. It also includes the fair value of short-term derivative financial instruments designated in a hedging relationship.
(6) Includes the fair value of long-term derivative financial instruments designated in a hedging relationship.

Fair value of financial instruments

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or asks prices, as appropriate, in the most advantageous active market for the instrument to which the Company has immediate access. When bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair value based on internal or external valuation models, such as discounted cash flow analysis and using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses primarily external, readily observable market inputs, including factors such as interest rates, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable.

No profit or loss was accounted for the quarters and nine-month periods ended December 31, 2008 and 2007 on financial instruments designated as HFT.

Note 6. Inventories

Inventories consist of:

	December 31, 2008	March 31, 2008
Raw materials	$ 52,263	$ 40,825
Work in process and finished goods	68,477	68,447
Less: Progress billings	31,511	22,647
	$ 89,229	$ 86,625

The amount of inventories recognized as cost of sales for the three– and nine-month periods ended December 31, 2008, was as follows:

	Quarter ended December 31, 2008	Nine-month ended December 31, 2008
Aerospace segment	$ 51,584	$151,478
Industrial segment	7,617	21,129
	$ 59,201	$172,607

The variation of the write-downs related to inventories for the three- and nine-month periods ended December 31, 2008, was as follows:

	Quarter ended December 31, 2008	Nine-month ended December 31, 2008
Write-downs recognized as expense	$ 2,124	$ 5,450
Reversal of any write-down as reduction of the expense	$ 345	$ 2,320

The inventory write-down reversal is determined following the revaluation, each quarter-end, of the net realizable value on inventories based on the related sales contracts and production costs. It also includes the charges against the reserve for products delivered during the quarter for which a net realizable value reserve was required and recorded in prior periods.

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Note 7. Long-term debt

	December 31, 2008	March 31, 2008
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $125,000 ($80,000 as of March 31, 2008) (see below), either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, with no extension, which bear interest at bankers' acceptance plus 1.0% for the Canadian Credit Facilities at December 31, 2008 (representing an effective interest rate of 2.7%) and at Libor plus 1.0% at December 31, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 1.5%), and bankers' acceptance plus 1.0% for the Canadian Credit Facilities at March 31, 2008 (representing an effective interest rate of 4.6%) and Libor plus 1.0% at March 31, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.7%).		
At December 31, the Company used $5,000 ($9,000 at March 31, 2008) and U.S. $43,000 on the Credit Facilities (U.S. $43,000 at March 31, 2008).	$ 57,374	$ 53,140
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2022.	13,941	12,977
Obligations under capital leases bearing interest between 4.2% and 9.0% maturing between January 2009 and March 2015, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $1,559 ($1,797 at March 31, 2008).	10,633	11,773
Deferred financing costs, net	(562)	(637)
	81,386	77,253
Less: current portion	4,047	5,011
	$ 77,339	$ 72,242

Senior Secured Syndicated Revolving Credit Facilities

In fiscal year 2007, the Company successfully concluded the amendment and extension of its Credit Facilities whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature on October 4, 2011, with no extension. On April 14, 2008, the Company increased its $80 million Credit Facilities to $125 million, essentially under the same terms and conditions.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $125,000 (either in Canadian and U.S. currency equivalent – see below), from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes, are 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.

Interest rates vary based on Prime, Bankers' acceptance, Libor or U.S. base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows.

These Credit Facilities are governed by two credit agreements (Canadian and American).

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

	Quarters ended December 31		Nine months ended December 31	
	2008	2007	2008	2007
Interest	$ 860	$ 1,225	$ 2,510	$ 3,529
Interest accretion on loans bearing no interest	233	215	671	577
Amortization of deferred financing costs	42	50	126	126
Standby fees	49	47	166	156
Accretion expense of asset retirement obligations	53	50	158	153
Amortization of net deferred loss related to financial derivative instrument	-	-	-	46
Gain on financial instruments classified as HFT - Interest revenue	(147)	(333)	(449)	(581)
Financial expenses, net	$ 1,090	$ 1,254	$ 3,182	$ 4,006

Note 8. 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; and
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, 2008	March 31, 2008
31,488,853 common shares at December 31, 2008 (31,639,019 at March 31, 2008)	$103,862	$104,260

Issuance of common shares

During the three- and nine-month periods ended December 31, 2008, the Company issued 20,117 and 43,634 common shares respectively, at weighted average prices of $4.05 and $5.54 respectively for a total net cash consideration of $81 and $242. These shares were all issued under the Company's stock purchase and ownership plan.

During the three- and nine-month periods ended December 31, 2007, the Company issued 6,751 common shares and 103,902 common shares respectively, at weighted average prices of $8.29 and $5.63 respectively for a total cash consideration of $56 and $585. A number of 83,300 common shares were issued (all in the first quarter of fiscal 2008) following the exercise of stock options for a total cash consideration of $413 and the remainder of 20,602 common shares were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $172.

Normal course issuer bid

On November 24, 2008, the Company launched a normal course issuer bid ("NCIB"). Under the NCIB, the Company may repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares. The NCIB terminates on November 23, 2009, or on such earlier date as the Company may complete its purchases.

During the three month period ended December 31, 2008, the Company repurchased 193,800 shares at an average price of $3.70, for a total consideration of $717 under the normal course issuer bid.

Stock option plan
The Company has a stock option plan where options to purchase common shares are issued to officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Binomial valuation model to determine their fair value. The expense related to stock options recorded in the quarter ended December 31, 2008 amounted to $111 ($122 for the quarter ended December 31, 2007) and to $347 for the nine-month period ended December 31, 2008 ($303 in 2007).

During the three- and nine-month periods ended December 31, 2008, 175,000 stock options were granted (in the third quarter of fiscal 2009) at an average price of $4.58 and 65,000 options were cancelled (all in the first quarter of fiscal 2009). These options are performance based and are vesting over a four-year period and can be exercised over a seven-year period.

During the nine-month period ended December 31, 2007, 355,000 stock options were granted (all in the second quarter of fiscal 2008) at a granted value of $9.90 per share.

At December 31, 2008, the Company had 1,384,221 outstanding stock options at a weighted exercise average price of $6.27 which will expire over the next six years (between June 2009 and November 2015).

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.

During the three- and nine-month periods ended December 31, 2008, 20,117 and 43,634 common shares were issued (150,794 since the beginning of the plan) and 8,391 and 18,116 common shares attributed to the participating employees respectively (65,694 since the beginning of the plan). For the three- and nine-month periods ended December 31, 2008, the expense related to the attributed common shares amounting to $38 and $113 respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and nine-month periods ended December 31, 2007, 6,751 and 20,602 common shares were issued (100,060 since the beginning of the plan) and 3,069 and 9,190 common shares attributed to the participating employees respectively (44,489 since the beginning of the plan). For the three- and nine-month periods ended December 31, 2007, the expense related to the attributed common shares amounting to $28 and $86 respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

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.

During the three- and nine-month periods ended December 31, 2008, 35,000 SARs were granted (all in the second quarter of fiscal 2009) at a granted value of $7.29 (24,000 SARs at a granted value of $9.90 for the same period in fiscal 2008 and all in the second quarter of fiscal 2008). 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. During the three- and nine-month periods ended December 31, 2008, no expense was recorded for SARs ($269 for the nine-month period ended December 31, 2007).

During the third quarter and nine-month period ended December 31, 2008, no SARs were exercised (7,500 SARs at an average granted value of $6.56 last year) and 7,500 SARs were cancelled (all in the second quarter of fiscal 2009) (9,000 SARs for the same period in 2007).

At December 31, 2008, on a cumulative basis, 123,000 SARs were still outstanding at a weighted-average granted value of $6.59 which expires at various dates between fiscal years 2009 and 2015.

Note 9. Pension and other retirement benefit plans

Description of 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 based on either 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 amount is 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 costs for the three- and nine-month periods ended December 31 are as follows:

	Quarters ended December 31		Nine months ended December 31	
	2008	2007	2008	2007
Defined benefit pension costs	$ 255	$ 213	$ 893	$ 653
Defined contribution pension costs	488	360	1,394	1,127
	$ 743	$ 573	$ 2,287	$ 1,780

Note 10. Net change in non-cash items related to operations

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

	Quarters ended December 31		Nine months ended December 31	
	2008	2007	2008	2007
Accounts receivable	$ (6,971)	$ 364	$ (5,933)	$ 7,193
Income tax receivable	(293)	292	(1,060)	(1,594)
Other receivables	87	713	1,764	(872)
Inventories	458	(474)	(8,351)	3,362
Prepaid expenses	(935)	(540)	(720)	(805)
Other current assets [(1)]	2,933	(1,364)	4,081	(1,116)
Accounts payable and accrued liabilities and, other liabilities [(1)]	24,182	(4,004)	22,308	(21,832)
Income tax payable	(1,291)	695	(360)	1,264
Effect of changes in exchange rate [(2)]	(13,966)	(186)	(13,098)	(4,746)
	$ 4,204	$ (4,504)	$ (1,369)	$ (19,146)

[(1)] Includes fair value of certain short-term derivative financial instruments designated in a hedging relationship.
[(2)] Reflects the total impact of changes in exchange rate during the related period on non-cash items listed above.

Note 11. Segmented information

Quarters ended December 31
Activity Segments

	2008			2007		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 75,047	$ 10,531	$ 85,578	$ 69,095	$ 7,165	$ 76,260
Operating income	6,275	1,559	7,834	6,297	264	6,561
Financial expenses			1,090			1,254
Income before income tax expense			6,744			5,307
Assets	356,897	33,049	389,946	316,167	21,124	337,291
Goodwill	38,132	1,091	39,223	34,298	888	35,186
Purchase of property, plant and equipment	10,052	362	10,414	10,793	1,181	11,974
Increase in finite-life intangible assets	192	-	192	41	36	77
Amortization	4,436	832	5,268	3,450	588	4,038

Geographic Segments

	2008			2007		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 55,502	$ 30,076	$ 85,578	$ 54,704	$ 21,556	$ 76,260
Property plant and equipment, net	80,832	60,987	141,819	73,718	42,749	116,467
Finite-life intangible assets, net	3,188	5,498	8,686	648	4,988	5,636
Goodwill	17,534	21,689	39,223	17,534	17,652	35,186
Export sales (1)	$ 28,666			$ 31,330		

67% of the Company's sales (65% in 2007) were to U.S. customers.

(1) Export sales are attributed to countries based on the location of the customers.

Nine months ended December 31
Activity Segments

	2008			2007		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 217,167	$ 28,322	$ 245,489	$ 203,296	$ 21,498	$ 224,794
Operating income	19,970	4,463	24,433	18,082	59	18,141
Financial expenses			3,182			4,006
Income before income tax expense			21,251			14,135
Assets	356,897	33,049	389,946	316,167	21,124	337,291
Goodwill	38,132	1,091	39,223	34,298	888	35,186
Purchase of property, plant and equipment	17,621	2,809	20,430	25,141	1,941	27,082
Increase in finite-life intangible assets	1,710	-	1,710	47	36	83
Amortization	12,617	2,140	14,757	10,495	1,850	12,345

Geographic Segments

	2008			2007		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 164,363	$ 81,126	$ 245,489	$ 162,366	$ 62,428	$ 224,794
Property plant and equipment, net	80,832	60,987	141,819	73,718	42,749	116,467
Finite-life intangible assets, net	3,188	5,498	8,686	648	4,988	5,636
Goodwill	17,534	21,689	39,223	17,534	17,652	35,186
Export sales (1)	$ 82,336			$ 90,626		

66% of the Company's sales (67% in 2007) were to U.S. customers.

(1) Export sales are attributed to countries based on the location of the customers.

Note 12. Reclassification

Comparative figures for the financial statements as at December 31, 2007 and March 31, 2008 have been reclassified to comply with the December 31, 2008 presentation.

Management Discussion and Analysis of Financial Position and Operating Results

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

Forward-Looking Statements

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

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

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

HÉROUX DEVTEK

OVERVIEW

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

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

The Industrial segment includes:

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

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

RESULTS OF OPERATIONS

Consolidated Sales

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

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

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

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

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

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

Aerospace Segment

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

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

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

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

Third quarter Aerostructure sales were $29.8 million, $6.8 million or 29.4% higher than last year. This reflects an increase in military sales to civil customers, arising mainly from catch-up on deliveries on the F-15 and F-22 programs, increased business jet

sales and the impact of a favourable exchange rate on sales for the quarter. Furthermore, the favourable variance also includes additional sales coming from the low rate initial phase (LRIP) from the Joint Strike Fighter (JSF) F35 program.

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

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

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

Industrial Segment

Sales for the Industrial segment were as follows:

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

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

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

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Sales by Destination

The Company's sales by destination were as follows:

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

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

Gross Profit

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

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

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

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

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

Selling and Administrative Expenses

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

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

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

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

Operating Income

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

Aerospace Segment

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

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

Industrial Segment

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

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

Financial Expenses

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

Income Tax Expense

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

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

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

The Company's effective income tax rate for the nine months ended December 31, 2007, was 11.2% compared to its blended Canadian statutory rate of 32.7%. This difference was mainly explained by the favourable impact of permanent differences ($0.6 million) and the recognition of $1.6 million in income tax benefits from the utilization of tax losses from prior years.

Net Income

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

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

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

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

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

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LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

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

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

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

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

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

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

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

Investing Activities

The Company's investing activities were as follows:

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

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

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

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Financing Activities

The Company's financing activities were as follows:

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

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

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

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

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

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Normal Course Issuer Bid

On November 20, 2008, the Company announced that it was launching a normal course issuer bid (NCIB), with the approval of the Toronto Stock Exchange (TSX). Under the term of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 11, 2008. The repurchase of common shares commenced on November 24, 2008, and will end on November 23, 2009. All common shares purchases by the Company are made on the open market through the facilities of the TSX or other Canadian market places in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At December 31, 2008, the Company had 1,384,221 outstanding stock options at a weighted average exercise price of $6.27 that will expire over the next six years (between June 2009 and November 2015).

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

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

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

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Consolidated Balance Sheets

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

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

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

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Item	Change ($ millions)	Explanation
		long-term debt of self-sustaining US subsidiaries ($9.9 million). Net of: • Capital repayments of long-term debt ($7.5 million).
Other liabilities	8.0	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accumulated other comprehensive loss	(3.7)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries, and the unrealized gains (losses), net of taxes, of the fair value of derivative financial instruments designated as cash flow hedges.
Retained earnings	12.9	See consolidated statements of changes in shareholders' equity and "Changes in Accounting Policies", below.

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

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

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

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

At December 31, 2008, the Company had entered into operating leases amounting to $8.4 million ($9.4 million as at March 31, 2008), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2008, the Company also had purchase commitments totalling $15.7 million ($16.5 million to March 31, 2008), mainly for machinery and equipment and construction in progress, for which deposits of $2.9 million ($2.3 million to March 31, 2008) on machinery and equipment were made and are included in the Company's other current

assets. These commitments mainly relate to the modernization of the Longueuil plant plating department and the investments required following the award of new sales contracts, including the $115 million sales contract mentioned above (see “Investing Activities”, above).

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

CHANGES IN ACCOUNTING POLICIES

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

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

Section 3031, Inventories

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

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

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the amortization of these costs being based on the pre-determined contract quantity. The consolidated financial statements for the prior fiscal year were not restated, as permitted by the new Section.

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

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

Section 1535, Capital Disclosures

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

Section 3862, Financial Instruments - Disclosures

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

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

Section 3863, Financial Instruments - Presentation

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

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

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

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

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

From a financial standpoint, the Company has a strong balance sheet. In April 2008, the banks' Credit Facilities were extended to $125 million, maturing in October 2011, and the Company is presently meeting all of its financial covenants and expects to do so for the next twelve months. Capital expenditure requirements are closely monitored by management. The Company does not expect to have any liquidity issues, considering that the Banks' Credit Facilities are extended by a syndicate of four Canadian banks, with good credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields.

Considering the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility that it usually has in its markets, the Company will nevertheless continue to closely monitor the situation in the coming months and will update this section, along with its risk and uncertainties section in its annual report for this fiscal year.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer have determined that there were no changes to the Company's internal controls over financial reporting during the three- and nine-month periods ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2008.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- General economic conditions

- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

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

OUTLOOK

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

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

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

Additional Information and Continuous Disclosure

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