Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or the "Company") changed between March 31, 2010 and December 31, 2010. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 2010 to those for the same periods in the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2010 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2010, September 30, 2010 and December 31, 2010. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

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

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

Overview

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

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

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment. It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry markets.

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

For the three- and nine-month periods ended December 31, 2010, consolidated sales, excluding the acquisition concluded on April 28, 2010 (see below), were slightly lower than for the same periods last year, exclusive of the currency impact. As a result, the Company does not see any major revenue increase in fiscal 2011 when compared with fiscal 2010, again excluding the acquisition made in April 2010. However, with ongoing improvements in the commercial aerospace market and solid purchase orders for the final quarter of fiscal 2011, the Company anticipates that second half sales should be approximately 15% higher that in the first half, given the acquisition and assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts.

RESULTS OF OPERATIONS

Acquisition of the assets of Eagle Tool Machine Co and of its subsidiary

As previously disclosed in our June 30, 2010 unaudited interim consolidated financial statements, on April 28, 2010, the Company announced that it had concluded the acquisition, through a U.S. subsidiary, of substantially all the net assets of U.S. based Eagle Tool & Machine Co ("Eagle") and of its subsidiary All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately

$40 million based on their December 31, 2009, fiscal year-end (see note 3 to the interim consolidated financial statements).

The preliminary allocation of the total purchase price of the net assets acquired, along with the source of funds, can be broken down as follows:

Net assets acquired ($'000)		**Source of funds ($'000)**	
Working capital	$ 16,797	Credit Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

The Company drew, from its US Credit Facility, $16.7 million (US$16.5 million) and used $12.1 million of cash in the first quarter of fiscal 2011 to finance this transaction.

Throughout this MD&A, Management has explained the consolidated results for the three- and nine-month periods ended December 31, 2010 which include the results of Eagle and E2. For all significant elements explained, Management has singled out the acquisition impact on the third quarter and year-to-date results to help readers understand the year-over-year change excluding the acquisition transaction. Please also keep in mind that all third quarter and year-to-date results for Eagle and E2 are for the period following the acquisition which is April 28, 2010, to December 31, 2010, which is not a full nine-month period.

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated mainly in US dollars. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate assets and liabilities.

1$ Canadian/US$ equivalent	Quarter ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Average rates	1.0128	1.0563	1.0265	1.1070
Closing rates to December 31, 2010/March 31, 2010			0.9946	1.0158

The value of the Canadian dollar, for the three- and nine-month periods ended December 31, 2010, was stronger than for the same period a year ago which adds pressure to the US-denominated sales and results of the Company. Currency fluctuation impact on the Company's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Company makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At December 31, 2010, the Company had US$143.1 million of forward foreign exchange contracts at a weighted-average of 1.1288 compared to US$151.1 million at 1.1342 at September 30, 2010. At March 31, 2010, the Company had forward foreign exchange contracts totalling US$150.0 million at a weighted-average exchange rate of 1.1436. These contracts will be maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

At December 31, 2010, the Company had also entered into forward foreign exchange contracts totalling US$8.5 million at a weighted-average rate of 1.2359 maturing over the next four fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

While the general economic climate is becoming more favourable, the Company has not yet experienced the growing impact on its sales volume. Total sales for the third quarter ended December 31, 2010 stood at $85.8 million, up from $76.7 million for the same period last year. Excluding the $11.7 million sales coming from the Eagle and E2 acquisition, consolidated sales were actually $74.1 million or 3.4% lower than last year for the third quarter, mainly from the negative US/CAD currency impact of $1.4 million and as a result of lower military sales in the Aerospace segment partially offset by higher sales in the Industrial segment.

To date, consolidated sales totalled $251.6 million or 6.9% higher than last year's sales of $235.4 million. Excluding the $32.3 million sales of Eagle and E2 since the acquisition, consolidated sales were down by $16.1 million or 6.8%. For the first nine months, the Canadian dollar, when compared to its US counterpart, had a $9.0 million or 3.8% unfavourable impact, when compared to the same period last year. The remaining difference is explained by lower military sales in the Aerospace segment partially offset by higher sales in the Industrial segment.

The Company's sales by segment were as follows:

Segment	Quarters ended December 31				Nine months ended December 31			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Total Aerospace	79,463	72,607	6,856	9.4	232,472	218,707	13,765	6.3
Total Industrial	6,380	4,052	2,328	57.5	19,106	16,682	2,424	14.5
Total	**85,843**	**76,659**	**9,184**	**12.0**	**251,578**	**235,389**	**16,189**	**6.9**

This year's Aerospace sales, excluding the acquisition of Eagle and E2 whose sales are included in the Aerospace segment, declined $4.8 million or 6.6% this quarter and $18.5 million or 8.5% year-to-date, compared to the same period last year essentially for the same reason mentioned above.

For the third quarter and for the nine-month period, this year's Industrial sales, despite the lower exchange rate, increased by $2.3 million and $2.4 million respectively, compared to last year, due to increased heavy equipment product sales.

Aerospace Segment

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

Product	Quarters ended December 31				Nine months ended December 31			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	55,370	48,227	7,143	14.8	163,226	143,720	19,506	13.6
Aerostructure	23,872	24,036	(164)	(0.7)	68,886	74,121	(5,235)	(7.1)
Other	221	344	(123)	(35.8)	360	866	(506)	(58.4)
Total	**79,463**	**72,607**	**6,856**	**9.4**	**232,472**	**218,707**	**13,765**	**6.3**

For the third quarter and nine-month period, this year's Landing Gear sales increased by 14.8% and 13.6% to $55.4 million and $163.2 million, respectively, compared to last year, but were actually lower by 9.4% in the third quarter and 8.9% in the first nine-month period, when excluding the sales of Eagle and E2. Third quarter and year-to-date sales were impacted by reduced military manufacturing sales, as a result of longer than anticipated product introduction, the negative impact of currency exchange rates, and also reduced engineering sales, as related projects have been completed. However, and compared to last year, new business on the A-320, B-787 and Fokker commercial programs and higher business jet requirements more than offset the reduction in sales in certain other large commercial programs, following production rate reductions from customers, mainly on the B-777 program.

Third quarter sales for Aerostructure were comparable to last year. At year-to-date, the Aerostructure sales decreased 7.1% to $68.9 million, when compared to the same period last year, as a result of lower sales in the first quarter, explained by reduced F-16 aftermarket sales and F-22 sales, as well as reduced Joint Strike Fighter ("JSF") sales resulting from a different sales mix, despite a slight increase in the number of shipsets. The stronger Canadian dollar also had a negative impact on this product line's US-denominated sales, when compared to last year. These negative variances were partially offset by increased F-18 sales as well as increased commercial business jet (Challenger 605 and 850) and increased commercial helicopter sales, as a result of the Bell 429 program ramping up.

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

Sector	Quarters ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%	Nine months ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Military *(1)*	49,496	43,944	5,552	12.6	143,671	135,634	8,037	5.9
Commercial	29,967	28,663	1,304	4.5	88,801	83,073	5,728	6.9
Total Aerospace	**79,463**	**72,607**	**6,856**	**9.4**	**232,472**	**218,707**	**13,765**	**6.3**

(1) Includes military sales to civil customers and government.

Excluding the Eagle and E2 acquisition, military sales were 9.5% lower this quarter and 15.3% lower year-to-date than last year, while Commercial sales were 2.2% lower this quarter than last year, but 2.7% higher year-to-date than last year. As mentioned above, new business on the A-320, B-787, Fokker and Bell 429 programs along with improved business jet sales, boosted Commercial sales volume. On the other hand, military sales were somewhat impacted by lower military manufacturing sales, as a result of longer than anticipated product introduction, reduced sales generated by the engineering programs, and lower F-16, F-22 and JSF program sales, as explained above.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%	Nine months ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Gas Turbine	2,526	2,266	260	11.5	8,180	9,385	(1,205)	(12.8)
Other Industrial	3,854	1,786	2,068	115.8	10,926	7,297	3,629	49.7
Total	**6,380**	**4,052**	**2,328**	**57.5**	**19,106**	**16,682**	**2,424**	**14.5**

Third quarter sales for the Industrial segment were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry and in the Gas Turbine sector. Overall, at year-to-date, our sales in the Industrial segment were higher than last year, as reduced Gas Turbine sales were compensated by the increase in Other Industrial sales, for the same reasons mentioned above.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Canada	24%	35%	27%	31%
US	70%	62%	68%	67%
International	6%	3%	5%	2%
	100%	**100%**	**100%**	**100%**

The third quarter and the year-to-date changes in the sales-by-destination mix reflect the impact of increased sales in the U.S., following the Eagle and E2 acquisition, combined with the increased sales in the Industrial segment, and also reflect the impact of shipments to a new European customer (Stork – Fokker program).

Gross Profit

For the third quarter ended December 31, 2010, consolidated gross profit as a percentage of sales was 17.5%, up 2.0% from 15.5% last year and was 14.9%, down 0.8% from 15.7% last year on a year-to-date basis.

When excluding the impact of the Eagle and E2 acquisition, this year's gross profit as a percentage of sales would have been higher by 0.8% for the quarter and 0.5% for the first nine months.

This quarter, excluding the acquisition of Eagle and E2, gross profit in Landing Gear was essentially impacted by lower sales; the said impact was more than offset by the increased efficiency and throughput in repair and overhaul, resulting in a higher total gross profit in nominal value and percentage. However, for the first nine months this year, excluding the acquisition, gross profit in Landing Gear was lower than last year, as a result of lower sales and its related impact on the under-absorption of manufacturing overhead costs.

This quarter, the Aerostructure product line generated similar gross profit margin, compared to last year. However, gross profit was lower than last year for the first nine months, as a result of lower sales and higher under-absorption of manufacturing overhead costs in the first quarter.

The Industrial product line improved its gross profit significantly, compared to last year, for both this quarter and for the first nine months. This is the result of the increase in sales and higher absorption of manufacturing overhead costs with the continued improvement in manufacturing efficiency experienced in this segment, when compared to last year.

For the quarter ended December 31, 2010, the Canadian dollar fluctuations relative to the US dollar had a minimal unfavourable impact on gross profit in dollars of $0.1 million but represented a favourable impact of 0.2% on gross profit margin expressed as a percentage of sales, compared to the corresponding period last year. However, for the first nine months this year, the unfavourable impact of currency fluctuation on gross profit in dollars was $1.0 million, but represented a favourable impact of 0.1%, when expressed as a percentage of sales.

Besides the natural hedging from the purchase of raw materials in US dollars, the Company mitigates the currency impact by the use of forward foreign exchange contracts.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Selling and administrative expenses ($'000)	6,586	5,822	18,542	17,066
% of sales	7.7	7.6	7.4	7.3

Selling and administrative expenses were $6.6 million or 7.7% of sales and $18.5 million or 7.4% of sales respectively for the quarter and for the nine-month period ended December 31, 2010. The increase in selling and administrative expenses is mainly attributable to the impact from the acquisition of Eagle and E2. Effectively, as a percentage of sales, selling and administrative expenses are comparable to last year. This quarter, selling and administrative expenses include a loss on currency translation on net monetary assets of $0.1 million, compared to a $0.2 million loss last year. At year-to-date, the loss on currency translation on net monetary assets was $0.5 million, compared to a $1.2 million loss last year.

Operating Income

Consolidated operating income stood at $8.5 million or 9.9% of consolidated sales for the quarter ended December 31, 2010, and was $2.4 million higher than the $6.1 million or 7.9% operating income for the same period last year. The higher operating income this quarter, compared to last year, is explained by higher sales and gross profit, including the acquisition impact of Eagle and E2, as explained above. Year-to-date, operating income was $19.0 million or 7.5% of consolidated sales compared to $19.9 million or 8.4% for the same period last year. The lower operating income for the nine-month period ended December 31, 2010, compared to last year, is essentially explained by the lower gross profit, as mentioned above.

Aerospace Segment

This quarter, the Aerospace segment operating income was $7.4 million or 9.3% of sales, compared to $6.1 million or 8.4% of sales last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $6.6 million or 9.8% of sales for the quarter ended December 31, 2010.

For the nine-month period ended December 31, 2010, the Aerospace segment operating income stood at $16.5 million or 7.1% of sales, compared to $18.4 million or 8.4% last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $14.4 million or 7.2% of sales for the nine-month period ended December 31, 2010.

The increased operating income this quarter and the reduction in operating income at year-to-date in this segment, compared to last year, both reflect the impact on gross profit already explained above.

Industrial Segment

This quarter, operating income increased significantly to $1.0 million or 16.2% of sales this year from essentially a break-even last year, reflecting the 57.5% or $2.3 million sales increase in this segment. At year-to-date, operating income stood at $2.5 million or 13.1% of sales, compared to $1.5 million or 9.0% of sales last year, as a result of higher sales and gross profit in that segment, as explained above.

Financial Expenses

Financial expenses for the quarter stood at $1.3 million and $3.5 million for the nine-month period ended December 31, 2010. This compares to $1.2 million and $3.5 million respectively, for the same periods last year. The financial expenses this quarter and for the nine-month period ended December 31, 2010, when compared to last year, reflect the impact from the increased drawings against the Company's Credit Facilities to finance the acquisition of Eagle and E2. This factor was partially offset by the impact from the stronger Canadian versus US dollar on the Company's financial expenses on debt in US dollars and from the lower capital lease debt bearing higher interest rates.

Restructuring Charges

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Company's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Company's other facilities in the Greater Montreal area. During the first six-month period this year, the Company recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). The Company did not incur any additional restructuring charges this quarter and does not expect any significant additional restructuring charges related to the closure of this facility.

Income Tax Expense

The Company had an income tax expense of $2.1 million for the quarter ended December 31, 2010, compared to an expense of $1.3 million last year. At year-to-date, the Company posted an income tax expense of $4.0 million for the first nine months this year, compared to an expense of $4.8 million for the same period last year.

The Company's effective income tax rate for the nine-month period ended December 31, 2010 was 27.0% compared to its Canadian blended statutory rate of 28.7%. The difference can be explained by the favourable impacts on the Company's effective income tax rate coming from permanent differences ($0.3 million) and by a tax adjustment following the conclusion of a prior year tax audit ($0.2 million), somewhat offset by the negative impact of a higher U.S. income tax rate for the Company's U.S. subsidiaries ($0.2 million).

For the nine-month period ended December 31, 2009, the Company's effective income tax rate was 29.2%, compared to its Canadian blended statutory rate of 30.1%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.5 million) which was essentially offset by the negative impact of a higher U.S. income tax rate for the Company's U.S. subsidiaries.

Net Income

The Company posted net income of $5.1 million for the third quarter ended December 31, 2010, compared to net income of $3.5 million for the corresponding quarter last year. This essentially reflects the increase in operating income from both segments of the Company, as explained above. Year-to-date, net income stood at $10.8 million, compared to $11.6 million last year. This reduction in net income reflects the decrease in operating income from the Company's Aerospace segment along with the restructuring charges incurred in the first six months of this year, somewhat offset by the increase in operating income of the Industrial segment.

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Net income ($'000)	5,064	3,538	10,803	11,598
Earnings per share – basic ($)	0.17	0.12	0.36	0.38
Earnings per share – diluted ($)	0.17	0.12	0.36	0.38

Basic earnings per share figures are based on year-to-date weighted-averages of 30,104,849 common shares outstanding for the nine-month period ended December 31, 2010, and 30,714,152 common shares for the same period last year. The reduction in the average number of shares is mainly attributable to the normal course issuer bids (NCIB) launched by the Company in November 2008 and November 2009 (see Normal Course Issuer Bid section).

On February 3, 2011, the date of this MD&A, the Company had 30,078,238 common shares and 1,481,000 stock options outstanding with a weighted-average of 4.4 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial situation and is well positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") through a syndicate of four Canadian Banks and their US affiliates or branches. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To December 31, 2010, only $59.2 million (US$59.5 million) had been drawn against these Credit Facilities, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. These Credit Facilities will mature in October 2011. Subsequent to the quarter ended December 31, 2010, an agreement in principle was reached with a syndicate of banks to renew and increase from $125 million to $150 million these Credit Facilities, on a secured basis, for a period of 5 years. The Company's Management anticipates closing this transaction successfully before the end of the current fiscal year. Considering the Company's cash and cash equivalent position, its available Credit Facilities and level of expected capital investments, Company Management does not expect any liquidity risk in the foreseeable future. At December 31, 2010, the Company had cash and cash equivalents of $40.3 million, compared to $46.6 million as at March 31, 2010, of which $24.4 million ($32.4 million as at March 31, 2010) had been invested in short-term deposits. It is worth mentioning that the Company also utilized approximately $12 million of its cash to finance the Eagle and E2 acquisition in the first quarter of this year.

Operating Activities

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

	Quarters ended December 31		Nine months ended December 31	
	2010 ($'000)	**2009 ($'000)**	**2010 ($'000)**	**2009 ($'000)**
Cash flows from operations	12,773	10,129	32,018	33,617
Net change in non-cash working capital items related to operations	4,286	2,455	(5,016)	(22,625)
Cash flows relating to operating activities	**17,059**	**12,584**	**27,002**	**10,992**

This quarter, the increase of $2.6 million in cash flows from operations, when compared to last year, mainly resulted from the increase in net income of $1.5 million and from the variation in future income tax expense of $0.7 million. At year-to-date, cash flows from operations were lower by $1.6 million, as a result of the lower net income of $0.8 million and lower future income tax expense of $2.7 million, partially offset by the increase in amortization expense of $1.2 million and in accretion expense of $0.2 million, combined with a loss on sale of property, plant and equipment of $0.3 million.

The net change in non-cash working capital items can be summarized as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010 ($'000)	**2009 ($'000)**	**2010 ($'000)**	**2009 ($'000)**
Accounts payable, accrued liabilities and other liabilities, mainly in line with the inventory decrease and the reduction in the number of days in payables for 2009	1,432	(4,566)	(6,346)	(24,080)
Accounts receivable – in line with the lower sales (for 2009 only) and with the reduction in number of days in receivables due to improved accounts receivable collection	8,489	(53)	6,764	9,163
Effect of exchange rate on working capital items, for the U.S. subsidiaries	(339)	(1,075)	(792)	(5,387)
Inventory decrease (increase)	(2,652)	2,691	(3,158)	1,398
Net payment of income taxes, mainly for 2009	627	187	199	(5,581)
All others, including $3.5 million customer advances received in 2009 for Aerospace long-term contracts	(3,271)	5,271	(1,683)	1,862
	4,286	**2,455**	**(5,016)**	**(22,625)**

Investing Activities

The Company's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010 ($'000)	**2009 ($'000)**	**2010 ($'000)**	**2009 ($'000)**
Additions to property, plant and equipment	(4,731)	(2,034)	(13,824)	(7,234)
Net increase in finite-life intangible assets	(2,393)	(808)	(6,122)	(2,186)
Proceeds on disposal of property, plant and equipment	71	15	141	24
Business acquisition	-	-	(28,813)	-
Cash flows relating to investing activities	**(7,053)**	**(2,827)**	**(48,618)**	**(9,396)**

This quarter, additions to property, plant and equipment totalled $4.7 million, compared to $2.0 million last year, and represented $13.8 million, compared to $7.2 million last year, for the nine-month period ended December 31, 2010. The year-to-date additions for this year include the costs associated to the JSF building extension at the Company's Arlington, Texas plant and the new test laboratory facility for Landing Gear in St-Hubert, Quebec.

The net increase in finite intangible assets of $2.4 million this quarter and $6.1 million year-to-date represents mainly the increase in capitalized development costs for the Aerospace segment's long-term contracts.

Finally, as already discussed, the Company invested $28.8 million in the first quarter of the current fiscal year to acquire substantially all the net assets of Eagle and E2.

Capital expenditures for fiscal 2011 are expected to be about $28 million including normal maintenance projects and the extension of a facility and the new facility mentioned above. This amount also includes certain capital investments required following the acquisition concluded on April 28, 2010 of Eagle and E2.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010	**2009**	**2010**	**2009**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Increase in long-term debt	3,041	856	21,916	6,519
Repayment of long-term debt	(940)	(5,645)	(3,499)	(8,644)
Repurchase of common shares	(72)	(387)	(3,570)	(3,266)
Issuance of common shares	84	81	1,001	240
Cash flows relating to financing activities	**2,113**	**(5,095)**	**15,848**	**(5,151)**

During the third quarter ended December 31, 2010, the increase in long-term debt reflects a new governmental authorities loan received to support the Company's development costs for new Aerospace segment programs. The year-to-date increase in long-term debt also includes the drawings of US$16.5 million from the Company's Credit Facilities to finance the acquisition of Eagle and E2 made in the first quarter.

The year-to-date repayment of long-term debt of $3.5 million is mainly for capital leases and certain governmental authorities loans, those being essentially for the financing of capital expenditures. It also includes the scheduled repayments of the promissory note, following the acquisition of Eagle and E2. Last year's repayment of long-term debt in the third quarter included a repayment of $5.0 million on the Credit Facilities.

During the three- and nine-month periods ended December 31, 2010, the Company issued 15,285 and 48,241 common shares under its stock purchase and ownership incentive plan for a cash consideration of $0.1 million and $0.3 million, respectively. During the same periods, the Company repurchased 12,600 and 617,700 common shares under the normal course issuer bid, launched in November 2009 ("NCIB" - see Normal Course Issuer Bid below and Note 12 to the interim consolidated financial statements) for a total cash consideration of $0.1 million and $3.6 million, respectively. For the nine-month period ended December 31, 2010, the Company issued 157,221 common shares (all in the first semester), following the exercise of stock options, for a cash consideration of $0.7 million.

During the three- and nine-month periods ended December 31, 2009, the Company redeemed 75,300 and 721,700 common shares under the normal course issuer bids launched in November 2009 and 2008 at an average price of $5.12 and $4.52, representing a total cash consideration of $0.4 million and $3.3 million, respectively.

At December 31, 2010, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants over the next twelve months.

Normal Course Issuer Bid

On November 25, 2009, the Company launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 19, 2009. The repurchase of common shares commenced on November 25, 2009, and terminated on November 24, 2010. During that year, the Company repurchased 711,100 common shares at an average net price of $5.68 per share for a total of $4.0 million (see Note 12 to the interim consolidated financial statements).

All common shares purchased by the Company through the NCIB were made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and were surrendered by the Company to its transfer agent for cancellation.

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

At December 31, 2010, the Company had 30,073,237 common shares outstanding (30,485,475 as at March 31, 2010).

During the three-month period ended December 31, 2010, the Company issued 15,285 common shares at a weighted-average price of $5.55 for a total cash consideration of $84,768, under the Company's stock purchase plan. Year-to-date, 48,241 common shares were issued at a weighted-average price of $5.27 for a total cash consideration of $254,379.

At year-to-date, the Company issued 157,221 common shares pursuant to the exercise of stock options at an average price of $4.75 for a total cash consideration of $746,516.

During the nine-month period ended December 31, 2010, 55,000 stock options were cancelled.

At December 31, 2010, 1,481,000 stock options were issued and outstanding with a weighted-average of 4.4 years to maturity and a weighted-average exercise price of $5.91 (see Note 12 to the interim consolidated financial statements), but will expire over the next seven years.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between December 31, 2010 and March 31, 2010:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(6.3)	See consolidated statements of cash flows. As already mentioned, the Company utilized $12.1 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	(1.4)	Decrease resulting from improved accounts receivable collection, lower third quarter sales compared to last year's fourth quarter sales when excluding the sales of Eagle and E2, and the impact of the stronger Canadian dollar, compared to March 31, 2010, on US-denominated accounts receivable ($0.6 million). This decrease was partially offset with the inclusion in the consolidated figures of the Eagle and E2 acquisition made in the first quarter ($5.4 million).
Inventories	21.2	This increase includes the impact from the Eagle and E2 acquisition ($18.1 million) reduced by the impact of the stronger Canadian dollar on the Company's U.S. self-sustaining subsidiaries' inventories ($0.4 million). The remaining increase in inventories is consistent with the expected sales increase in the fourth quarter of the current fiscal year.
Derivative financial instruments (short-term assets)	1.4	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.

Item	Change ($ million)	Explanation
Property, plant and equipment, net	5.0	Due to: • Acquisition of Eagle and E2 ($8.5 million); • Purchases of capital assets ($13.8 million); Net of: • Amortization expense ($15.9 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($1.0 million); • Disposal of capital assets ($0.4 million).
Finite-life intangible assets, net (includes a $3.9 million net backlog)	5.6	Mainly due to: • An increase in finite-life intangible assets ($6.1 million), representing essentially the increase in capitalized development costs for Aerospace long-term contracts; • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); Net of: • Amortization expense on the underlying value of the backlog ($1.0 million); • Amortization of the other finite-life intangible assets ($0.6 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.3 million).
Goodwill	5.4	Includes $5.8 million of goodwill associated to the acquisition made in the first quarter of the current fiscal year. It also includes the impact from the lower US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining U.S. subsidiaries.
Derivative financial instruments (long-term assets)	(2.3)	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	4.9	Includes $7.4 million coming from the Eagle and E2 acquisition. This increase was partially offset by the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which decreased accounts payable and accrued liabilities by $0.4 million and by the reduction in number of days in payables.

Item	Change ($ million)	Explanation
Long-term debt (including current portion)	21.0	Due to: • Drawing of US$16.5 million against the Company's US Credit facility to finance the Eagle and E2 acquisition ($17.6 million); • Promissory note, following the acquisition, repayable to the seller ($3.7 million); • Governmental authorities loans received in the second and third quarters to support Aerospace development program investments ($4.3 million); • Interest accretion on governmental authorities loans ($1.0 million); Net of: • Capital repayments of long-term debt ($3.5 million); • A lower US/CAD exchange rate used to convert the long-term debt of self-sustaining U.S. subsidiaries ($2.1 million).
Capital stock	(1.0)	Represents the common shares issued under the Company's stock purchase and ownership plan and following the exercise of stock options ($1.0 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($2.0 million).
Retained earnings	9.2	See consolidated statements of changes in shareholders' equity.

At December 31, 2010 and March 31, 2010, 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, 2010	March 31, 2010
Working capital ratio	2.77:1	2.66:1
Cash and cash equivalents	$40.3 million	$46.6 million
Long-term debt-to-equity ratio	0.43:1	0.35:1
Net debt-to-equity ratio*(1)*	0.28:1	0.16:1

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

Government assistance

During the third quarter ended December 31, 2010, the Company recorded as a reduction of cost of sales an amount of $0.9 million ($1.7 million in the third quarter of last year), and as a reduction of the related capital expenditures or capitalized development costs an amount of $1.6 million ($1.1 million last year) for government assistance. Year-to-date, the Company recorded $1.9 million ($4.3 million last year) as a reduction of cost of sales and $3.0 million ($2.0 million last year) as a reduction of the related capital expenditures or capitalized development costs for government assistance.

These government assistances include mainly the investment tax and other credits and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

The Company is committed under operating leases for machinery and equipment totalling $7.1 million as at December 31, 2010, payment of which will be made over the next six fiscal years. At December 31, 2010, the Company also had building, machinery and equipment purchase commitments totalling $4.8 million.

At December 31, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$143.1 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.1288. These contracts relate mainly to its export sales, and mature at various dates between January 2011 and March 2015 but mainly over the next two fiscal years (US$150.0 million at a weighted-average rate of 1.1436 at March 31, 2010, and US$151.1 million at a weighted-average rate of 1.1459 at December 31, 2009).

At December 31, 2010, the Company had also entered into forward foreign exchange contracts totalling US$8.5 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2359 ($US11.3 million at a weighted-average rate of 1.2396 at March 31, 2010 and December 31, 2009) maturing over the next four fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

In July 2007 and March 2009, 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 entered into a four-year interest-rate swap agreement and a two-year interest-rate swap agreement for an amount of US$15 million and US$10 million, respectively, that fix the Libor U.S. rate at 5.53% and 1.75%, respectively. Both interest-rate swap agreements mature on August 1, 2011.

Impact of Financial and Economic Situation

In light of the financial and economic situation the Company experienced in fiscal 2010, the Company is carefully monitoring its strategy and risk management. Although results remain positive, this economic situation prompted Management to adopt a more conservative approach in its daily decisions, an approach which is being maintained throughout fiscal 2011.

For the twelve months ended March 31, 2010, and to a lesser extent for the first nine months of the current fiscal year, the Company's results were impacted by certain decelerations of production schedules, push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in certain industrial markets. However, steady improvements in the economy are progressively reversing these trends, as large commercial aircraft manufacturers have announced production rate increases for calendars 2011, 2012 and 2013, and certain industrial markets are gathering momentum.

While the Company's backlog remains strong, especially considering the $125 million funded backlog acquired with the Company's recent acquisition, the prevailing business environment, and deferrals or cancellations of additional purchase orders, could have an adverse impact on upcoming results. The Company is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment sales, which should help reduce the risks associated with any potential slowdown.

Furthermore, the value of the Canadian dollar, when compared to the US currency, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies, cost reduction initiatives and forward foreign exchange contracts strategy to mitigate the negative currency fluctuations.

From a financial standpoint, the Company has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so for the next twelve months. 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 high-grade credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011. Subsequent to the quarter ended December 31, 2010, an agreement in principle was reached with a syndicate of banks to renew and increase from $125 million to $150 million the Credit Facilities, on a secured basis, for a period of 5 years. The Company's Management anticipates closing this transaction successfully before the end of the current fiscal year.

In light of 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 it usually has in its markets, it will remain prudent.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2010 Annual Report.

There have been no significant changes to our IFRS changeover plan and our project is progressing according to plan. While we have not yet fully completed our conversion plan, we are not aware, at this present time, of any matter that would prevent the Company from meeting its filing requirements for its first IFRS interim consolidated financial report. There has been no significant modification in key differences in accounting treatment and potential key impacts as assessed in our Annual Report for fiscal year 2010.

At December 31, 2010, based on the Company’s non-exhaustive preliminary assessment of the main differences that may have some impact on its consolidated financial statements, following the change from Canadian GAAP to IFRS, the Company’s management estimated the potential effect to represent a negative impact of about 3% on the Company’s consolidated equity as at April 1, 2010 and a favourable but marginal impact on the Company’s consolidated net income and EBITDA for the first nine months of the current fiscal year.

However, these impacts from the transition from Canadian GAAP to IFRS could change, as a result of changes to international standards currently in development, or in light of new information or other internal or external factors that could arise from now until this changeover has been completed.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

INTERNAL CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company’s financial reporting and the preparation of its financial statements in accordance with Canadian GAAP.

No changes that were made to our internal controls over financial reporting during the quarter and nine-month period ended December 31, 2010, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments 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, 2010.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of terrorist activity
- General economic conditions
- Military spending

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

OUTLOOK

Conditions are further improving in the commercial aerospace market. In the large commercial aircraft segment, production rate increases on leading programs are scheduled for calendar 2011, 2012 and 2013[(1)], new orders increased significantly in calendar 2010 and both Boeing and Airbus are forecasting higher deliveries for calendar 2011. The business jet market is seeing positive signs, such as greater aircraft utilization and fewer used aircraft for sale, but a significant recovery in build rates is not expected until calendar 2012[(2)].

The military aerospace market is stabilizing as governments address their deficits. As to the JSF program, the U.S. government has put the short take-off and vertical landing (STOVL) variant on a two-year probation period, but the ramp-up of other variants continues, albeit at a slightly more moderate pace over the near term. This probation should result in the production of a slightly lower number of shipsets for Héroux-Devtek in fiscal 2012, compared to fiscal 2011. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

Finally, the North American power generation industry appears to have bottomed out, as leading equipment manufacturers continue to report rising new orders[(3)].

Capital expenditures for fiscal 2011 are expected to be about $28 million including normal maintenance projects and the extension of the facility, and purchase of equipment, dedicated for the JSF program in Texas as well as the new test laboratory facility for Landing Gear in St-Hubert, Quebec. This amount includes any capital investments that could be required in regards to the acquisition concluded on April 28, 2010 of Eagle and E2.

The three-year collective labour agreement of the unionized employees at the Longueuil Landing Gear products plant will expire on April 30, 2011. The Longueuil operations consist of two facilities that manufacture as well as repair and overhaul landing gears for the military and

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1 Sources: Boeing press releases Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases July 30, 2010; March 9, 2010.

2 Sources: Forecast International, JETNET, FAA, Eurocontrol.

3 Source: GE press release Jan. 21, 2011.

commercial aerospace markets. The Company enjoys good relations with its employees and expects a successful renewal of the agreement.

As at December 31, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $586 million, including the backlog of Eagle and E2, up from $574 million three months ago, and remains well diversified. Despite this solid backlog and strong customer relationships, the Company must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

The integration of Eagle and E2 remains a main priority for Héroux-Devtek in fiscal 2011 and the Company is expecting an accretion to earnings per share of up to 10% in the first year. As the fourth quarter has historically been a strong period, the Company continues to anticipate that fiscal 2011 second-half sales should be approximately 15% higher than in the first half, given the acquisition and assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on February 3, 2011. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.