

2003/2004 Annual Report

In fiscal **2005** we will **focus** on doing what we do, **only better.**



financial highlights

Years ended March 31
(In thousands of dollars, except per share data)

	2004	2003	2002	2001	2000
Sales	\$ 213,209	\$ 260,631	\$ 316,280	\$ 259,077	\$ 143,737
Gross profit	\$ 19,397	\$ 32,375	\$ 56,882	\$ 44,974	\$ 19,326
Gross profit margin	9.1 %	12.4 %	18.0 %	17.4 %	13.4 %
EBITDA	\$ 12,489	\$ 25,543	\$ 42,922	\$ 34,831	\$ 15,541
EBITDA margin	5.9 %	9.8 %	13.6 %	13.4 %	10.8 %
Restructuring charges and goodwill impairment, net of income tax recovery	(694)	(6,467)	-	-	-
Net income (loss)	\$ (2,212)	\$ 154	\$ 17,424	\$ 12,465	\$ 3,463
Net income (loss) margin	(1.0) %	0.1 %	5.5 %	4.8 %	2.4 %
Earnings (loss) Per Share-Basic	\$ (0.09)	\$ 0.01	\$ 0.72	\$ 0.58	\$ 0.24
Earnings (loss) Per Share-Diluted	\$ (0.09)	\$ 0.01	\$ 0.72	\$ 0.58	\$ 0.24
AS AT MARCH 31					
Total assets	\$ 283,054	\$ 289,067	\$ 299,637	\$ 269,844	\$ 140,576
Working capital	\$ 73,683	\$ 81,860	\$ 84,779	\$ 52,903	\$ 51,696
Long-term debt to equity	0.49	0.51	0.46	0.39	0.80
Book value per common share	\$ 5.14	\$ 5.31	\$ 5.35	\$ 4.39	\$ 3.55
Cash flow from operations	\$ 10,608	\$ 16,003	\$ 32,101	\$ 22,902	\$ 11,359
Average number of shares outstanding	23,437.9	24,212.9	24,063.0	21,543.0	14,688.4
Shares outstanding at year-end	23,401.6	23,544.7	24,443.9	23,291.7	14,908.3
Fully diluted shares (used for diluted EPS)	23,437.9	24,212.9	24,345.5	21,614.0	14,688.4

Héroux-Devtek at a glance

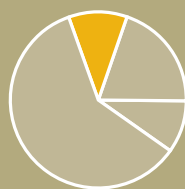
LANDING GEAR

Employees: 700
Sales: \$127.4 M



AEROSTRUCTURE

Employees: 180
Sales: \$23.0 M



GAS TURBINE COMPONENTS

Employees: 120
Sales: \$42.3 M



LOGISTICS & DEFENCE

Employees: 100
Sales: \$20.5 M



overview **better** ⇒⇒⇒

Héroux-Devtek's Markets

Commercial aerospace

Remains slow but signs of recovery are emerging
Growth seen in 2005/2006 for 125+ seat aircraft

Regional jet

Regional airlines' traffic continues to grow, however aircraft deliveries have reached a ceiling and have begun to decline

Business jet

2003 deliveries marked end of decline
2004 will mark beginning of recovery

Military

Remains promising
Accounts for 35% of world aircraft production

Gas Turbine

Expected to remain low with small increase forecast in 2005

2003-2004 Major Accomplishments

Progressive acquisition: significantly strengthens Aerostructure Division

Initial Lockheed Martin contract on Joint Strike Fighter (JSF) program

Restructuring at Landing Gear and Aerostructure Divisions

Complete relocation of Metro in Dorval and ABA in Cincinnati

Major contract renewals:

US Air Force:

10 year repair/overhaul; 5 year Strategic Sustaining Initiative

Long-term agreements signed with:

Northrop Grumman – Global Hawk Unmanned Air Vehicle

Boeing – Unmanned Combat Air Vehicle

markets

strong ⇒⇒⇒



In fiscal 2004, Boeing awarded the Landing Gear Division “Preferred Supplier Certification”, placing Héroux-Devtek on an envied list of suppliers to the world’s largest aircraft manufacturer.

Given its backlog and the current state of the industry, the Landing Gear Division expects its business volume to remain essentially unchanged in fiscal 2005.

LANDING GEAR

Products & Services

Employees: 700

Sales: \$127.4 M

Longueuil

Design, manufacture and repair of components and complete landing gear for military and commercial aircraft

Laval

Manufacture and repair and overhaul of small components for landing gear and hydraulic flight control actuators

Manufacture of critical parts such as helicopter rotors

Kitchener

Manufacture of large landing gear components for commercial and military aircraft and replacement parts for out-of-production aircraft

Principal Clients

Civilian

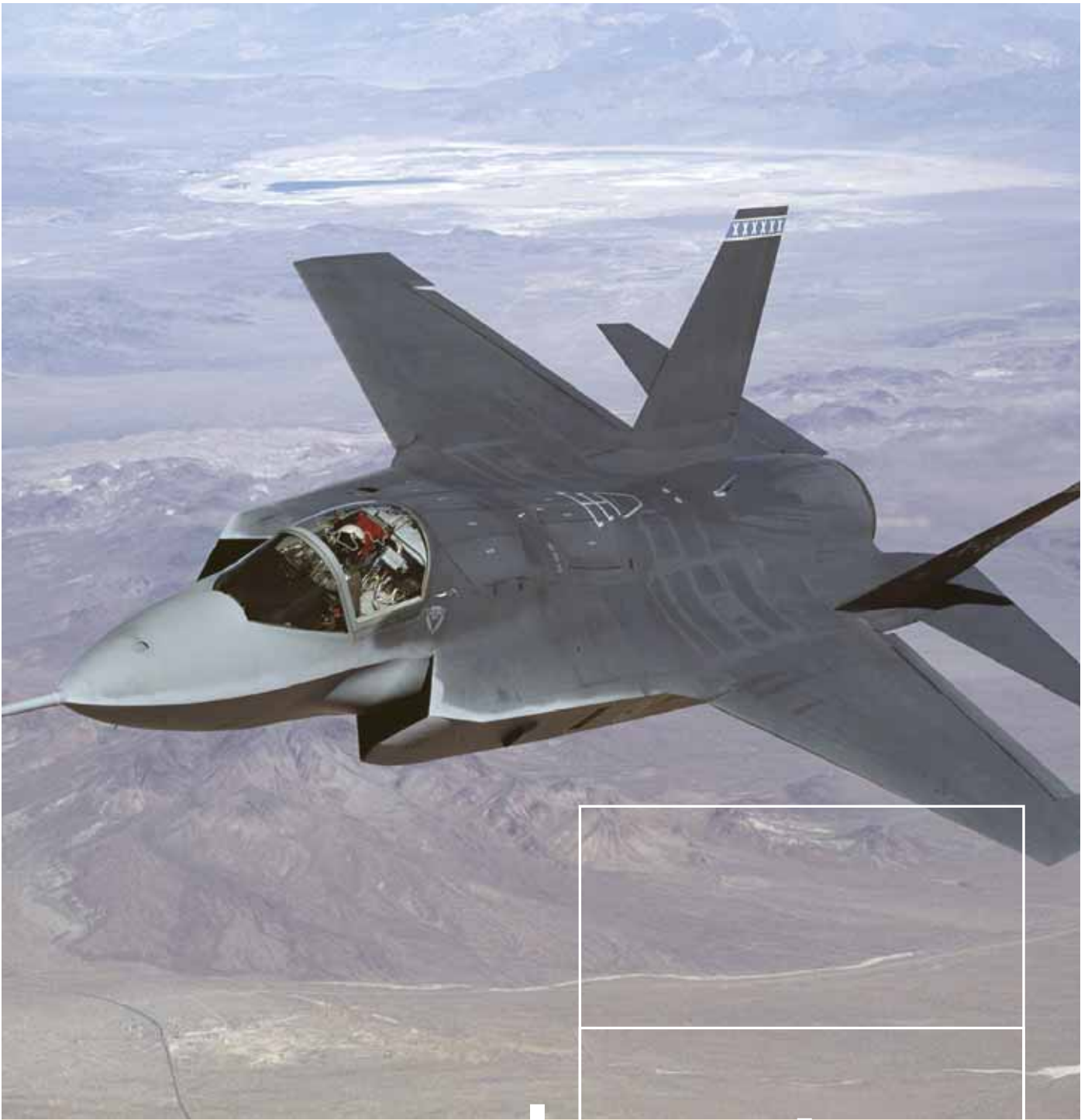
Bell Helicopter, Boeing, Bombardier, Goodrich, Lockheed Martin, Messier-Dowty, Northrop Grumman, Vought

Military

Canadian Forces, US Air Force, US Navy



1. Boeing E-3 AWACS Main Landing Gear | 2. Lockheed Martin P-3 ORION Main Landing Gear | 3. Lockheed Martin P-3 ORION Nose Landing Gear



products

innovative ⇨⇨⇨

AEROSTRUCTURE

Products & Services

Employees: 180

Sales: \$23.0 M

Héroux-Devtek Aerostructure Inc. (Dorval)

Manufacture of medium and large-sized aircraft structural components

Les Industries C.A.T. (Montreal)

Manufacture of small-sized aircraft structural components

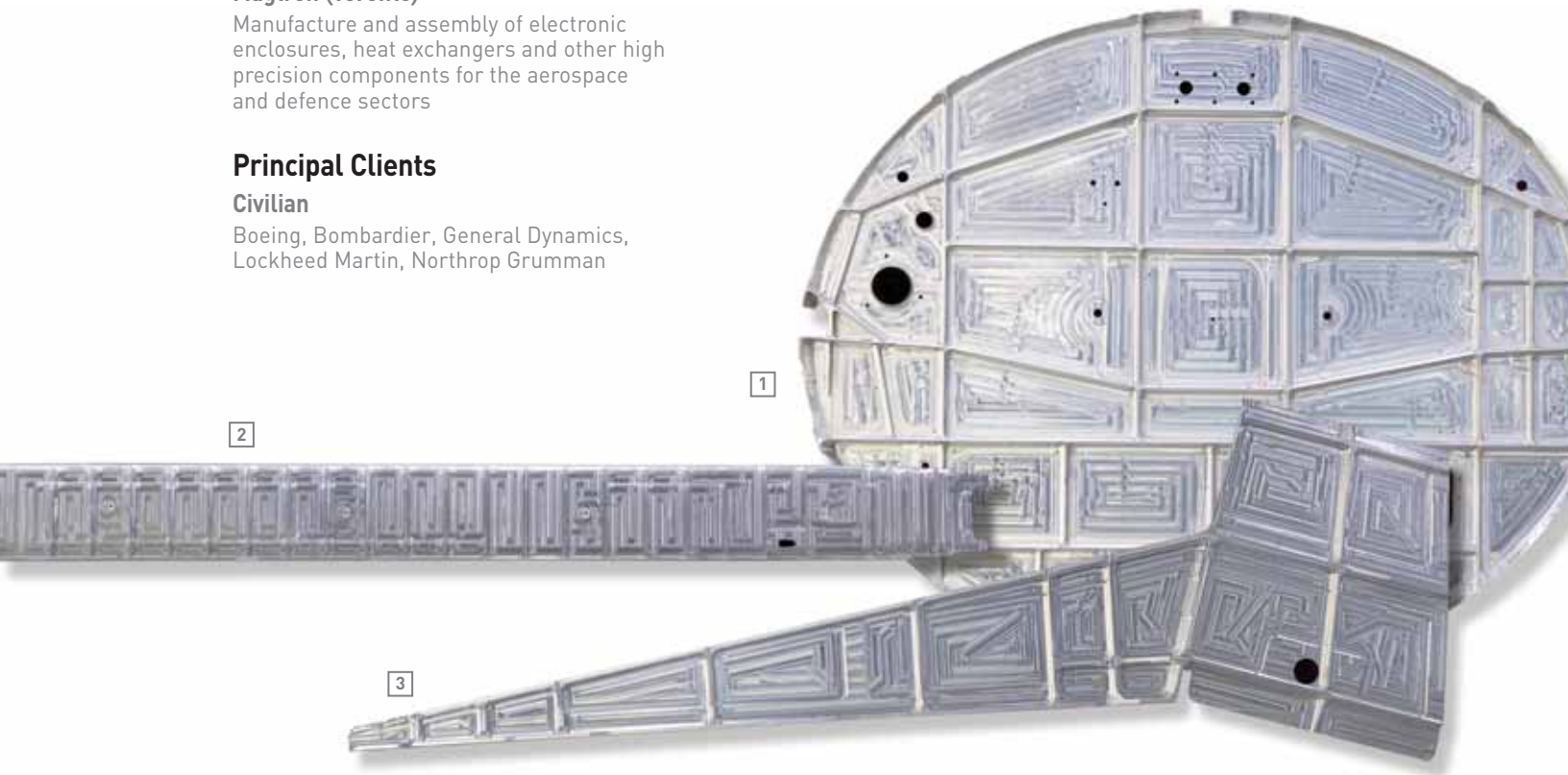
Magtron (Toronto)

Manufacture and assembly of electronic enclosures, heat exchangers and other high precision components for the aerospace and defence sectors

Principal Clients

Civilian

Boeing, Bombardier, General Dynamics, Lockheed Martin, Northrop Grumman



Héroux-Devtek's Dorval aerostructure operation can accommodate more business, and it is the intention to maximize this potential in the coming years. Newly-acquired Progressive is a considerable boon to the division, providing critical mass, access to the important military aerospace sector, and an improved mix of commercial and military sales.



1. Bombardier CRJ-700 Bulkhead | 2. Dash-8 Spar | 3. Airbus A-320 Front Landing Gear panel | 4. Bombardier CRJ-200 Main Landing Gear Trunnion | 5. Bombardier CRJ-700 Side Brace Fitting



vision

focus ⇨⇨⇨

GAS TURBINE COMPONENTS

Products & Services

Employees: 120

Sales: \$42.3 M

Cincinnati

Manufacture of large scale components for gas turbines used in the production of electricity

Manufacture of precision components for the aerospace and industrial sectors

Manufacture of engine parts for aircraft

Principal Clients

Aerospace

Boeing, GE Aircraft Engines, Snecma

Military

US Air Force, US Navy

Industrial

Caterpillar, GE Power Systems



At the newly centralized Gas Turbine Components Division, the Cincinnati consolidation began to have a positive impact following its completion mid-year. While the division did not return to profitability in the fourth quarter as anticipated, operating losses declined from previous quarters. An expected increase in sales combined with improved operating efficiency in the wake of consolidation should return the division to profitability in the second half of the current year.



1. Front Frame of CF-34 Regional Jet Engine | 2.-3. Aft Stub Shaft for 7FA Gas Turbine Engine

While the challenges of 2002-2003 continued throughout 2003-2004, we began to see more light at the end of the tunnel by fiscal year end. Clearly, it was a disappointing year, although we experienced definite improvement in the fourth quarter, with a 38% quarter-over-quarter increase in our top line. The year was also one of continued consolidation during which we “right-sized” operations throughout the organization for current market realities and positioned ourselves for future growth. As the year progressed, our markets began to firm and we saw increasing evidence of a general upward trend. By year-end, we had increased our share of the military landing gear and aerostructure markets and made inroads into new markets for our gas turbine component products. In addition, the purchase of Progressive Incorporated creates unprecedented opportunities. Combined, these factors provide definite optimism going forward.

Continued realignment

Right-sizing our operations involved continuing the cost reduction process begun in fiscal 2003. We finished centralizing our gas turbine operations in Cincinnati during the year and completed the consolidation of our main aerostructure plants into our modern Dorval facility. These moves have created centres of excellence for our gas turbine components and aerostructure operations, a key aspect of our long-term business strategy. **Overall, the cost reduction process has positioned all of our divisions to benefit strongly from firming markets.**

Market cycles prepare to turn upward

Three of the five markets that we operate in have been in a downturn for some time, the exceptions being the regional jet and military markets. The regional jet market stabilized toward the end of fiscal 2004, after an earlier expansion in demand for 50-seat aircraft. While that demand is stabilizing, regional airlines are now showing an interest in larger, 70+ seat planes. The military market continued its growth cycle during the year.

In fiscal 2004, we experienced a continued decline in the power generation, aviation and business jet and large commercial jet markets. However, all three showed signs of bottoming out in recent quarters. The commercial market, namely jets of 125+ seats, appears to have stabilized in the past few quarters, sales are expected to begin improving in fiscal 2006. There are already signs of growth in business jet demand, related to the strengthening US economy. A recovery in the power generation market continues to be forecast for fiscal 2006.



GILLES LABBÉ

HELMUT HOFMANN

Report to shareholders
Acquisition of Progressive Incorporated has strengthened our military capabilities, improved our overall commercial/military mix and positioned us to fully benefit from access to world-class contractors.

\$358 million in new contracts

We were awarded numerous contracts during the year, representing up to \$358 million in renewals, new business and even new markets. The U.S. Air Force, with whom we maintain solid relations, renewed the repair and overhaul contract we have had since 1970, this time for 10 years. While the nominal value of the contract is \$140 million, we consider this amount to be a minimum. The U.S. Air Force is changing the way it conducts business, moving to increased outsourcing and we are well positioned to benefit from this trend.

Contracts of note signed during the year include design, development, manufacturing and supply contracts for new generation military aircraft, including Northrop Grumman's Global Hawk Unmanned Air Vehicle (UAV), Boeing's Joint Unmanned Combat Air System (J-UCAS) and Lockheed Martin's F-35 Joint Strike Fighter (JSF), all adding up to a potential \$172.6 million in business over the next several years. It is highly significant that the JSF contract with Lockheed was a first for us. The JSF project is considered to be the largest on-going military development program. These contracts put Héroux-Devtek in the running for lead supplier of components for these strong-growth programs and ensure long-term relationships with leaders in the aerospace industry.

Additional new business included a \$20.6 million contract with Vought Aircraft Industries to manufacture components for the Boeing 777, and a \$3.5 million contract with Caterpillar to manufacture tractor drive system components. The latter is of interest because it is a new client and represents an entirely new, high potential market for the Gas Turbine Components Division, which has been hit hard by the slump in the power generation market. The Gas Turbine Components Division also signed a \$21.6 million contract with GE Aircraft Engines to manufacture new aircraft engine components.

2004 results reflect lower demand, stronger Canadian dollar

Our financial results for the year continued to reflect a general climate of lower demand. Consolidated sales for the year were \$213.2 million, down 18.2% from \$260.6 million in fiscal 2003. The rising Canadian dollar was a factor across the board. Landing gear sales declined by 21.0%, due primarily to the weak aerospace market and the completion of several previous contracts. However, engineering sales were a bright spot for this division, growing to \$6.0 million during the year from \$3.5 million last year. Gas turbine component sales also dropped by nearly 20%, while aerostructure sales slipped by 4.2%.

Lower sales for the year meant an increase in unabsorbed manufacturing overhead costs, leading consolidated gross profit to decline to 9.1% from 12.4% in fiscal 2003. Our Dorval aerostructure operation, for one, can accommodate more business, and it is our intention to maximize this potential in the coming years. At our newly centralized Gas Turbine Components Division, the Cincinnati consolidation began to have a positive impact following its completion mid-year. **While the division did not return to profitability in the fourth quarter as anticipated, operating losses declined from previous quarters.** An expected increase in sales combined with improved operating efficiency in the wake of consolidation should return the division to profitability in the current year.

For the year, we are reporting a net loss of \$2.2 million or \$0.09 per share, which includes a charge of \$1.1 million for restructuring charge. This compares with last year's net income of \$0.2 million or \$0.01 per share, including \$9.2 million for restructuring charges and goodwill impairment. Without the one-time charges, the net loss would have been \$1.5 million, compared to net income of \$6.6 million last year.

2004 highlight – acquisition of Progressive Incorporated

The major highlight of fiscal 2004 was the acquisition of Progressive Incorporated, completed subsequent to year-end, on April 1, 2004. Progressive is a Texas-based manufacturer of large structural components for military aircraft original equipment manufacturers. Not only did this transaction meet all our acquisition criteria in terms of bringing us new knowledge, markets and customers while complementing our existing operations, it is also immediately accretive to our earnings.

This acquisition is a major milestone in Héroux-Devtek's development and we have therefore devoted a special section to it in the following pages of this report. **Progressive is a considerable boon to our Aerostructure Division, providing critical mass, increasing our share in the important military aerospace sector, and an improved mix of commercial and military sales.** The potential for overall operational synergies is high and we look forward to this exciting new alliance.

Héroux-Devtek continues to lead in quality, corporate governance

During fiscal 2004, we were awarded Preferred Supplier certification by Boeing. This certification recognizes that Héroux-Devtek has met or exceeded Boeing's standards in various areas, and entitles us to additional benefits including selection preference, reduced inspections, industry recognition and additional business opportunities.

Héroux-Devtek also received the Korn/Ferry-Revue Commerce award for Excellence in Corporate Governance in the mid-sized Company category. This is the third year running that we have been recognized for our strong corporate governance practices.

Positioned for the Year Ahead

In fiscal 2005, we will focus on doing what we do, only better. In short, we must produce on-time better quality products at a lower price. The higher Canadian dollar continues to be a factor that must be offset. More significantly, our customers want us to become an integrator, providing a complete product with related services, rather than simply components. This trend is exemplified by our growing engineering sales. As such, we plan to expand our Laval plant in fiscal 2005 to accommodate test facilities for small landing gear, covering jet fighters, business aircraft and regional jets. That being said, our capital expenditure budget for fiscal 2005 will be approximately \$15 million.

With the overall climate to reduce costs, we must meet these market realities and significantly improve our operational performance. **With manufacturing activities down from previous years, we have the breathing space to improve our manufacturing processes now, in preparation for the anticipated market recovery.**

Our human resources are on a solid footing. We recently signed three collective agreements, two for four years and one for three. One outstanding agreement is up for renewal next year.

We will also focus on successfully integrating Progressive into our operations. Progressive will provide profitable growth and further customer diversification through its excellent relationship with the world's largest military O.E.Ms.

Primarily due to the Progressive acquisition, we expect sales to rise about 25% in fiscal 2005. The military sector continues to present good opportunity, and we plan to develop the commercial aerospace sector. Fiscal 2005 should also see significant bookings for deliveries in 2006 and beyond.

Acknowledgements

Challenging times require decisive action. We are fortunate to have both a highly experienced Board to oversee the management – driven business strategy and a strong management team to provide leadership and execute the required plan. We would like to sincerely thank Mr. Alain Cousineau for his valuable contribution as a member of our Board of Directors. Mr. Cousineau has relinquished this post to assume a leadership role with a Quebec government agency. Our employees have demonstrated their willingness to help make the required changes and to adapt to the evolving conditions. To our shareholders, sincere thanks for your continued belief in Héroux-Devtek.

On behalf of the Board of Directors,



Gilles Labbé
President and
Chief Executive Officer



Helmut Hofmann
Chairman of the Board

May 5, 2004



1. Lockheed Martin JSF Bulkhead | 2. Five axes profiler for contour milling

Progressive Incorporated Acquisition
In February 2004, we announced the acquisition of Progressive Incorporated (“Progressive”). This transaction, which closed on April 1, 2004, is a significant milestone in Héroux-Devtek’s development and provides exciting opportunities for the Company.

Overview of Progressive

Progressive is a major supplier of airframe components for military aircraft. Founded in 1971, the Company has a thirty-year history as a supplier on such notable programs as the F-15 Eagle, F-16 Fighting Falcon, F/A-18 Hornet and C-17 Globemaster. It has won contracts for all the emerging programs for the next generation of fighter aircraft, including the F/A-18 E/F Super Hornet, the F/A-22 Raptor and the F-35 Joint Strike Fighter (JSF). Its major clients include Lockheed Martin and Boeing.

A large part of Progressive’s revenues are generated by the manufacture and sale of complex precision-machined aluminium, aluminium-lithium and titanium structural aircraft components. The Company also provides repair and maintenance kits for existing fighter aircraft. Progressive had sales of US \$28.8 million in calendar 2003, and is forecasting US \$37 million in sales for fiscal 2004-2005.

Progressive’s state-of-the-art facilities are strategically located in the Dallas-Forth Worth area, a major U.S. aerospace hub, thus providing easy accessibility to major industry players such as Lockheed Martin, Bell Helicopter Textron and Vought Aircraft Industries.



An Excellent Fit for Héroux-Devtek

For Héroux-Devtek, Progressive qualifies as an excellent fit. The acquisition met the criteria set out in our strategic plan, providing:

- New knowledge of complex manufacturing of structural military aircraft components to complement our existing civilian aerostructure expertise;
- Increased penetration of the US military market through existing projects and successful positioning in the new generation military aircraft programs; and
- Diversification of our customer base in the military aerospace sector through strong relationships with the major prime contractors, including Lockheed Martin and Boeing.

On the operations side, the potential for synergies is high, with most of the benefits accruing to Héroux-Devtek's Aerostructure Division. The advantages include:

- Purchasing synergies in the procurement of raw materials;
- Sharing of best manufacturing and material management practices;
- Complementarity with our current aerostructure capabilities, creating a critical mass allowing us to attract and generate design engineering work;
- Accommodation of Progressive workload at our Dorval facility, if required;
- Expanded product offering in kitting, sub-assemblies and engineering work;
- Revenue synergy potential, with Progressive's strong customer relations expected to benefit our other divisions, and Progressive benefiting from our existing customer base.

Outlook

The new alliance of Héroux-Devtek and Progressive has strong near-term potential. Once the many potential synergies are realized, Progressive will contribute \$0.12 to \$0.15 to earnings during the current fiscal year.

Progressive is a well-run operation with a talented management team. That team, headed by Mr. Guinn Crousen, President and founder of Progressive, and Mr. Buddie Langford, Vice-President, has agreed to remain with the organization. We look forward to working with them to realize the full potential of this new venture.

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, 2003 and March 31, 2004. It also compares the operating results and cash flows for the 12-month period ended March 31, 2004 to those for the same period the previous year.

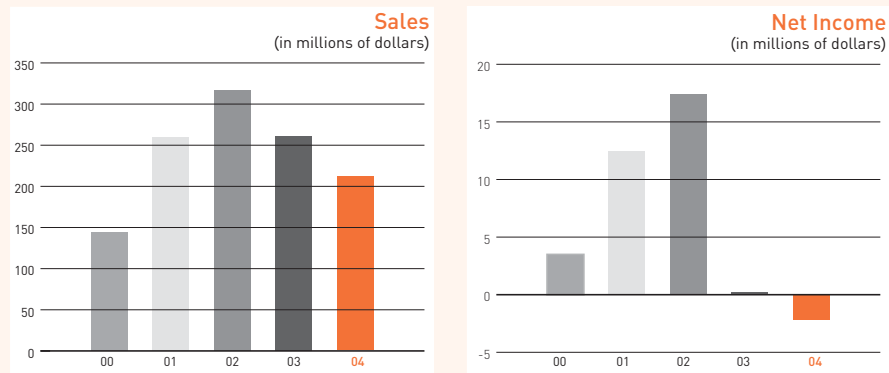
This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2004. Héroux-Devtek's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

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

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



OVERVIEW

Héroux-Devtek designs, develops, manufactures and repairs systems and components for the aerospace and industrial sectors. Its primary products are landing gear, aircraft structural components and components for aircraft and industrial gas turbines.

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry. On April 1, 2004, subsequent to the 2004 financial year-end, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft. This transaction boosts its aerostructure capability and opens access to the important military aerospace sector.

Héroux-Devtek serves two main market segments: aerospace & defence, and the industrial markets. The Company provides the commercial aerospace market with landing gear, airframe structural components and aircraft engine components for business jets and regional jets (less than 100 passengers) and large commercial jets (more than 100 passengers). It also manufactures military aircraft landing gear and supplies parts and repair and overhaul services for military aircraft landing gear. Products for the defence side of the market consist of small arms and related equipment provided to the governments of Canada and other NATO countries.

Héroux-Devtek's main product for the industrial market is large components for gas turbines that generate electricity, with its largest customer being The General Electric Company. It also sells precision components for other industrial applications. The Company's sales by segment are as follows:

	2004	2003
Aerospace & Defence	89.7 %	87.9 %
Industrial	10.3 %	12.1 %
	100.0 %	100.0 %

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force and Navy. In fiscal 2004, sales to these main customers represented approximately 63% of the Company's total sales.

Héroux-Devtek is structured around four divisions: Landing Gear, Aerostructure, Gas Turbine Components, and Logistics & Defence. The Landing Gear Division designs, manufactures, repairs and overhauls landing gear and has built a strong and recognized design engineering team. The Aerostructure Division manufactures very large airframe components for the commercial and military aerospace market, with its military capabilities considerably enhanced by the Progressive acquisition on April 1, 2004. Landing Gear and Aerostructure Divisions function under a single management team to take advantage of operating and administrative synergies. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets. Logistics & Defence Division manufactures small arms for the defence market. Each division is assigned responsibility for its own market development and operating results in order to foster entrepreneurship and employee involvement. The Company's corporate head office provides support to the divisions and retains responsibility for such areas as global strategic development, financing, legal counsel, human resources and public relations.

Business Strategy

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

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component;
- Standard, compatible information systems across the Company;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants;
- Revenue stability through long-term agreements with its customers.

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

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

Key Performance Indicators

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

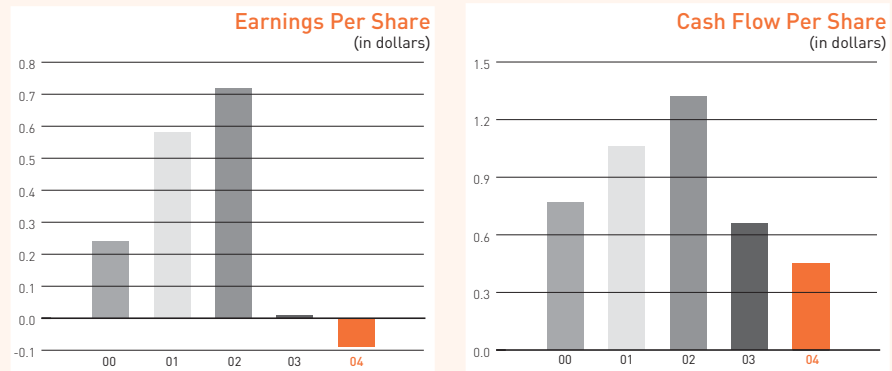
Management also tracks the performance within each division through certain indicators related to operations. These include Return On Net utilized Assets ("RONA"), backlog, value-added as a percentage of sales, percentage of on-time deliveries, non-quality costs, attainment of cost reduction targets,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

Market Trends

In the aerospace industry, there is a broad trend toward OEMs outsourcing manufacturing activities. OEMs are buying more components from increasingly fewer suppliers. They are tending to buy kits for assembly and large sub-assemblies, and to reduce their manufacturing activities in order to concentrate on design and marketing. OEMs are also tending to increase the sourcing of their products in lower-cost countries. This is expected to be an ongoing trend.

Within these broader trends, the commercial aerospace market has been in a downturn since 2001. Large aircraft orders continued to decline in calendar year 2003. At present, only two companies manufacture large commercial jets, namely Boeing and Airbus. In 2003, Boeing deliveries fell 26% to 281 aircraft from 381 units in 2002, while Airbus deliveries held fairly steady at 305 aircraft. Commercial aerospace deliveries are expected to remain fairly flat in 2004 and 2005, with renewed demand beginning in 2005 and delivery increases in 2006. Parts suppliers such as Héroux-Devtek should begin to see the impact of the upturn beginning in calendar year 2005.

The trend toward regional aircraft as a necessary part of any major airline restructuring crystallized in 2003. Increased use of regional jets is expected to translate into stable volumes over the coming years, as this aerospace segment did not experience the same strong decline as other segments in recent years. However, once airline traffic recovers, the trend may shift toward larger aircraft such as 100-seaters. There are virtually only two players in the regional jet market, Embraer and Bombardier.



In the interim, traffic on regional airlines continued to grow. In 2003, air traffic (measured in revenue passenger miles) grew 29% while the air traffic capacity (measured in available seat miles) increased by 23%.

Corporate jet deliveries declined by 22% from 639 units in 2002 to 499 in 2003. Analysts expect this market to increase modestly in 2004.

The military market remains strong. The total U.S. department of defence's budget request made public on February 2, 2004, has planned an increase of US\$112.4 billion for the period extending between 2004 to 2009 hence increasing the actual budget, from US\$375.3 billion in 2004 to US\$487.7 billion in 2009, including US\$114.0 billion for procurement. Significant growth is expected to come from emerging programs for next generation aircraft, including the Joint Strike Fighter (JSF) and F-22 programs. There continues to be growing interest in unmanned aircraft vehicles ("UAV"), and more specifically in unmanned combat aircraft vehicles ("UCAV") as replacements for fighter aircraft. The U.S. military is also contemplating replacing its aging fleet of tanker aircraft.

With the ongoing downturn in the aerospace industry, competition continues to be fierce at the supplier level. While this puts pressure on margins, it also leads to supplier consolidation. Given its size and financial stability, Héroux-Devtek stands to benefit from this consolidation.

On the industrial side, the downturn in the power generation market continues and is expected to reach its low in calendar year 2004, with renewed growth beginning in 2005.

Overall, the strength of the Canadian dollar has been a significant factor for Héroux-Devtek in the past two years. The U.S. dollar is expected to slip farther against other currencies in the current year, possibly including the Canadian dollar. This would negatively affect Héroux-Devtek's results, as a substantial portion of the Company's sales is in U.S. dollars while it reports in Canadian currency.

Major Achievements in 2003-2004

- Progressive Incorporated acquisition

In February 2004, Héroux-Devtek entered into an asset purchase agreement and plan for merger to acquire privately-held Progressive Incorporated (along with the net assets of Promilling LP) ("Progressive"), a Texas-based manufacturer of large structural components for military aircraft original equipment manufacturers ("OEMs"). The transaction, which was finalized on April 1, 2004, subsequent to year-end, strengthens the Company's Aerostructure Division by providing access to the important military aerospace sector (including the F-35 Joint Strike Fighter (JSF) program) and increasing critical mass in the manufacture of sub-assemblies.

- \$140.0 million U.S. Air Force repair and overhaul contract

In August 2003, the U.S. Air Force renewed the Landing Gear Division's repair and overhaul services contract. The new contract, which is firm for one year with options to renew for the next nine years, confirms the Company's status as a key supplier of aerospace products to the U.S. Air Force, primarily in the area of landing gear repair and overhaul services.

- \$20.6 million B777 manufacturing contract

In September 2003, Héroux-Devtek announced that Vought Aircraft Industries had renewed its B777 manufacturing contract with the Landing Gear Division. Including options, the contract is worth an estimated \$20.6 million, with deliveries scheduled until 2010.

- \$3.5 million industrial component manufacturing contract with Caterpillar

In September 2003, Caterpillar chose Héroux-Devtek to manufacture components for its tractor drive systems. This contract represents new business for the Gas Turbine Components Division, as well as diversification into a new, high-potential market in the industrial sector.

- \$17.0 million J-UCAS long-term supply agreement

In September 2003, The Boeing Company, Phantom Works signed a long-term agreement making Héroux-Devtek's Landing Gear Division the sole source of supply for the landing gear system for the Air Force portion of the Boeing X-45C Joint Unmanned Combat Air System (J-UCAS) Program, and subsequent X-45 models for the Air Force. The \$17.0 million basic contract could be worth up to an additional \$50.0 million should various options be exercised.

- \$6.6 million UAV design and development contract

In September 2003, the Landing Gear Division was awarded a contract for the design and development of the landing gear for Northrop Grumman's next generation of Global Hawk Unmanned Air Vehicle (UAV) for the U.S. Air Force. This increases the Company's chances of becoming the leading supplier of landing gear for UAVs and UCAVs, a high-potential market.

- \$21.6 million in new gas turbine contracts

In September 2003, Héroux-Devtek's Gas Turbine Components Division was selected by GE Aircraft Engines to manufacture new components for CF34, CFM56, CF6, T700, LM2500 and CFE738 engines. The contract deliveries began in fiscal 2004 and extend through 2007.

- \$10.5 million F-35 Joint Strike Fighter (JSF) supply contract

In February 2004, the Aerostructure Division was chosen by Lockheed Martin to manufacture 43 different structural components while the Landing Gear Division won responsibility for engineering, development and manufacturing of door lock assemblies. The contract is estimated at \$10.5 million with a potential extension to a maximum of \$99.0 million through 2026.

- Boeing Preferred Supplier certification

In August 2003, Boeing certified Héroux-Devtek as a "Preferred Supplier". The certification recognizes that the Company has a management system and philosophy that meet Boeing requirements, and culminates a three-year effort to maintain a high level of quality and on-time delivery for all products delivered throughout the Boeing facilities.

- Share buyback program

In September 2003, the Toronto Stock Exchange approved the Company's program to purchase for cancellation purposes a maximum of 1,172,772 common shares representing approximately 5% of the Company's issued and outstanding shares. This program is the follow-up to the previous year's program to repurchase up to 1,222,195 common shares for cancellation purposes. In fiscal 2004, the Company repurchased 143,100 common shares at an average price of \$4.03 under the program, for a total cash consideration of \$0.6 million.

Selected Annual Financial Information

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

Years ended March 31

(\$'000, except per share data)	2004	2003	2002
Sales	213,209	260,631	316,280
Restructuring charges and goodwill impairment, net of income tax recovery	(694)	(6,467)	–
EBITDA	12,489	25,543	42,922
Net income (loss)	(2,212)	154	17,424
Earnings (loss) per share (\$):			
Basic	(0.09)	0.01	0.72
Diluted	(0.09)	0.01	0.72
Total assets	283,054	289,067	299,637
Long-term debt	59,464	63,650	59,565
Cash and temporary investments	58,560	52,972	55,966

The Company's EBITDA is calculated as follows:

Years ended March 31

(\$'000)	2004	2003	2002
Net income (loss)	(2,212)	154	17,424
Goodwill amortization	–	–	1,344
Income taxes (recovery)	(2,019)	(281)	10,098
Restructuring charges and goodwill impairment	1,052	9,177	–
Financial expenses	1,791	1,986	2,228
Amortization	13,877	14,507	11,828
EBITDA	12,489	25,543	42,922

The reduced sales business volume and the restructuring charges related to the closing of the Tampa facilities and the transfer and integration of the Tampa operations into the Cincinnati operations were the primary factors behind the lower EBITDA and net income for 2003. See under Results of Operations below and the MD&A for fiscal 2003. A further reduction in sales business volume, the strengthening of the Canadian dollar and the integration of operations entailing three plant closures (Tampa, DALs and Metro) negatively impacted EBITDA and net income in fiscal 2004. See Results of Operations below.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the year ended March 31, 2004 were \$213.2 million, down 18.2% from sales of \$260.6 million for fiscal 2003. The stronger Canadian dollar accounted for 5.9% or \$15.5 million of this sales' decrease, including those covered by forward foreign exchange contracts.

Sales for the Company's various divisions were as follows:

Division	2004	2003	% Change
	(\$'000)	(\$'000)	
Landing Gear	127,356	161,252	(21.0)
Aerostructure	22,983	23,986	(4.2)
Sub-total	150,339	185,238	(18.8)
Gas Turbine Components	42,339	52,486	(19.3)
Logistics & Defence	20,531	22,907	(10.4)
Total	213,209	260,631	(18.2)

Landing Gear and Aerostructure

Landing Gear

Sales for the division were \$127.4 million compared to \$161.3 million last year. The stronger Canadian dollar accounted for a decrease of \$7.6 million or 4.7% in overall sales, including those covered by forward foreign exchange contracts.

Military sales for the division declined 21.9% year over year to \$61.1 million, mainly due to reduced demand under the KC-135R program, completion of the P-3 landing gear retrofit program for the U.S. Navy, and a drop in military repair and overhaul deliveries resulting from lower productivity. Manufacturing-process reengineering initiatives introduced at the end of the third quarter succeeded in increasing productivity in the Repair and Overhaul sector by about 30% by year-end, and are expected to generate further improvement in this sector in fiscal 2005.

Commercial landing gear sales fell by 20.2%, mainly due to the completion of the DALs spare parts contracts for out-of-production aircraft, persistent weak demand for large civil aerospace products, and completion of a large contract for helicopter parts manufactured at the Laval plant. These factors were somewhat offset by growth in engineering sales to \$6.0 million from \$3.5 million last year, related to military programs being carried out by commercial customers.

The weighting of landing gear sales for 2004 is as follows:

	2004 (\$'000)	2003 (\$'000)	% Change
Military	61,079	78,239	(21.9)
Commercial	66,277	83,013	(20.2)
Total	127,356	161,252	(21.0)
Manufacturing	94,152	122,027	(22.8)
Repair and overhaul	33,204	39,225	(15.3)
Total	127,356	161,252	(21.0)

In fiscal 2004, Boeing awarded the Landing Gear Division "Preferred Supplier Certification", placing Héroux-Devtek on an envied list of suppliers to the world's largest aircraft manufacturer.

In the fourth quarter of fiscal 2004, the division posted strong sales of \$36.7 million, 39.2% more than the previous quarter following the recovery of a substantial portion of the late deliveries seen in the third quarter. Given its backlog and the current state of the industry, the Landing Gear Division expects its business volume to remain essentially unchanged in fiscal 2005.

Aerostructure

At \$23.0 million, sales for the division were substantially the same as last year's sales of \$24.0 million. The Aerostructure Division faced several challenges during the year that prevented it from capitalizing on its potential. These included the introduction of new manufactured parts for regional and business jet programs, which entailed certain operating inefficiencies. The transfer of the Metro operations to the main Dorval facility during the year took longer than expected and further impacted on the division's potential to increase its market share and benefit from unused capacity. At year-end, the capacity utilization of the Dorval operations remained at about 50%.

Breakdown of Sales by Sector

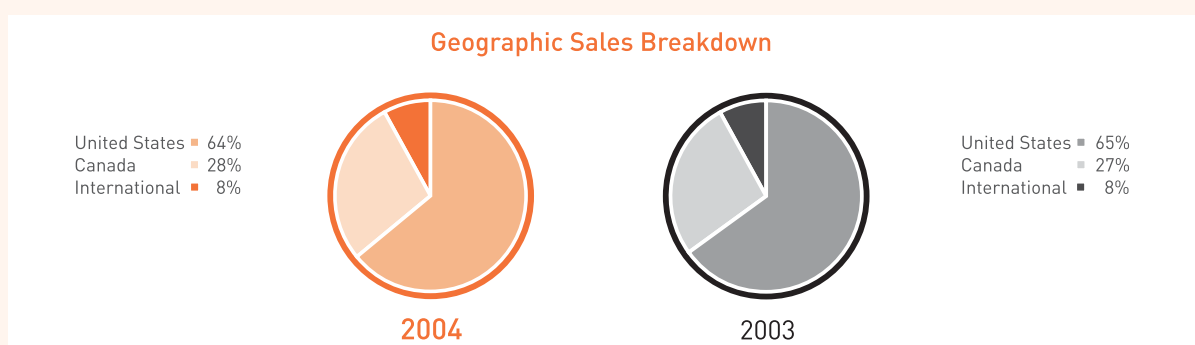


2004



2003





On April 1, 2004, Héroux-Devtek boosted its Aerostructure activities through the above-mentioned acquisition of Progressive. The particulars of the acquisition are further discussed under Subsequent Events in the Liquidity and Capital Resources – Financing Activities section below and note 21 to the consolidated financial statements. As a result of this acquisition, the business volume of the Aerostructure Division is expected to increase by approximately \$50.0 million in fiscal 2005.

Gas Turbine Components

During fiscal 2004, the division closed its Tampa plants and consolidated its operations at its Cincinnati facilities. The transition plan announced in the fourth quarter of fiscal 2003 was completed on June 30, 2003. A discussion of the charges incurred for the integration is included under Restructuring Charges and Goodwill Impairment below and in Note 3 to the consolidated financial statements.

The division's results nonetheless continued to reflect the severe reduction in industrial gas turbine demand announced last year. Sales fell to \$42.3 million from \$52.5 million a year earlier, as shown below.

	2004	2003	% Change
	(\$'000)	(\$'000)	
Aerospace	20,296	21,051	(3.6)
Industrial Gas Turbine	17,095	26,891	(36.4)
Other Industrial	4,948	4,544	8.9
Total	42,339	52,486	(19.3)

Of the total 19.3% decline, 11.4% can be attributed to the stronger Canadian dollar.

The 36.4% drop in industrial gas turbine sales translates into 26.9% when expressed in U.S. dollars. Industrial gas turbine demand appeared to bottom out during the year, with sales picking up slightly in the fourth quarter.

Sales for the aerospace segment rose by 10.9% in U.S. dollars, reflecting an increase in the Company's share of the GE aircraft engine market. Other industrial sales also increased on the strength of new sales to Caterpillar developed during the year.

Higher aircraft engine sales and new industrial customers are expected to generate an increase of approximately 25% in the division's sales for the current year.

Logistics & Defence

The division reported sales of \$20.5 million for fiscal 2004, down 10.4% from \$22.9 million last year. The higher sales for fiscal 2003 were due to a special order from the Norway Special Forces.

As expected, the Logistics & Defence Division posted strong fourth quarter sales of \$8.2 million. If expected orders materialize, sales could rise by 20% to 25% in fiscal 2005.

Sales by Segment

The Company's sales by segment and destination were as follows:

Segment	2004 (\$'000)	2003 (\$'000)	% Change
Aerospace & Defence			
Civil	105,013	123,982	(15.3)
Military	61,770	78,784	(21.6)
Defence	24,383	26,430	(7.7)
Sub-total	191,166	229,196	(16.6)
Industrial			
Gas Turbine Components	17,095	26,891	(36.4)
Other Industrial	4,948	4,544	8.9
Sub-total	22,043	31,435	(29.9)
Total	213,209	260,631	(18.2)
Destination	2004	2003	
Canada	27.6 %	27.3 %	
US	64.3 %	64.7 %	
International	8.1 %	8.0 %	
	100.0 %	100.0 %	

Gross Profit

Expressed as a percentage of sales, consolidated gross profit decreased from 12.4% in fiscal 2003 to 9.1% in fiscal 2004.

Fiscal 2004 was a year of rationalization and consolidation during which management took steps to reduce its fixed manufacturing overhead costs by closing three of its plants (Tampa, Metro and DALs) and integrating the related operations into its other facilities. These initiatives were taken early in the year in response to the new economic environment in the civil aerospace and industrial markets.

Nevertheless, gross profit remained depressed overall. This was primarily due to lower sales, which resulted in increased unabsorbed manufacturing overhead costs. The other major factor was the stronger Canadian dollar, which accounted for 2.2% of the total 3.3% drop in gross profit for the year.

Landing Gear and Aerostructure

Landing Gear

Gross profit for the Landing Gear Division, expressed as a percentage of sales, decreased by 5.0%. While the stronger Canadian dollar accounted for a decline of 3.7%, lower sales and an unfavourable sales mix also resulted in a higher level of unabsorbed fixed manufacturing overhead costs. These factors were somewhat offset by a \$1.3 million research and development tax credit recorded against cost of sales.

It should also be noted that last year's gross profit was 0.9% higher than it would otherwise have been because the Company wrote off \$1.5 million in development cost support program funding consisting of non-interest bearing debt, as the repayment conditions had not been met. This write-off was fully included under cost of sales as it was related to assets that had already been fully depreciated.

Aerostructure

Aerostructure gross profit as a percentage of sales declined by 7.3%, due mainly to lower sales and operating inefficiencies. The division is currently operating at approximately 50% of production capacity, which translates into a high level of unabsorbed fixed manufacturing overhead costs.

During the year, the Aerostructure Division closed its Metro plant and consolidated its operations at its new Dorval facility, leading to savings in fixed manufacturing overhead costs and improved gross profit.

As noted above, the acquisition of Progressive will boost the sales volume of the Aerostructure Division. It will also help improve the division's gross profit, and is expected to contribute \$0.12 to \$0.15 per share to earnings in fiscal 2005. The division is expected to benefit from shared best manufacturing practices and procurement between its operations.

Gas Turbine Components

Gross profit as a percentage of sales held steady at the same level as last year for the Gas Turbine Components Division. The Cincinnati consolidation only began to have an impact in the second half of the year, as both locations were operated in parallel during the transition period, resulting in significant unabsorbed overhead costs in the first half of the year. In the last half of the year, the division's gross profit as a percentage of sales improved by more than 10% as a direct result of the consolidation.

Nevertheless, the division is still posting low gross profits, due to the 36.4% drop in industrial gas turbine sales and the resulting unfavourable product mix. Operating inefficiencies arising from the transfer of the Tampa operations to Cincinnati were also a factor.

While the division did not return to profitability in the fourth quarter as expected, operating losses were smaller than in the third quarter. The 25% increase in sales expected in fiscal 2005 should result in US \$40.0 million in sales for the division. This, combined with improved operating efficiency in the wake of the Cincinnati consolidation, should return the division to profitability in the second half of the current fiscal year.

During the year, the Gas Turbine Components Division incurred non-recurring expenses for the transfer of know-how and workload from Tampa to Cincinnati. These one-time charges of \$1.1 million are shown as a separate item on the income statement. (See also Note 3 to the consolidated financial statements and Restructuring Charges and Goodwill Impairment below.)

Logistics & Defence

Gross profit as a percentage of sales for the Logistics & Defence Division increased by 5.3% due to better manufacturing processes and reengineering initiatives introduced last year. Strong fourth quarter sales were also a factor, enabling the division to better absorb its manufacturing overhead costs.

Restructuring Charges and Goodwill Impairment

In the third quarter of 2002-2003, in light of the prevailing economic environment in the United States, a severe reduction in the industrial gas turbine market and the resulting manufacturing capacity utilization of its gas turbine operations, the Company decided to close its gas turbine operation in Tampa and move this production to its Cincinnati operation. A transition plan was put in place, and the Company recorded \$9.2 million in restructuring charges and goodwill impairment in fiscal 2003 to provide for the write-down of certain capital assets to be disposed of, a provision for unused leased equipment and other related direct expenses required by the plan.

For the year ended March 31, 2004, the Company incurred \$1.1 million in non-recurring expenses for the transfer of know-how and workload from Tampa to Cincinnati. Under GAAP, the charges referred to above could not be included in the restructuring charges taken last year. These one-time expenses, recorded as restructuring charges, include relocation expenses, retention bonuses, training expenses related to the operations in Cincinnati, and other expenses related to the maintenance of the unused production facility in Tampa.

Selling and Administrative Expenses

As a percentage of sales, fiscal 2004 selling and administrative expenses were up slightly from last year, as shown below:

(\$'000)	2004	2003
Selling and administrative expenses	20,785	21,339
% of sales	9.7	8.2

Selling and administrative expenses are generally relatively fixed. However, for fiscal 2004, they include \$146,000 in expenses for the granting of stock options compared to \$81,000 in fiscal 2003, as well as \$450,000 in professional fees related to a potential acquisition that did not materialize. They also cover a \$408,000 loss on U.S. exchange from the translation of foreign currency monetary items included under current assets and liabilities but not covered by forward foreign exchange contracts.

Operating Income

The table below shows operating income for the Company's two market segments. Operating income does not include the one-time restructuring charge and goodwill impairment amounting to \$1.1 million and \$9.2 million in fiscal 2004 and 2003, respectively.

	2004			2003		
	Sales (\$'000)	Operating Income (loss) (\$'000)	Operating Income (loss) (% of sales)	Sales (\$'000)	Operating Income (loss) (\$'000)	Operating Income (loss) (% of sales)
Aerospace & Defence	191,166	2,881	1.5	229,196	17,625	7.6
Industrial	22,043	(4,269)	(19.4)	31,435	(6,589)	(21.0)
Total	213,209	(1,388)	(0.7)	260,631	11,036	4.2

Operating income for the Aerospace & Defence sector fell from 7.6% of sales in 2003 to 1.5% in 2004. Operating income declined in both the civil and military aerospace segments, although defense operating income rose slightly for the year.

Operating loss for the Industrial sector decreased by 1.6% in fiscal 2004. Gas turbine operating loss slipped slightly again during the year, but was compensated for by improvement in other industrial segments, essentially reflecting new business for Caterpillar tractors.

Overall, operating income declined 4.9% from 4.2% in fiscal 2003 to an operating loss of 0.7% in 2004.

Financial Expenses

In 2004, financial expenses amounted to \$1.8 million compared to \$2.0 million last year. Financial expenses are net of interest revenue of \$1.1 million for the year, compared to \$1.3 million in fiscal 2003.

Income Taxes

The income tax recovery for fiscal 2004 represents 47.7% of the loss before income taxes. The recovery amount includes \$1.3 million in non-taxable research and development tax credit recorded during the year for the Landing Gear Division, which accounts for 11.2% of the income tax recovery rate. Last year, the income tax recovery amounted to \$281,000 and included a favourable future tax adjustment of \$600,000. Last year's income tax recovery rate was also impacted by the non-deductibility of \$1.2 million in goodwill impairment related to the restructuring charges.

Net Income

For fiscal 2004, the Company posted a net loss of \$2.2 million, as shown in the table below.

	2004 (\$'000)	2003 (\$'000)
Net income (loss) before restructuring charges and goodwill impairment	(1,518)	6,621
Restructuring charges and goodwill impairment, net of income tax recovery	(694)	(6,467)
Net income (loss)	(2,212)	154
Earnings (loss) per share	(0.09)	0.01

Earnings (loss) per share figures are based on weighted averages of 23,437,928 common shares outstanding in 2004 and 24,212,864 in 2003.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004, the Company had cash and cash equivalents of \$58.6 million, compared to \$53.0 million at March 31, 2003.

In February 2004, the Company extended its \$100.0 million Syndicated Evergreen Revolving Credit Facilities on a secured basis. The Company can use these facilities to support its operations, facilitate future acquisitions or manage its foreign exchange risk. At March 31, 2004, \$34.3 million was utilized on the credit facilities (see Note 11 to the consolidated financial statements).

Operating Activities

Internally, the Company generated cash flow from operations and cash flow provided by operating activities as follows:

	2004 (\$'000)	2003 (\$'000)
Cash flow from operations	10,608	16,003
Net change in non-cash items related to operations	10,563	733
Cash flow provided by operating activities	21,171	16,736

In 2004, cash flow from operations was negatively impacted by the \$2.4 million difference in net income year-over-year. Last year's cash flow from operations was also higher due to \$5.1 million in non-cash items included in the restructuring charges and goodwill impairment, offset by the write-off of \$1.5 million in non-interest-bearing loans.

In 2004, the net change in non-cash items related to operations consisted mainly of a \$6.1 million increase in customers' advances related to contracts for the Landing Gear and Logistics & Defence divisions, a \$4.8 million decrease in accounts receivable arising from lower sales, and a \$2.2 million reduction in income tax receivable recovered by the Gas Turbine Components Division. These amounts were offset by a \$3.5 million decrease in accounts payable and accrued liabilities. These items are included under Consolidated Balance Sheets below and in Note 16 to the consolidated financial statements.

Investing Activities

Investing activities provided cash flow of \$32.9 million in 2004, having used \$17.5 million last year.

Purchase of capital assets totalled \$15.2 million for the year, net of \$1.4 million in capital leases, compared to \$23.5 million last year, net of \$8.1 million in capital leases. This total included \$5.8 million invested by the Landing Gear Division, including \$4.0 million to maintain its production capacity. A further \$4.1 million was invested in the Aerostructure Division, mainly to complete the installation of a new, large, specialized piece of equipment and to acquire a 5-axis, high-speed machining centre in the fourth quarter. Finally, \$5.2 million was invested in the Gas Turbine Components Division, including \$3.5 million in early purchase options exercised for machinery and equipment under operating leases.

The Company withdrew the \$45.2 million invested in temporary investments with a term of over three months and used these funds mainly in the acquisition of Progressive, finalized on April 1, 2004. Last year, temporary investments used cash flow of \$2.9 million during the year.

In 2004, the Company sold certain surplus capital assets at its Tampa plant for net proceeds of \$1.5 million. Surplus capital assets with a book value of \$3.4 million representing land, buildings, machinery and equipment from the Tampa and Metro operations remain up for sale.

The Company expects to invest approximately \$15.0 million to purchase capital assets in fiscal 2005.

Financing Activities

During the year, the Company renewed its Syndicated Evergreen Revolving Credit Facilities allowing it to borrow up to \$100.0 million on a secured basis. At March 31, 2004, \$34.3 million of the credit facilities was utilized, compared to \$36.5 million last year.

During the year, the Company repurchased 143,100 of its common shares at an average price of \$4.03 per share for a total cash consideration of \$579,000. This repurchase was made pursuant to the Company's share buyback program extending from August 2003 to August 2004, and an earlier program extending from August 2002

to August 2003. In fiscal 2003, the Company repurchased a total of 934,278 common shares under the initial program, for a total cash consideration of \$4.5 million. See Note 13 to the Consolidated Financial Statements for more details on the share buyback programs.

Pension Plans

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

	March 31, 2004 (\$'000)	March 31, 2003 (\$'000)
Deficit	12,576	12,189
Accrued liabilities	6,836	6,414

The pension plan deficit of \$12.6 million at March 31, 2004 includes \$9.0 million in pension plan obligations related to unregistered pension plans, primarily for ex-executives of the Company, that do not require funding of the deficit. Funding occurs as pension benefits are paid to the retired executives.

Subsequent Events

On April 1, 2004, the Company concluded the previously mentioned acquisition of Progressive, a Texas-based manufacturer of large structural components for the military sector, with current annual sales of approximately \$50.0 million. The purchase price was \$74.2 million (US\$56.4 million), including \$14.7 million to cover tax impacts, new equipment and transaction costs. In conjunction with the purchase of Progressive, the Company closed private placements of subscription receipts, issuing 3.5 million common shares at \$4.90 for net cash consideration of \$16.2 million (see Note 21 to the consolidated financial statements).

The impact of the financing and the acquisition on the Company's financial position is as follows:

	\$ million
Use of Syndicated Evergreen Revolving Credit Facilities	36.4
Common share issue	16.2
Cash	21.6
	74.2

On a pro forma basis, the impact of the transactions on the Company's financial position is as follows:

	Actual March 31, 2004 (\$ million)	Pro forma March 31, 2004 (\$ million)
Cash	58.6	37.0
Long-term debt, including current portion	63.5	99.9
Shareholders' equity	120.3	136.5
Financial ratios:		
• Working capital	1.87	1.76
• Long-term-debt-to-equity	0.49	0.70
• Long-term-debt-less-cash-to-equity	0.01	0.43

Company management intends to repay approximately \$15.0 million of the utilized portion of the Evergreen Syndicated Revolving Credit Facilities within the first six months of the current fiscal year. Management considers the Company's current liquid assets and available credit facility adequate to support its operations and manage its foreign exchange risk.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and March 31, 2003:

Item	Change (\$ million)	Explanation
Cash and temporary investments	5.6	See statement of cash flows
Accounts receivable	(4.8)	Essentially related to the reduced business volume discussed above
Income tax receivable	(2.2)	Collection of an income tax recovery for the Gas Turbine Components Division; represents the recovery of tax benefits related to the carry-back of tax losses to prior years
Inventories	(2.9)	Related to reduced business volume
Capital assets	(3.6)	Due to: <ul style="list-style-type: none"> • Amortization of capital assets (\$13.9 million) • A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries (\$2.6 million) • Write-off of surplus capital assets accounted for as part of the restructuring charges (\$2.3 million) Net of: <ul style="list-style-type: none"> • Purchase of capital assets (\$15.2 million)
Other assets	1.9	Due to: <ul style="list-style-type: none"> • Recording of certain transaction costs accrued at March 31, 2004 related to the Progressive acquisition • Costs related to the renewal of the Syndicated Evergreen Credit Facilities Net of: <ul style="list-style-type: none"> • Amortization of deferred financing costs
Accounts payable and accrued liabilities	(2.9)	Related to: <ul style="list-style-type: none"> • Disbursement of certain restructuring charges related to the Gas Turbine Components Division • Reduced business volume
Customers' advance	6.1	Represents unearned contract payments collected by the Landing Gear and Logistics & Defence division; these advances are liquidated based on units delivered to customers (see Note 10 to the consolidated financial statements)
Long-term debt (including current portion)	(3.5)	Due to: <ul style="list-style-type: none"> • Capital repayments (\$3.1 million) • A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries (\$2.9 million) Net of: <ul style="list-style-type: none"> • New capital lease obligations (\$1.4 million) • New non-interest-bearing loans (\$1.1 million)
Capital stock	(0.4)	Represents the repurchase of 143,100 common shares at average book value
Contributed surplus	0.1	Represents the counterpart of the expense relating to the granting of stock options
Cumulative translation adjustment	(1.9)	Represents the impact of the lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(2.4)	See consolidated statement of retained earnings

The Company continues to enjoy a strong balance sheet, which puts it in an excellent position to benefit from the current economic challenges.

The Company's long-term debt-to-equity ratio was 0.49:1 on March 31, 2004 compared to 0.51:1 on March 31, 2003. At year-end 2004, the balance sheet included cash and cash equivalents of \$58.6 million. At March 31, 2003, cash and cash equivalents stood at \$53.0 million, including \$45.2 million in temporary investments.

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

Contractual Obligations (\$'000)	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Loans bearing no interest	15,509	1,644	2,823	4,140	6,902
Capital leases (including interest expenses)	15,933	3,180	6,268	6,186	299
Operating leases – Machinery and equipment	11,334	3,021	5,790	2,382	141
Operating leases – Building	981	228	412	341	–
Sub-total contractual obligations	43,757	8,073	15,293	13,049	7,342
Secured Syndicated Evergreen Revolving Credit Facilities, if not extended next year					
Operating credit facilities	7,262	–	7,262	–	–
Term credit facilities	27,060	–	5,412	21,648	–
Total contractual obligations	78,079	8,073	27,967	34,697	7,342

Off-Balance Sheet Items and Commitments

The Company has entered into operating leases amounting to \$11.3 million as of March 31, 2004, mainly for machinery and equipment. These amounts are mainly repayable over the next five years (see Note 18 to the consolidated financial statements).

At March 31, 2004, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US \$103.1 million at an average exchange rate of 1.4089. These contracts related to its export sales and mature at various dates between April 2004 and October 2008 (see Note 4 to the consolidated financial statements). This compares to US \$60.5 million in forward foreign exchange contracts held at March 31, 2003 at an average exchange rate of 1.5063.

Critical Accounting Estimates

Design to manufacture programs and major assembly manufacturing programs

The Company's management use estimates to value the inventory and cost of sales related to the design to manufacture programs and major assembly manufacturing programs. In fact, non recurring costs (development costs, pre-production and tooling costs) and the excess over production costs (excess of the production costs incurred in the early stage of a program in excess of the average estimated production unit cost for the entire program) are included in the inventory. These costs are expected to be recovered from the sales of the related program, as the production costs get lower than the average production unit cost.

Two major assumptions are made when capitalizing the non-recurring costs and the excess over production costs in inventory:

- Estimated average production unit cost;
- Production accounting quantities.

The estimated average production unit cost includes raw material, direct labour and manufacturing overhead cost and is based on the learning curve concept. This anticipates a predictable decrease in direct labour costs as tasks and production techniques become more efficient through repetition. To evaluate the average production unit cost, management based its analysis mainly on historical performance, economic trends, labour agreements, and information provided by customers and suppliers. It also takes into consideration inflation rates, foreign exchange rates, labour productivity, employment levels and salaries.

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

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

A 1% change in the estimated future costs to produce the remaining quantities on all Design to Manufacture programs and all major assembly manufacturing programs would have an impact of approximately \$0.7 million on the Company's cost of sales, including \$0.4 million relating to cumulative catch-up adjustments for prior years.

Goodwill

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

Pension plans and other employee post-retirement benefits

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

A lower discount rate increases the benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately \$0.5 million and \$3.2 million respectively on the Company's pension plan expense and accrued benefit obligation.

A lower expected rate of return on pension plan assets increases the benefit costs. A 1% change in the return assumption would have an impact of approximately \$135,000 on the Company's pension plan expense.

Income taxes

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

CHANGES IN ACCOUNTING POLICIES

Impairment and Disposal of Long-lived Assets

Effective April 1, 2003, the Company adopted prospectively the new accounting policies in regard to the impairment and disposal of long-lived assets.

Impairment of Long-lived Assets

In December 2002, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3063, *Impairment of Long-lived Assets*. This section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces requirement for impairment in Property, Plant and Equipment, Section 3061. The section requires an impairment loss for a long-lived asset to be held and used be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss for a long-lived asset to be held and used should be measured as the amount by which its carrying amount exceeds its fair value. In accordance with the new CICA recommendation, Section 3063 was applied prospectively for years beginning on or after April 1, 2003.

Disposal of Long-lived Assets

In December 2002, the CICA also issued revised Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*. This new section provides guidance on the recognition, measurement and disclosure of the disposal of long-lived assets. This section was applied to disposal activities initiated by a Company's commitment to a plan after May 1, 2003.

The result of these changes in accounting policies had no impact on the carrying value of the Company's property, plant and equipment.

Future changes in accounting policies

Hedging relationships

On April 1, 2004, the Company has adopted Accounting Guideline 13 (AcG-13), Hedging relationships, which is effective for fiscal years beginning on or after July 1, 2003. The guideline applies to all existing and new hedging relationships and provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that are economic hedges, but do not qualify for hedge accounting, are recognized at fair value on the balance sheet with changes in fair value recorded in earnings.

The Company has completed the implementation of Accounting Guideline 13. As at April 1, 2004 hedges that previously qualified for hedge accounting continue to qualify for hedge accounting under the guideline except for the interest rate swap. As at April 1, 2004 the Company recorded a deferred loss amounting to \$727 regarding this swap. Subsequent changes in fair value of the interest rate swap will be recorded in earnings and the deferred loss will be amortized on an effective yield basis over the remaining life of the interest rate swap.

As part of its adoption of guideline AcG-13 as at April 1, 2004, the Company has revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities will be translated into Canadian dollars at the exchange rate prevailing at year-end. For accounts receivable which qualify for hedge accounting, gains and losses are deferred on the balance sheet under "other receivables" or "accounts payable and accrued liabilities". Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the statement of income. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated US dollar denominated sales are recognized as an adjustment of the revenues when the sale is recorded.

Asset Retirement Obligations

In March 2003, the CICA issued a new section in the CICA Handbook, Section 3110, *Asset Retirement Obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time. This section will come into effect for the Company in fiscal 2005.

Effective April 1, 2004, the Company will adopt retroactively these changes in accounting policies in regard to account for asset retirement obligations. The Company is currently evaluating the impact of this new accounting policy.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties. The Company's business, financial condition and results of operations could be materially adversely affected by any of the risks and uncertainties described below. The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial may also adversely affect its business.

Reliance on Large Customers

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

Operational Risk

The activities conducted by the Company are subject to operational risks including competition from other businesses, performance of key suppliers, product performance warranty, regulatory risks, successful

integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the ability of the Company to meet its obligations.

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. For example, the large civil aerospace industry, which represents approximately 15% of the Company's sales, continues to experience considerable uncertainty, especially the market for planes with more than 100 seats. Furthermore, the industrial power generation market, which collapsed in 2002, is not expected to recover before 2006. This could adversely affect the Company's financial condition and results of operations. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

Although significant increases in military budgets, particularly in the United States, were announced in the recent years for a period of up to 2009, these expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

The indentures governing certain of the Company's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all its assets;
- incur secured indebtedness;
- engage in mergers or consolidations; and
- engage in transactions with affiliates.

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

Changing Interest Rates

The Company's profitability may be directly affected by the level of and fluctuations in interest rates. The Company uses derivatives as an integral part of its asset/liability management program to reduce its overall financial risk.

External Business Environment

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

Warranty Casualty Claim Losses

The products manufactured by the Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customer. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business. In addition, due to the nature of the Company's business, the Company may be subject to liability claims

involving the Company's products or products for which the Company provided services. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future.

Environmental Matters

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

Collective Bargaining Agreements

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

Selected Quarterly Financial Information

(\$'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2004:					
Sales	213,209	52,385	53,159	45,237	62,428
Net income (loss)	(2,212)	(787)	(855)	(1,595)	1,025
Earnings per share (\$):					
Basic	(0.09)	(0.03)	(0.04)	(0.07)	0.04
Diluted	(0.09)	(0.03)	(0.04)	(0.07)	0.04
For the fiscal year ended March 31, 2003:					
Sales	260,631	69,160	62,299	59,394	69,778
Net income (loss)	154	3,017	2,890	(6,814)	1,061
Earnings per share (\$):					
Basic	0.01	0.12	0.12	(0.28)	0.04
Diluted	0.01	0.12	0.12	(0.28)	0.04

In fiscal 2004, consolidated sales in the third quarter were negatively impacted by a stronger Canadian dollar and by late deliveries, at the Landing Gear and Gas Turbine divisions, recuperated in the fourth quarter.

In fiscal 2003, sales in the fourth quarter were positively impacted by increased deliveries (\$45.2 million) at the Landing Gear Division.

Fourth Quarter 2004 Results

As anticipated, the Company posted stronger results due to improved deliveries, mainly at the Landing Gear and Logistics & Defence divisions. The Gas Turbine Components Division also increased deliveries in the fourth quarter, but continues to work on improving manufacturing productivity following the transfer of the Tampa operations to Cincinnati. The performance of the Aerostructure Division continued to reflect low demand and significant unused manufacturing capacity.

Fourth quarter sales totalled \$62.4 million, 38.0% higher than third quarter sales but still somewhat lower than last year's fourth quarter sales of \$69.8 million.

Net income for the fourth quarter was \$1.0 million, down slightly from \$1.1 million last year.

Additional information and Continuous Disclosure

This MD&A was prepared as of May 5, 2004. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

At May 5, 2004, the total number of issued and outstanding common shares was 26,901,559.

Management's Report

The accompanying consolidated financial statements of Héroux-Devtek Inc. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information used elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Héroux-Devtek Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of outside Directors. The Committee meets periodically with Management and the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements and the external auditors' report.

The Committee reports its findings to the Board for consideration when it approves the consolidated financial statements for issuance to the Shareholders.

The consolidated financial statements have been audited by Deloitte & Touche LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee.



Gilles Labbé
President and Chief Executive Officer
May 5, 2004



Réal Bélanger
Executive Vice-President and Chief Financial Officer

Auditors' Report

To the Shareholders of Héroux-Devtek Inc.:

We have audited the consolidated balance sheets of Héroux-Devtek Inc. as at March 31, 2004 and 2003 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Deloitte & Touche LLP
Chartered Accountants
Montreal, Québec
May 5, 2004

Consolidated Balance Sheets

As at March 31, 2004 and 2003

(In thousands of dollars)

	Notes	2004	2003
Assets			
Current assets			
Cash and temporary investments	5	\$ 58,560	\$ 52,972
Accounts receivable		31,532	36,323
Income taxes receivable		1,552	3,785
Other receivables		3,158	4,010
Inventories	6	55,782	58,650
Prepaid expenses		2,219	2,212
Future income taxes	15	5,666	5,930
		<u>158,469</u>	<u>163,882</u>
Capital assets, net	7	93,769	97,397
Other assets	8	2,890	962
Future income taxes	15	5,866	4,766
Goodwill	3	22,060	22,060
		<u>\$ 283,054</u>	<u>\$ 289,067</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	\$ 70,225	\$ 73,115
Customers' advances	10	9,991	3,912
Income taxes payable		229	1,275
Future income taxes	15	292	380
Current portion of long-term debt	11	4,049	3,340
		<u>84,786</u>	<u>82,022</u>
Long-term debt	11	59,464	63,650
Other liabilities	12	7,542	7,348
Future income taxes	15	10,938	11,128
		<u>162,730</u>	<u>164,148</u>
Shareholders' Equity			
Capital stock	13	70,883	71,317
Contributed surplus	13	227	81
Cumulative translation adjustment	14	(147)	1,803
Retained earnings		49,361	51,718
		<u>120,324</u>	<u>124,919</u>
		<u>\$ 283,054</u>	<u>\$ 289,067</u>

Commitments and contingencies (Notes 18, 19)

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

Signed on behalf of the Board



Pierre Marcouiller
Director



Gilles Labbé
Director

Consolidated Statements of Income

For the years ended March 31, 2004 and 2003

(In thousands of dollars, except per share data)

	Notes	2004	2003
Sales		\$ 213,209	\$ 260,631
Cost of sales		179,935	213,749
Amortization		13,877	14,507
Gross profit		19,397	32,375
Selling and administrative expenses		20,785	21,339
Operating income (loss)		(1,388)	11,036
Financial expenses	11	1,791	1,986
Income (loss) before restructuring charges and goodwill impairment and income tax recovery		(3,179)	9,050
Restructuring charges and goodwill impairment	3	1,052	9,177
Loss before income tax recovery		(4,231)	(127)
Income tax recovery	15	(2,019)	(281)
Net income (loss)		\$ (2,212)	\$ 154
Earnings (loss) per share		\$ (0.09)	\$ 0.01
Earnings (loss) per share – fully diluted		\$ (0.09)	\$ 0.01
Weighted-average number of shares outstanding during the year		23,437,928	24,212,864

Consolidated Statements of Retained Earnings

For the years ended March 31, 2004 and 2003

(In thousands of dollars)

	Notes	2004	2003
Balance at beginning of year		\$ 51,718	\$ 53,283
Repurchase of common shares	13	(145)	(1,719)
Net income (loss)		(2,212)	154
Balance at end of year		\$ 49,361	\$ 51,718

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2004 and 2003

(In thousands of dollars)

	Notes	2004	2003
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income (loss)		\$ (2,212)	\$ 154
Items not requiring an outlay of cash			
Amortization		14,162	14,778
Future income taxes	15	(1,466)	(2,940)
Loss (gain) on sale of capital assets		(22)	251
Write-down of capital assets	3	-	3,937
Goodwill impairment	3	-	1,206
Write-off of loans bearing no interest	11	-	(1,464)
Stock-based compensation	13	146	81
Cash flow from operations		10,608	16,003
Net change in non-cash items related to operations	16	10,563	733
Cash and cash equivalents provided by operating activities		21,171	16,736
Investing activities			
Net change in temporary investments		45,191	(2,941)
Purchase of capital assets		(13,817)	(15,438)
Proceeds on disposal of capital assets		1,496	509
Other		-	375
Cash and cash equivalents provided by (used for) investing activities		32,870	(17,495)
Financing activities			
Increase in long-term debt		1,101	4,632
Repayment of long-term debt		(3,060)	(4,140)
Repurchase of common shares	13	(579)	(4,549)
Issuance of common capital stock	13	-	189
Other		(502)	(1,164)
Cash and cash equivalents used for financing activities		(3,040)	(5,032)
Effect of changes in exchange rates on cash and cash equivalents		(222)	(144)
Change in cash and cash equivalents		50,779	(5,935)
Cash and cash equivalents at beginning of year		7,781	13,716
Cash and cash equivalents at end of year		\$ 58,560	\$ 7,781
Cash and temporary investments are comprised of:			
Cash and cash equivalents		\$ 58,560	\$ 7,781
Temporary investments	5	-	45,191
		\$ 58,560	\$ 52,972
Interest paid		\$ 2,632	\$ 2,571
Income taxes paid		\$ 5,256	\$ 10,700

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

Notes to Consolidated Financial Statements

For the years ended March 31, 2004 and 2003

(All dollar amounts in thousands, except share data)

NOTE 1. NATURE OF ACTIVITIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the accounts of the Company and its following wholly-owned subsidiaries:

Héroux Corp.
 McSwain Manufacturing Corporation
 A.B.A. Industries, Inc.
 2816709 Canada Inc.
 4222385 Canada Inc.
 Héroux-Devtek Aerostructure inc.
 HDA Aero Holding Inc.
 9139-9345 Québec Inc.
 Devtek Corporation
 Devtek Aerospace inc.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the date of acquisition.

Temporary investments

Temporary investments are recorded at cost, which does not differ significantly from their market value.

Inventories valuation and revenue recognition

a) Raw materials, work in process and finished goods

Inventories of raw materials, work in process and finished goods are valued at the lower of cost (weighted-average cost method) and replacement cost for raw materials and net realizable value for work in process and finished goods. Cost of work in process and finished goods include raw materials, direct labor and manufacturing overhead.

b) Long-term contracts

- Sales and income on long-term contracts are recognized as units are delivered.
- Design to manufacture programs and major assembly manufacturing programs

Inventories include raw materials, direct labor and related manufacturing overhead and comprise non-recurring costs (development costs, pre-production and tooling costs), production costs and the excess over average production costs (production costs incurred in the early stage of a program, in excess of the average estimated unit cost for the entire program).

- Other programs

Inventories include raw materials, direct labor and related manufacturing overhead and comprise tooling costs specifically related to these programs, which are capitalized and amortized on a straight-line basis over two years.

- Reviews

Periodically, a review of all long-term contract assumptions relating to the number of anticipated units of production, costs of production and sales applicable to long-term contracts is made and, if applicable, profit margins of units ready for delivery of each long-term contract are revised. The effect of these changes to the estimated income of each contract is recognized in the period in which it has been determined and losses, if any, are recognized fully when anticipated.

Long-lived assets

Long-lived assets are comprised of capital assets.

Long-lived assets held for use are reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the assets' use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and presented as an additional current period depreciation expense.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Long-lived assets** (cont'd)**Capital assets**

Capital assets are recorded at cost and amortization is provided for on a straight-line basis over the estimated useful lives of the related assets, as follows:

Building and leasehold improvements	5 to 40 years
Machinery, equipment and tooling	3 to 15 years
Automotive equipment	3 to 10 years
Computer and office equipment	3 to 5 years
Finite-life intangible assets (software related costs)	3 to 5 years

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Effective April 1, 2002, the Company prospectively adopted the new recommendations of the Canadian Institute of Chartered Accountants and therefore ceased amortizing goodwill and adopted the goodwill impairment model introduced by the new accounting rules. Goodwill is not amortized and is tested for impairment on an annual basis. Impairment of goodwill is recognized when events or changes in circumstances indicate that the carrying amount of a reporting unit is less than its fair market value. Measurement of the fair market value of a reporting unit is based on estimated discounted cash flows and market values of similar business.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is not required. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared to its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess.

Translation of foreign currency

- Self-sustaining foreign operations

The assets and liabilities of subsidiaries denominated in a foreign currency are translated at the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown separately in shareholders' equity.

- Foreign currency transactions

Except for transactions for which the Company has entered into forward foreign exchange contracts, monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at year-end. Revenue and expense accounts realized in foreign currencies are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the statement of income.

- Derivative financial instruments

The Company utilizes certain derivative financial instruments in order to eliminate or reduce its exposure to currency risks related to export sales. These financial instruments are not recorded in the consolidated financial statements at the time of contract. Management is responsible for establishing standards of acceptable risks and monitoring, as appropriate, the transactions covering these risks. The Company uses financial instruments for the sole purpose of hedging existing commitments or obligations. These derivative financial instruments are not used for trading purposes.

Gains and losses associated with derivative financial instruments, which have been terminated or cease to be effective prior to maturity, are deferred under other current or non-current assets or liabilities and recognized in the statement of income in the period in which the underlying hedged transaction is recognized. In the event a designated item is sold, extinguished or matures prior to the termination of the related derivative instrument, a gain or loss on such a derivative instrument is recognized in the statement of income.

Forward foreign exchange contracts

Monetary items in foreign currencies included in current assets and liabilities, hedged by forward foreign exchange contracts, are translated using the average exchange rate of these contracts prevailing at year-end. Gains and losses on forward foreign exchange contracts are included in the revenues in the same period as the related sales.

Interest rate swaps

The Company utilizes interest rate swap agreements to manage the fixed and floating interest rate mix of its debt portfolio. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based and are recorded as an adjustment of interest expense on the hedged debt instrument.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Deferred financing costs**

The deferred financing costs are amortized on a straight-line basis over the duration of the related loans and their unamortized portion is shown in other assets.

Income taxes

Income taxes are provided for using the liability method. Under this method, future income tax assets and liabilities are determined based on all significant differences between the carrying amounts and tax bases of assets and liabilities using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Earnings per share

The earnings per share are determined using the weighted average number of outstanding shares during the year. The treasury stock method is used to calculate the diluted earnings per share. This method assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Pension plans and other post-retirement benefits

The Company has defined benefit pension plans covering certain of its employees. The cost of pension benefits earned by employees is determined using the projected unit credit actuarial method prorated on services. Pension costs are determined periodically by independent actuaries. Pension expense is charged to operations and includes:

- The cost of pension benefits provided in exchange for employees' services rendered during the year,
- The amortization of the initial net transition obligation on a straight-line basis over the expected average remaining service life of the employee group covered by the plans,
- The amortization of past service costs and amendments over the expected average remaining service life of the employee group covered by the plans, and
- The interest cost of pension obligations, the return on pension fund assets and the amortization of cumulative unrecognized net actuarial gains and losses in excess of 10% of the greater of the projected benefit obligation or market-related value of plan assets over the expected average remaining service life of the employee group covered by the plans.

The pension plans are funded through contributions determined in accordance with the projected unit credit actuarial method prorated on services.

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. Effective April 1, 2002, the Company adopted prospectively new recommendations of the Canadian Institute of Chartered Accountants with respect to stock-based compensation. The Company uses the Black & Scholes model to determine the fair value of stock options, and expenses all granting of stock options based on their earned period. Compensation expenses are included in Selling and administrative expenses and their counterpart is accounted for in the contributed surplus of the Company.

Stock Appreciation Right plan

The Company has a Stock Appreciation Right (SAR) plan where 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 a common share on the exercise date of the SAR over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted value. Compensation expenses are included in Selling and administrative expenses and their counterpart is accounted for in the accrued liabilities of the Company.

Government assistance

Government assistance toward current expenses is recorded as a reduction of the related expense. In 2004, the Company recorded as a reduction of salary expense, comprised in cost of sales, an amount of \$559 (\$300 in 2003) for government assistance.

Management's estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the sales contract assumptions, determination of pension and other employee benefits, reserves for environmental matters and for the restructuring of operations, the useful life of assets for amortization and evaluation of net recoverable amount, the determination of fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, provisions for income taxes and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Changes in accounting policies

- Impairment and disposal of long-lived assets

Effective April 1, 2003, the Company adopted prospectively the new accounting policies in regard to the impairment and disposal of long-lived assets.

- Impairment of long-lived assets

In December 2002, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3063, *Impairment of Long-lived Assets*. This new section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets. It replaces requirement for impairment in Property, Plant and Equipment, Section 3061. The section requires an impairment loss for a long-lived asset to be held and used be recognized when its carrying amount exceeds the sum of the undiscounted cash flows expected from its use and eventual disposition. An impairment loss for a long-lived asset to be held and used should be measured as the amount by which its carrying amount exceeds its fair value. In accordance with the new CICA recommendation, Section 3063 was applied prospectively for years beginning on or after April 1, 2003.

- Disposal of long-lived assets

In December 2002, the CICA also issued revised Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*. This new section provides guidance on the recognition, measurement and disclosure of the disposal of long-lived assets. This section was applied to disposal activities initiated by a Company's commitment to a plan on or after May 1, 2003.

The result of these changes in accounting policies referred to above had no impact on the carrying value of the Company's property, plant and equipment.

- Pension and other post retirement benefit plans

The Company adopted the additional CICA disclosure recommendations for Employee Future Benefit for current and comparative year information.

Future changes in accounting policies

- Hedging relationships

The Company has adopted Accounting Guideline 13 ("AcG-13"), Hedging relationships, which is effective for fiscal years beginning on or after July 1, 2003, on April 1, 2004. The guideline applies to all existing and new hedging relationships and provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that are economic hedges, but do not qualify for hedge accounting, are recognized at fair value on the balance sheet with changes in fair value recorded in earnings.

The Company has completed the implementation of AcG-13. As at April 1, 2004 hedges that previously qualified for hedge accounting continue to qualify for hedge accounting under the guideline except for the interest rate swap. As at April 1, 2004 the Company recorded a deferred loss amounting to \$727 regarding this swap. Subsequent changes in fair value of the interest rate swap will be recorded in earnings and the deferred loss will be amortized on an effective yield basis over the remaining life of the interest rate swap.

As part of its adoption of guideline AcG-13 as at April 1, 2004, the Company has revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities will be translated into Canadian dollars at the exchange rate prevailing at year-end. For accounts receivable which qualify for hedge accounting, gains and losses are deferred on the balance sheet under "other receivables" or "accounts payable and accrued liabilities". Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the statement of income. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated US dollar denominated sales are recognized as an adjustment of the revenues when the sale is recorded.

- Financial instruments

The CICA recently issued revisions to section 3860 of the CICA Handbook, *Financial instruments - Disclosure and presentation*. The revisions change the accounting for certain financial instruments that have liability and equity characteristics. It requires instruments that meet specific criteria to be classified as liabilities on the balance sheet. Some of these financial instruments were previously classified as equities.

These revisions come into effect on November 1, 2004. Because the Company does not have any instruments with these characteristics, adopting this section on April 1, 2005 will not affect the Company's future consolidated financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**Future changes in accounting policies (cont'd)**

- Asset retirement obligations

In March 2003, the CICA issued a new section in the CICA Handbook, section 3110, *Asset retirement obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over time.

Effective April 1, 2004, the Company will adopt retroactively this change in accounting policies in regard to accounting for asset retirement obligations. The Company is currently evaluating the impact of this new accounting policy.

NOTE 3. RESTRUCTURING CHARGES AND GOODWILL IMPAIRMENT

In fiscal year 2003, considering the significant reduction in demand in the industrial gas turbine market, and taking into account the economic environment in the United States and the Company's manufacturing capacity utilization in its Gas Turbine Division, management has taken steps to consolidate production and thereby reduce its fixed manufacturing and general overhead costs. In December 2002, the decision was taken to close the gas turbine components manufacturing plants in Tampa and gradually transfer all of these operations to the Gas Turbine Division's Cincinnati plants.

In order to minimize the impact on customer deliveries, the Company has implemented a restructuring plan spread over a six-month period.

In fiscal year 2003, the Company recorded restructuring charges and goodwill impairment to account for the closure of the Tampa plants amounting to \$9,177 (including \$2,100 for goodwill impairment) to provide for the following:

- The write-down of capital assets to be disposed of;
- Provision for unused leased equipment;
- Goodwill impairment related to Industrial Gas Turbine business;
- Other related direct expenses necessary to the realization of the restructuring plan.

In fiscal year 2004, the six-month transition plan was completed on June 30, 2003 and all operations in Tampa were moved to Cincinnati. During the transfer of the production expertise, the Company incurred non-recurring expenses that could not be included in the restructuring charges booked in fiscal year 2003 under GAAP. These expenses are comprised mainly of relocation expenses, retention bonuses, training expenses related to the operations in Cincinnati and other expenses related to the maintenance of the unused production facility in Tampa. These non-recurring expenses amounted to \$1,052 and are included in restructuring charges.

At March 31, 2004, the remaining balance of accrued liabilities related to the restructuring charges amounted to \$1,010 (\$3,510 at March 31, 2003) and is included in the Company's accounts payable and accrued liabilities.

NOTE 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**Credit risks related to derivative financial instruments**

Presently the Company engages in derivative financial instruments only with Canadian chartered banks or their subsidiaries. Thus, the Company does not anticipate any breach of agreement by counterparties.

Interest rate risk

In order to limit the effect of interest rate variations over the portion of its long-term debt in U.S. currency, the Company has entered into a five-year interest rate swap agreement for an amount of US\$10,000. This agreement, dated August 2, 2002, fixes the Libor rate at 4.1%.

Foreign exchange risks

The Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.4089 an amount of US\$103,050 (US\$60,500 at an average rate of 1.5063 in 2003) for the purpose of foreign exchange risk management related to its export sales maturing at various dates between April 1, 2004 and October 31, 2008.

In fiscal 2004, the Company incurred a loss on foreign exchange of \$408 resulting from the translation of foreign currency monetary items that were not covered by forward foreign exchange contracts.

Credit concentration risks and credit risks

A significant portion of the Company's sales are made to a limited number of customers. However, credit concentration risks are limited due to the fact that the Company deals generally with large corporations and/or government agencies, with the exception of sales made to non government agencies outside North America, which represent less than 2% of the Company's total sales.

NOTE 4. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)**Fair value of financial instruments**

At March 31, the book value of all financial instruments approximated fair value, with the exception of the following financial instruments:

	2004		2003	
	Book value	Fair value	Book value	Fair value
Current portion of long-term debt and long-term debt	\$ 63,513	\$ 61,645	\$ 66,990	\$ 64,298
Off-balance sheet derivative instruments:				
Forward foreign exchange contracts				
Net debtor (creditor) position	-	(8,504)	-	119
Interest rate swap				
Net debtor position	-	727	-	793

The following methods and assumptions have been used to evaluate the fair value of each category of financial instruments:

For certain financial instruments of the Company, including cash and temporary investments, accounts receivable and other receivables, accounts payable and accrued liabilities and customers' advances, the book value approximates fair value because of the near maturity of such financial instruments.

The fair values of the current portion of long-term debt and long-term debt are determined by discounting the future contractual cash flows anticipated pursuant to the financial contracts in force using discount rates which represent the interest rates on loans of which the Company could avail itself for loans having similar terms and conditions.

The fair value of derivative financial instrument contracts is determined from prices obtained by the Company for identical or similar instruments. The fair value of forward foreign exchange contracts is based on the most recent foreign exchange rates.

NOTE 5. CASH AND TEMPORARY INVESTMENTS

Temporary investments consist of Bankers' acceptance secured by a Canadian chartered bank with durations of more than three (3) months. At March 31, 2004, the Company had no temporary investments (\$45,191 invested in temporary investments with maturity dates varying from April to September 2003 and bearing interest between 2.85% and 3.32% at March 31, 2003).

NOTE 6. INVENTORIES

Inventories consist of:

	2004	2003
Raw materials	\$ 9,232	\$ 13,683
Work in process and finished goods	52,811	51,163
Less: Progress billings	6,261	6,196
	\$ 55,782	\$ 58,650

Progress billings received during the production process are reduced from the related inventories.

At March 31, 2004, the work in process and finished goods include non-recurring costs (development costs, pre-production costs and tooling costs) and the excess over average production costs (production costs incurred in the early stage of a program, in excess of the average estimated unit cost for the entire program) of \$1,940 (\$3,524 in 2003).

NOTE 7. CAPITAL ASSETS

Capital assets consist of:

	2004		
	Cost	Accumulated Amortization	Net book Value
Land	\$ 3,041	\$ -	\$ 3,041
Building and leasehold improvements	36,059	12,165	23,894
Land and building for resale	6,993	3,753	3,240
Machinery, equipment and tooling	118,299	59,600	58,699
Machinery, equipment and tooling for resale	2,077	1,963	114
Automotive equipment	912	800	112
Computer and office equipment	6,459	5,451	1,008
Finite-life intangible assets (software related costs)	11,037	7,376	3,661
	\$ 184,877	\$ 91,108	\$ 93,769

	2003		
	Cost	Accumulated Amortization	Net book Value
Land	\$ 4,096	\$ -	\$ 4,096
Building and leasehold improvements	42,436	14,631	27,805
Machinery, equipment and tooling	129,480	69,898	59,582
Automotive equipment	929	790	139
Computer and office equipment	8,853	6,919	1,934
Finite-life intangible assets (software related costs)	10,388	6,547	3,841
	\$ 196,182	\$ 98,785	\$ 97,397

At March 31, 2004, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to \$22,064 (\$20,736 in 2003) with accumulated amortization of \$2,543 (\$1,084 in 2003).

In 2004, the acquisition of finite-life intangible assets amounted to \$1,143 (\$2,335 in 2003). The amortization expense of this capital asset category was \$1,108 (\$1,150 in 2003).

Capital assets held for resale are related to the remaining surplus capital assets following the closing of the Tampa and Metro operations. These capital assets are included in the Aerospace & Defence segment, and are presented at the lower of carrying amount or fair value less cost to sell.

NOTE 8. OTHER ASSETS

The Company's other assets can be summarized as follows:

	2004	2003
Deferred financing costs – net	\$ 907	\$ 962
Deferred transaction costs	1,983	-
	\$ 2,890	\$ 962

The deferred transaction costs represent expenses related to the acquisition of Progressive Incorporated (along with the net assets of Promilling LP) on April 1, 2004. These costs will be included in the purchase price of the new subsidiary (see note 21).

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At June 12, 2000, the purchase price for the acquisition of Devtek Corporation and its subsidiaries included adjustments to the net book value of the net assets acquired representing contingency and reorganization reserves. At March 31, 2004, the balance of these reserves amounted to \$6,316 (\$6,514 in 2003) and is included in accounts payable and accrued liabilities.

NOTE 10. CUSTOMERS' ADVANCES

The customers' advances amounting to \$9,991 as at March 31, 2004 (\$3,912 in 2003), represent unearned amounts received from customers. These customers' advances are liquidated based on units delivered to customers.

The customers' advances include those received by the Company's Logistics and Defence division which are guaranteed by the Company. The amount of these guarantees is reduced as the customers' advances are liquidated. The customers' advances received by the Company's Logistics and Defence division amounted to \$4,961 at March 31, 2004 (\$3,912 in 2003).

NOTE 11. LONG-TERM DEBT

	2004	2003
Secured (unsecured in 2003) Syndicated Evergreen Revolving Credit Facilities of up to \$100,000 (either in Canadian or U.S. currency equivalent) having revolving periods of two (2) years extendible annually, bearing interest at Bankers' acceptance plus 1.5% for the Canadian term facility, at U.S. base rate plus 1/2% for the U.S. operating facility, and at Libor plus 1.5% for the U.S. term facility representing 4.15% (4.5% in 2003), 4.5% (4.75% in 2003) and 5.6% (5.6% in 2003) respectively at March 31, 2004. At March 31, 2004, the Company used US\$5,538 (US\$5,391 in 2003) on operating facilities and used \$13,946 and US\$10,000 (\$13,925 and US\$10,000 in 2003) on term facilities.	\$ 34,322	\$ 36,517
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	15,509	15,642
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between June 2004 and September 2009, with amortization periods varying between five (5) to eight (8) years, secured by the related capital assets, net of interest of \$2,251 (\$3,003 in 2003). In 2004, new capital lease obligations amounted to \$1,420 (\$8,105 in 2003).	13,682	14,831
	63,513	66,990
Less: current portion	4,049	3,340
	\$ 59,464	\$ 63,650

Secured Syndicated Evergreen Revolving Credit Facilities

These secured Syndicated Evergreen Revolving Credit Facilities allow the Company and its subsidiaries to borrow up to \$100,000 (either in Canadian or U.S. currency equivalent) for its operations, acquisitions and foreign exchange risks from a group of banks and their American subsidiaries or branches and consist of revolving operating credit facilities up to \$30,000 (\$35,000 in 2003) and revolving term credit facilities up to \$70,000 (\$65,000 in 2003), each having a two (2) year revolving period extendible annually, secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. In the event that the credit facilities are not extended, the operating credit facilities will mature at the end of the revolving period. As to the term credit facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five (5) years. These Syndicated Evergreen Revolving Credit Facilities were extended on February 20, 2004, on a secured basis.

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 Secured Syndicated Evergreen Revolving Credit Facilities are governed by two credit agreements (Canadian and American).

Loans bearing no interest

Loans bearing no interest represent essentially government assistance for the purchase of specialized equipment or tooling and for the modernization or additions to the Company's facilities. They were granted as incentives under some federal regional programs and provincial industrial programs to favour the development of the industry in Canada. Some of these loans are repayable according to certain specific conditions, in particular depending on the Company's aerospace sales and the Company's sales of certain predetermined aircraft landing gear or parts within specific delays.

In 2003, certain loans bearing no interest included in the long-term debt were written off ("debt"). This debt was repayable under certain conditions which were not realizable under the existing economic situation. The related assets acquired under these loans had been fully amortized and the balance of the related debt of \$1,464 was carried to the Company's 2003 results and was included in the cost of sales.

Restrictive covenants

Long-term debt is subject to certain general and financial covenants related amongst others to the working capital, the capital expenditures, the indebtedness, the cash flows and the equity of the Company and/or certain subsidiaries.

At March 31, 2004, the Company had complied with all restrictive covenants.

NOTE 11. LONG-TERM DEBT (cont'd)**Letter of credit**

At March 31, 2004, the Company had no outstanding letter of credit (\$305 in 2003).

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Years ending March 31

Year	Repayments on capital leases	Repayments on loans bearing no interest	Repayments related to the earliest termination of revolving credit facilities	Total
2005	\$ 3,180	\$ 1,644	\$ -	\$ 4,824
2006	3,144	929	7,262	11,335
2007	3,124	1,894	5,412	10,430
2008	3,589	2,476	5,412	11,477
2009	2,597	1,664	16,236	20,497

The minimum repayments include interest on obligations under capital leases of \$2,243.

Financial expenses

The financial expenses, for the years ended March 31, are comprised of:

	2004	2003
Interest and deferred financing cost amortization on long-term debt	\$ 2,697	\$ 3,069
Standby fees	228	219
Interest revenue	(1,134)	(1,302)
Financial expenses	\$ 1,791	\$ 1,986

NOTE 12. OTHER LIABILITIES

The Company's other liabilities are comprised of the following:

	2004	2003
Pension Plans and other post-retirement benefits including liabilities related to divestiture of some of Devtek's subsidiaries prior to their acquisition by the Company on June 12, 2000 (discontinued operation liabilities)	\$ 6,836	\$ 6,414
Salaries and other compensations related to divestiture referred to above	82	310
Others	624	624
	\$ 7,542	\$ 7,348

NOTE 13. CAPITAL STOCK**Authorized capital stock**

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

An unlimited number of common shares

An unlimited number of first preferred shares, issuable in series

An unlimited number of second preferred shares, issuable in series.

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

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

	2004	2003
23,401,559 common shares (23,544,659 in 2003)	\$ 70,883	\$ 71,317

NOTE 13. CAPITAL STOCK (cont'd)**Common shares issued**

During the year, the Company did not issue any common shares. In 2003, the Company had issued 35,000 common shares for a total cash consideration of \$189 relating to the exercise of stock options.

After year-end, on April 1, 2004, the Company issued 3,500,000 common shares for a total cash consideration of \$16,180 (see note 21).

Repurchase of common shares

On August 21, 2002, the Company obtained approval from the Toronto Stock Exchange (TSX) to proceed with its normal course issuer bid allowing the Company to purchase up to 1,222,195 of its common shares during the twelve-month period ending August 20, 2003. In April 2003, the Company obtained TSX approval to increase the number of common shares to be repurchased at 1,585,700. During the twelve-month period ended August 20, 2003, the Company repurchased for cancellation, a total of 1,023,478 common shares for a total cash consideration of \$4,848.

On September 3, 2003, the Company obtained another approval from the TSX to proceed with its normal course issuer bid to purchase up to 1,172,772 common shares during the twelve-month period ending September 2, 2004. Under this approval, the Company repurchased for cancellation, a total of 53,900 common shares for a total cash consideration of \$279.

During the years ended March 31, 2004 and 2003, the Company repurchased for cancellation 143,100 and 934,278 common shares for a total cash consideration of \$579 and \$4,549 respectively.

The excess of \$145 (\$1,719 for the year ended March 31, 2003) of the cost of the common shares repurchased over their average book value of \$434 (\$2,830 for the year ended March 31, 2003) was accounted for in reduction of the Company's retained earnings.

Stock option plan

Under the stock option plan (the plan), options are granted to directors, officers and key employees. The plan establishes that the subscription price will be equal to the closing price of the related shares on the day preceding the granting of the options. Options generally may be exercised after the first anniversary of the date of grant until the seventh anniversary of the date of grant. The aggregate number of shares reserved for issuance under the plan is 2,277,118 of which 505,220 shares have not yet been granted.

During the year, the Company granted to key employees 199,903 (200,000 in 2003) stock options representing a total fair value of \$306 (\$546 in 2003) calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a compounded risk free interest rate of 5.1% (5.2% in 2003). Stock options cost is amortized over their earned period and the expense of \$146 (\$81 in 2003) was accounted for in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

As of March 31, 2004, 792,880 options were issued and outstanding as follows:

Range of exercise price	Outstanding options			Vested options	
	Number	Weighted-average years of maturity	Weighted-average exercise price	Number	Weighted-average exercise price
\$3.50 to \$5.00	475,380	3.9	\$ 4.67	261,100	\$ 4.61
\$5.00 to \$6.50	50,000	3.4	5.85	50,000	5.85
\$6.50 to \$8.00	65,000	4.1	7.65	26,000	7.65
\$8.00 to \$10.00	202,500	4.8	9.72	58,000	9.70
	792,880	4.1	\$ 6.28	395,100	\$ 5.71

During the year, the number of options has varied as follows:

	2004		2003	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of year	\$ 6.58	983,350	\$ 6.05	866,350
Granted	4.78	199,903	8.48	200,000
Exercised	-	-	5.39	(35,000)
Cancelled	6.27	(390,373)	5.90	(48,000)
Balance at end of year	\$ 6.28	792,880	\$ 6.58	983,350

NOTE 13. CAPITAL STOCK (cont'd)**Stock option plan** (cont'd)

In fiscal 2004, the Company also granted 12,500 stock appreciation rights (SAR) to its non-employee directors (12,500 in fiscal 2003). SAR are expensed on an earned basis and, their costs are determined based on the excess of the Company's common shares quoted market value over their granted value. No expense was recorded for SAR in fiscal year 2004 and 2003.

At March 31, 2004, on a cumulative basis, 30,000 SAR were still outstanding at a weighted-average granted value of \$6.70 (25,000 SAR at a weighted average value of \$7.57 at March 31, 2003).

Diluted earnings per share

The use of the treasury method had no impact on the average number of common shares used for the diluted earnings per share calculations for the years ended March 31, 2004 and 2003.

NOTE 14. CUMULATIVE TRANSLATION ADJUSTMENT

The decrease in the cumulative translation adjustment of \$1,950 during the year (decrease of \$1,757 in 2003) reflects the impact of the foreign exchange rate fluctuations on the net assets of foreign subsidiaries.

NOTE 15. INCOME TAXES

The computation of income taxes is as follows:

	2004	2003
Income taxes at combined federal and provincial tax rates	\$ (1,379)	\$ (45)
Large corporations' tax	88	144
Tax incentives for manufacturing and processing	(396)	(495)
Permanent differences	(235)	119
Income tax rate difference-US subsidiaries	(83)	315
Reduction in Future income tax liabilities	-	(600)
Other items	(14)	281
	\$ (2,019)	\$ (281)

Temporary differences and carry-forwards, which give rise to future income tax assets and liabilities, are as follows:

	2004	2003
Future income tax assets		
Current		
Non-deductible reserves	\$ 5,160	\$ 4,974
Inventories	506	956
	\$ 5,666	\$ 5,930
Long-term		
Loans bearing no interest	\$ 615	\$ 969
Restructuring charges	747	2,710
Future tax benefits from tax loss utilization	3,724	-
Capital assets	214	153
Other	566	934
	\$ 5,866	\$ 4,766
Future income tax liabilities		
Current		
Inventories	\$ 1	\$ 380
Investment tax credits	291	-
	\$ 292	\$ 380

NOTE 15. INCOME TAXES (cont'd)

	2004	2003
Future income tax liabilities (cont'd)		
Long-term		
Capital assets	\$ 10,765	\$ 11,310
Other	173	(182)
	\$ 10,938	\$ 11,128
Income taxes (recovery) are as follows:		
Current taxes	\$ (553)	\$ 2,659
Future taxes	(1,466)	(2,940)
	\$ (2,019)	\$ (281)

NOTE 16. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations can be detailed as follows:

	2004	2003
Accounts receivable	\$ 4,791	\$ 11,017
Income taxes receivable	2,233	(3,785)
Other receivables	852	(2,159)
Inventories	2,868	2,477
Prepaid expenses	(7)	(98)
Accounts payable and accrued liabilities and other liabilities	(3,531)	(379)
Customers' advance	6,079	(2,211)
Income taxes payable	(1,046)	(2,644)
Effect of changes in exchange rate	(1,676)	(1,485)
	\$ 10,563	\$ 733

NOTE 17. PENSION AND OTHER POST-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 either based on years of service and flat amount, years of service and final average salary or set out by individual agreements.

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

In fiscal years 2004 and 2003, the Company offered an early retirement program to certain employees of one of its division. The eligible employees who accepted to retire under this program received an additional temporary pension payable up to the age of 65. The additional liability resulting from that program has been accounted for in the pension expense as "special termination benefits", amounting to \$575 in 2004 and \$628 in 2003.

Total cash payments

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans were \$1,666 (2003 - \$1,606) while the cash contributed to its defined contribution plans was \$1,076 (2003 - \$1,193).

Defined benefit plans

The Company measures the fair value of plan assets for accounting purposes as at March 31 of each year while its accrued benefit obligations is measured as at December 31 of each year and projected to March 31 for all plans except one, for which the measurement is made as at March 31. The most recent actuarial valuations of the pension plans for funding purposes were as of December 31, 2001 and January 1, 2003 and the next required valuations will be as of December 31, 2004 and January 1, 2006.

NOTE 17. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS (cont'd)**Defined benefit pension plan obligations**

	2004	2003
Accrued benefit obligation		
Balance at beginning of year	\$ 22,513	\$ 19,482
Current service cost	1,146	1,136
Interest cost	1,224	1,128
Benefits paid	(1,115)	(851)
Actuarial losses	1,689	990
Special termination benefits	575	628
Balance at end of year	\$ 26,032	\$ 22,513

Defined benefit pension plan assets

	2004	2003
Fair value of plan assets		
Balance at beginning of year	\$ 10,324	\$ 9,819
Actual return on plan assets	2,090	(794)
Employer contributions	1,666	1,606
Employee contributions	491	544
Benefits paid	(1,115)	(851)
Balance at end of year	\$ 13,456	\$ 10,324

Plan assets consist of:

	2004	2003
Asset category ⁽¹⁾		
Equity securities	55 %	53 %
Debt securities	38	38
Real estate	1	0
Other	6	9
Total	100 %	100 %

⁽¹⁾ Measured as of the measurement date of March 31 of each year.**Reconciliation of the funded status of the defined benefit pension plans to the amounts recorded in the consolidated financial statements**

	2004	2003
Fair value of plan assets	13,456	10,324
Accrued benefit obligation	(26,032)	(22,513)
Funded status of plans – (deficit)	\$ (12,576)	\$ (12,189)
Unamortized net actuarial loss	3,560	3,314
Unamortized past service cost	784	857
Unamortized transitional obligation from acquisitions	429	563
Unamortized transitional obligation	967	1,041
Accrued benefit liability, net of valuation allowance	\$ (6,836)	\$ (6,414)

The accrued benefit liability, net of valuation allowance, is included in the Company's balance sheet under Other liabilities.

NOTE 17. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS (cont'd)**Reconciliation of the funded status of the defined benefit pension plans to the amounts recorded in the consolidated financial statements** (cont'd)

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of pension plans that are not fully funded:

	2004	2003
Accrued benefit obligation	\$ (26,032)	\$ (22,513)
Fair value of plan assets	13,456	10,324
Funded status – plan deficit	\$ (12,576)	\$ (12,189)

Elements of defined benefit pension costs recognized in the year

	2004	2003
Current service cost, net of employee contributions	\$ 655	\$ 593
Interest cost	1,224	1,128
Actual return on plan assets	(2,090)	794
Actuarial losses	1,689	990
Special termination benefits	575	628
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	\$ 2,053	\$ 4,133
Adjustments to recognize the long-term nature of employee future benefit costs:		
• Difference between expected return and actual return on plan assets for the year	1,331	(1,528)
• Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligation for the year	(1,577)	(983)
• Difference between amortization of past service costs for the year and actual plan amendments for the year	73	73
• Amortization of the transitional obligation	208	208
Defined benefit pension costs	\$ 2,088	\$ 1,903

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2004	2003
Accrued benefit obligation as of March 31:		
Discount rate	5.50 %	6.25 %
Rate of compensation increase	3.50	3.50
Defined benefit pension costs for years ended March 31:		
Discount rate	6.25 %	6.75 %
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	3.50	3.50

Defined contribution pension plans

The defined contribution pension costs are as follows:

	2004	2003
Defined contribution pension costs	\$ 1,076	\$ 1,193

NOTE 18. COMMITMENTS**Building lease contracts**

The Company has entered into some leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2004 amounted to \$981 excluding escalation clauses. The minimum annual lease payments over the next years are: \$228 in 2005, \$206 in 2006, \$206 in 2007, \$206 in 2008 and \$135 in 2009.

Operating lease contracts - machinery and equipment

Under operating lease contracts for machinery and equipment used for its manufacturing operations, the Company has commitments at March 31, 2004 of \$11,334 for which the minimum annual operating lease payments, over the next five years, are: \$3,021 in 2005, \$2,950 in 2006, \$2,840 in 2007, \$1,769 in 2008 and \$613 in 2009.

Under these operating lease contracts, the Company has the option to purchase the related machinery and equipment at the end of the contract. These purchase option payments represent the following: \$115 in 2005, \$nil in 2006, \$418 in 2007, \$2,642 in 2008 and \$797 in 2009.

Guarantees

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting guideline on, *Disclosure of Guarantees*, which clarifies disclosure requirements for certain guarantees. The Company adopted the new recommendations effective March 31, 2003. In the normal course of business, the Company enters into agreements that may contain features that meet this new requirement on disclosure of guarantees. This new accounting guideline defines a guarantee to be a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying that is related to an asset, a liability or an equity of the guaranteed party or (ii) failure of another party to perform under an obligating agreement.

The Company executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties.

Business dispositions and sale of assets

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company may agree to indemnify against claims from its past conduct of the business. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability that could be required under guarantees, since these events have not materialized yet. The duration of these indemnification agreements could extend up to 2024. The Company has accrued an amount of \$6,078 in the Consolidated balance sheet in respect to this item.

NOTE 19. CONTINGENCIES

The Company is involved in litigations and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

NOTE 20. SEGMENTED INFORMATION

The Company's two operating segments are aerospace & defence and industrial. The aerospace & defence segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation and small arms for the defence industry. The industrial segment represents essentially the manufacture and sale of gas turbine components and other high precision machined products.

The Company evaluates the performance of its operating segments primarily based on operating income before financial expenses and provision for income taxes.

The Company accounts for intersegment and related party sales and transfers, if any, at exchange values.

The accounting policies used to account for the operating segments are the same as those described in the summary of the Company's significant accounting policies.

Segmented information consists of the following:

Activity Segments

	2004			2003		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence	Industrial Products	Total
Sales	\$ 191,166	\$ 22,043	\$ 213,209	\$ 229,196	\$ 31,435	\$ 260,631
Operating income (loss)	2,881	(4,269)	(1,388)	17,625	(6,589)	11,036
Financial expenses			1,791			1,986
Restructuring charges and goodwill impairment			1,052			9,177
Loss before income tax recovery			(4,231)			(127)
Assets	260,150	22,904	283,054	245,245	43,822	289,067
Goodwill	22,060	-	22,060	22,060	-	22,060
Purchase of capital assets	13,041	2,253	15,294	19,460	4,083	23,543
Amortization	11,776	2,386	14,162	11,087	3,691	14,778

Geographic Segments

	2004			2003		
	Canada	Outside Canada	Total	Canada	Outside Canada	Total
Sales	\$ 170,869	\$ 42,340	\$ 213,209	\$ 208,146	\$ 52,485	\$ 260,631
Operating income (loss)	4,317	(5,705)	(1,388)	19,089	(8,053)	11,036
Financial expenses			1,791			1,986
Restructuring charges and goodwill impairment			1,052			9,177
Loss before income tax recovery			(4,231)			(127)
Assets	233,254	49,800	283,054	231,300	57,767	289,067
Goodwill	20,977	1,083	22,060	20,977	1,083	22,060
Purchase of capital assets	10,090	5,204	15,294	18,008	5,535	23,543
Amortization	10,397	3,765	14,162	9,664	5,114	14,778
Export sales	112,113			137,951		

64% of the Company's sales (65% in 2003) are destined to US customers.

NOTE 21. SUBSEQUENT EVENTS**Acquisition of Progressive Incorporated**

On February 24, 2004, the Company had entered into an asset purchase agreement and plan for merger to acquire Progressive, Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector with current annual sales of approximately \$50,000. The total purchase price represented \$74,193 (US\$56,356), which included \$14,694 (US\$11,161) for tax impacts, transaction costs and new equipment. On April 1, 2004, the Company concluded the acquisition of Progressive. The total purchase price can be detailed as follows:

	Purchase Price
Basic purchase price	\$ 59,499
Tax impacts	7,767
Acquisition of new equipment	4,246
Transaction costs and other	2,681
	\$ 74,193

Additional payments of up to \$15,798 (US\$12,000) in total over the next two fiscal years could also be made based on additional profitability performance targets.

The net assets acquired and the initial allocation of the total purchase price of this acquisition along with the means of financing can be broken down as follows:

Net assets acquired		Source of funds	
Working Capital	\$ 17,441	Syndicated Evergreen Revolving Credit Facilities	\$ 36,409
Capital assets	25,983	Common share issue	16,180
Backlog	9,601	Cash	14,363
Goodwill	21,168	Sale balance in escrow	7,241
	\$ 74,193		\$ 74,193

The sale balance in escrow related to this acquisition will gradually reduce, over the next two fiscal years, and will terminate on March 31, 2006.

The underlying value of the backlog which relates to specific sales contracts will be amortized on a pro-rata basis over the life of the related sales contracts.

Common Share Issue

On February 24, 2004, the Company had entered into a bought deal agreement with National Bank Financial Inc. and GMP Securities Ltd, as co-lead managers, to issue by way of private placement 2 975 000 subscription receipts of the Company at a price of \$4.90 per subscription receipt, each representing the right to receive one common share of the Company, subject to the closing of the acquisition of Progressive. Also, the Company's President and Chief Executive Officer and Principal Shareholder had agreed to purchase 525,000 subscription receipts, through a concurrent private placement on the same terms as the underwritten bought deal. On April 1, 2004, in conjunction with the purchase referred to above, the Company closed the subscription receipts offering concluded on February 24, 2004.

Consequently, the subscription receipts issued by the Company were exchanged on April 1, 2004 for 3,500,000 common shares of the Company, on a one-to-one ratio, resulting in a total cash consideration of \$16,180 (net of \$970 fees and expenses) (See note 13).

The net proceeds of the offering, the use of a portion of the Company's credit facilities and its current liquidity fully funded the acquisition of Progressive.

NOTE 22. RECLASSIFICATION

Comparative figures for the financial statements as at March 31, 2003 have been reclassified to comply with the March 31, 2004 presentation.

Board of Directors

HELMUT HOFMANN †
Chairman of the Board
Héroux-Devtek Inc.
Toronto, Ontario

GILLES LABBÉ
President and
Chief Executive Officer
Héroux-Devtek Inc.
Montréal, Québec

JEAN-LOUIS FONTAINE †
Vice-Chairman of the Board
and Director
Bombardier Inc.
Montréal, Québec
Diversified manufacturer of
transportation equipment

CLAUDE BOIVIN †
Consultant and Member
of various Boards of Directors
Montréal, Québec

PIERRE MARCOUILLER *
Chairman of the Board
Camoplast Inc.
Montréal, Québec
Manufacturer of composite and
thermoplastic products for light
and heavy duty vehicles

BRIAN A. ROBBINS *
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Chief Executive Officer
Exco Technologies Limited
Toronto, Ontario
Supplier of molded and extruded parts
for the automotive and
industrial markets

JOHN CYBULSKI
(nominated on May 1, 2004)
Principal, Aeroglobe LLC
International business consulting firm

CHRISTIAN DUBÉ *
(nominated on May 1, 2004)
Vice-President and
Chief Financial Officer
Cascades Inc.
Leader in the production, conversion
and the marketing of packaging
products – boxboard, cartonboard – fine
specialty papers and tissue papers
made primarily with recycled fibre

† Member of Human Resources and Corporate Governance Committee

* Member of Audit Committee

Corporate Management of Héroux-Devtek

GILLES LABBÉ
President and
Chief Executive Officer

RÉAL BÉLANGER
Executive Vice-President
and Chief Financial Officer

PATRICE GAUVIN
Vice-President,
Business Development

MARTIN BRASSARD
Vice-President,
Control and Information
Technology

Division Managers

LANDING GEAR

RENÉ LALANDE
Vice-President, Operations

PAUL BOURGON
Vice-President,
Sales and Marketing

NAGY HOMSY
Vice-President, Engineering
and Quality Assurance

YVON CASTONGUAY
Plant Manager
Manufacturing
Longueuil

MARTIN LOISELLE
Plant Manager
Repair & Overhaul
Longueuil

GAÉTAN ROY
Plant Manager
Kitchener

DANIEL NORMANDIN
Plant Manager
Laval

AEROSTRUCTURE

DENIS TRUDEL
Plant Manager
Héroux-Devtek Aerostructure

**WOLFGANG
MILDENBERGER**
Operations Manager
Magtron

FRÉDÉRIC GAGNÉ
Operations Manager
Les Industries C.A.T.

GUINN D. CROUSEN
President
Progressive Incorporated
(acquired on April 1, 2004)

BUDDIE R. LANGFORD
Vice-President, Administration
Progressive Incorporated

GAS TURBINE COMPONENTS

ALVIN COOK
President

DAVE COOK
Operations Manager
Cincinnati

LOGISTICS & DEFENCE

JEFF MACLEOD
General Manager
Diemaco

SHAREHOLDERS' INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders will be held on Thursday, September 2, 2004, at 11:00 a.m. in the Salon Pierre de Coubertin of the Omni Hotel, 1050 Sherbrooke Street West, Montréal, Québec, Canada

ANNUAL INFORMATION FORM

Shareholders may obtain the Annual Information Form by writing to the Corporate Secretary of Héroux-Devtek Inc.

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SHARE LISTING

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Ticker symbol: HRX

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