Q2

04

quarterly report

second quarter ended September 30, 2004

HÉROUX DEVTEK

message to shareholders

On behalf of the Board of Directors, I would like to present the financial results for Héroux-Devtek's second quarter ended September 30, 2004.

The Company posted a net loss of $1.6 million or $0.06 per share for the second quarter ended September 30, 2004, compared to a net loss of $886,000 or $0.04 per share for the second quarter a year ago. Sales for the second quarter were up 14.9% to $61.1 million from $53.2 million last year. The increase is due mainly to the acquisition of Progressive Inc. which generated revenues of $15.9 million during the second quarter. Consolidated sales for the six months grew 11.3% to $117.4 million compared to $105.5 million a year ago. Net loss for the six months was $2.9 million or $0.11 per share, compared to a net loss of $1.7 million or $0.07 per share a year earlier.

We had previously stated that results for the first half of this year would remain under pressure. Quarter-over-quarter sales have increased and we have caught up on some of the first quarter's late deliveries, despite the traditional two-week summer factory shutdown. We expect sales to grow through the second half of the year and remain confident of an improving overall situation through the balance of the current year.

Second Quarter Highlights

- A $22 million contract was awarded by the United States Air Force (USAF) for the production of landing gear components and complete landing gear assemblies for the F-16 fighter aircraft. Deliveries commence in fiscal 2005-2006 through fiscal 2007-2008.
- The Gas Turbine Components Division received a $10.9 million contract to produce components for the USAF F-100 engine. Final delivery of all units is planned for February 2006.
- The second quarter sales increase compared to the corresponding period last year was offset by the continuing strength of the Canadian dollar, which had an unfavourable impact of $1.4 million, as well as by lower Landing Gear Division sales of $8.3 million.

Sector Results

Second quarter sales in the **Aerospace & Defence** segment increased 16.5% to $55.7 million compared to $47.8 million for the corresponding period last year, due to the acquisition of Progressive and to a catch-up in some of the late deliveries incurred during the first quarter. For the six months, the segment's sales increased 13.5% to $107.2 million from $94.5 million.

Sales in the Landing Gear military sector continued to be impacted by the completion of previous manufacturing contracts on the P-3 and KC-135R programs. Commercial Landing Gear sales also decreased, mainly as a result of reduced demand for KC-10 aircraft repair and overhaul. Aerostructure sales were positively affected due to the first quarter Progressive acquisition. The sales shortfall of the first quarter in the Longueuil and Dorval facilities was partly recovered, with second half sales expected to increase in light of the current backlog.

Aircraft Engine Component sales were flat with last year's levels when denominated in US currency. Sales in the Defence sector were down marginally.

Second quarter **Industrial** segment sales were flat year-over-year at $5.4 million, compared to $5.3 million a year ago. Six month sales were down 7.5% to $10.2 million from $11.1 million. Gas Turbine Components Division sales were affected by the challenges of improving the manufacturing and timely delivery of newly introduced parts. Other Industrial sales were up substantially as the result of a new customer win.

Outlook

The aerospace industry continues to be affected by market conditions which have impacted the financial performance of major US commercial carriers. A noteworthy example of this is the recently announced layoff by Bombardier due to reduced demand for regional jets. Nonetheless Héroux-Devtek remains well-positioned as a supplier of choice for several world-class leaders in the aerospace industry.

While the Canadian dollar continues to have a significant negative impact on Héroux-Devtek's results, we are making progress. Part of the delays in deliveries which affected the first quarter have been resolved and this situation should continue to improve. The weakness in the first half was anticipated and we are now confident of an improving situation in each subsequent quarter.

I wish to thank our shareholders for their continuing confidence and support.

Gilles Labbé
President and Chief Executive Officer
October 28, 2004

Consolidated balance sheets

As at September 30, 2004 and March 31, 2004 (In thousands of dollars)

	September 2004 (Unaudited)	March 2004 (Unaudited) (Restated) (Note 2)
Assets		
Current assets		
Cash and temporary investments	$ 9,659	$ 58,560
Accounts receivable	33,179	31,532
Income taxes receivable	2,532	1,552
Other receivables (Note 2)	3,243	3,158
Inventories	78,407	55,782
Prepaid expenses	2,814	2,219
Future income taxes (Note 2)	5,686	5,570
	135,520	158,373
Capital assets, net (Note 2)	115,748	93,769
Other assets (Note 2)	1,176	2,890
Future income taxes	8,267	5,866
Backlog, net (Note 3)	8,599	–
Goodwill (Note 3)	42,345	22,060
	$311,655	$ 282,958
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 2)	$ 68,194	$ 69,951
Customers' advances	2,611	9,991
Income taxes payable	2,691	229
Future income taxes	631	292
Current portion of long-term debt (Note 8)	3,769	4,049
	77,896	84,512
Long-term debt (Note 8)	84,470	59,464
Other liabilities	7,724	7,542
Future income taxes	10,292	10,938
	180,382	162,456
Shareholders' Equity		
Capital stock (Note 4)	87,195	70,883
Contributed surplus (Note 4)	318	227
Cumulative translation adjustment	(2,902)	(147)
Retained earnings	46,662	49,539
	131,273	120,502
	$311,655	$ 282,958

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

Consolidated statements of income (loss)

For the periods ended September 30, 2004 and 2003
(In thousands of dollars, except per share data) (Unaudited)

	Quarters ended September 30		Six months ended September 30	
	2004	2003 (Restated) (Note 2)	**2004**	2003 (Restated) (Note 2)
Sales	**$ 61,066**	$ 53,159	**$ 117,434**	$ 105,544
Cost of sales	**52,926**	44,450	**100,815**	87,561
Amortization	**4,613**	3,434	**9,109**	6,941
Gross profit	**3,527**	5,275	**7,510**	11,042
Selling and administrative expenses	**4,845**	5,649	**10,175**	11,640
Operating loss	**(1,318)**	(374)	**(2,665)**	(598)
Financial expenses (Notes 2 and 5)	**1,016**	567	**1,457**	1,130
Loss before restructuring charges and income tax recovery	**(2,334)**	(941)	**(4,122)**	(1,728)
Restructuring charges	**–**	461	**–**	835
Loss before income tax recovery	**(2,334)**	(1,402)	**(4,122)**	(2,563)
Income tax recovery	**(773)**	(516)	**(1,245)**	(859)
Net loss	**$ (1,561)**	$ (886)	**$ (2,877)**	$ (1,704)
Loss per share – basic and diluted	**$ (0.06)**	$ (0.04)	**$ (0.11)**	$ (0.07)
Weighted-average number of shares outstanding during the periods	**26,931,202**	23,454,111	**26,917,135**	23,466,642

Consolidated statements of retained earnings

For the periods ended September 30, 2004 and 2003
(In thousands of dollars) (Unaudited)

	Quarters ended September 30		Six months ended September 30	
	2004	2003 (Restated) (Note 2)	**2004**	2003 (Restated) (Note 2)
Balance at beginning of period – as previously reported	**$ 48,223**	$ 50,902	**$ 49,361**	$ 51,718
Change in accounting policy (Note 2)	**–**	270	**178**	301
Restated balance at beginning of period	**48,223**	51,172	**49,539**	52,019
Repurchase of common shares (Note 4)	**–**	(16)	**–**	(45)
Net loss	**(1,561)**	(886)	**(2,877)**	(1,704)
Balance at end of period	**$ 46,662**	$ 50,270	**$ 46,662**	$ 50,270

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

Consolidated statements of cash flows

For the periods ended September 30, 2004 and 2003 (In thousands of dollars) (Unaudited)

	Quarters ended September 30 2004	Quarters ended September 30 2003 (Restated) (Note 2)	Six months ended September 30 2004	Six months ended September 30 2003 (Restated) (Note 2)
Cash and cash equivalents provided by (used for):				
Operating activities				
Net loss	**$ (1,561)**	$ (886)	**$ (2,877)**	$ (1,704)
Items not requiring an outlay of cash				
Amortization	**4,686**	3,529	**9,258**	7,085
Future income taxes	**(1,050)**	(1,049)	**(1,640)**	(1,940)
Loss (gain) on sale of capital assets	**–**	–	**7**	(26)
Gain on financial derivative instrument (Notes 2 and 5)	**–**	–	**(528)**	–
Amortization of net deferred loss related to financial derivative instrument (Notes 2 and 5)	**39**	–	**80**	–
Accretion expense of asset retirement obligation	**50**	48	**100**	96
Stock-based compensation (Note 4)	**48**	33	**91**	60
Cash flow from operations	**2,212**	1,675	**4,491**	3,571
Net change in non-cash items related to operations (Note 6)	**(8,001)**	(4,009)	**(18,680)**	(7,317)
Cash and cash equivalents used for operating activities	**(5,789)**	(2,334)	**(14,189)**	(3,746)
Investing activities				
Net change in temporary investments	**4,972**	6,229	**–**	8,461
Purchase of capital assets	**(2,427)**	(3,162)	**(6,793)**	(4,761)
Proceeds on disposal of capital assets	**–**	–	**793**	74
Business acquisition (Note 3)	**(8,141)**	–	**(71,695)**	–
Cash and cash equivalents provided by (used for) investing activities	**(5,596)**	3,067	**(77,695)**	3,774
Financing activities				
Increase in long-term debt (Note 3)	**7,000**	–	**43,598**	108
Repayment of long-term debt	**(7,705)**	(555)	**(16,451)**	(2,046)
Repurchase of common shares (Note 4)	**–**	(34)	**–**	(333)
Issuance of common shares (Note 3 and 4)	**45**	–	**16,312**	–
Other	**(80)**	(44)	**(160)**	(236)
Cash and cash equivalents provided by (used for) financing activities	**(740)**	(633)	**43,299**	(2,507)
Effect of changes in exchange rates on cash and cash equivalents	**(568)**	94	**(316)**	(130)
Change in cash and cash equivalents	**(12,693)**	194	**(48,901)**	(2,609)
Cash and cash equivalents at beginning of period	**22,352**	4,978	**58,560**	7,781
Cash and cash equivalents at end of period	**$ 9,659**	$ 5,172	**$ 9,659**	$ 5,172
Cash and temporary investments are comprised of:				
Cash and cash equivalents	**$ 9,659**	$ 5,172	**$ 9,659**	$ 5,172
Temporary investments	**–**	36,730	**–**	36,730
	$ 9,659	$ 41,902	**$ 9,659**	$ 41,902
Interest paid	**$ 728**	$ 748	**$ 1,550**	$ 1,374
Income taxes paid	**$ 666**	$ 1,532	**$ 1,033**	$ 4,310

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

Notes to consolidated interim financial statements

For the periods ended September 30, 2004 and 2003
(All dollar amounts in thousands, except per share data) (Unaudited)

NOTE 1. CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The consolidated interim financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned and were not subject to a review engagement by the external auditors.

The consolidated interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual financial statements, except for the changes in accounting policies for Hedging relationships and Asset retirement obligations described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the consolidated audited financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2004.

NOTE 2. CHANGES IN ACCOUNTING POLICIES

Hedging relationships

On April 1, 2004, the Company has adopted Accounting Guideline 13 (AcG-13) on Hedging relationships which 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 until they are designated and then qualify for hedge accounting.

As at April 1, 2004, derivative instruments used by the Company and that previously qualified for hedge accounting continue to qualify under the accounting guideline except for the interest rate swap agreement of US$10,000.

Interest rate swap agreement

As at April 1, 2004, the Company recorded a deferred loss amounting to $727 regarding the interest rate swap agreement. On May 20, 2004, the interest rate swap agreement was designated for hedge accounting purposes and the change in its fair value since April 1, 2004 representing a gain of $528 is included in the Company's financial expenses. The amortization of the resulting net deferred loss amounted to $39 and $80 for the quarter and the six-month period ended September 30, 2004 respectively.

As at September 30, 2004, the net deferred loss of $419 is included in the Company's other assets and is amortized over the remaining life of the interest rate swap agreement which matures on August 2, 2007.

Forward Foreign Exchange Contract

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 are translated into Canadian dollars at the exchange rate prevailing at year-end. For accounts receivable which qualify for hedge accounting, unrealized gains and losses are included in the Company's balance sheet under "other receivables" or "accounts payable and accrued liabilities". As at September 30, 2004, the Company's other receivables included $830 for accounts receivable which qualify for hedge accounting. 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 (loss). 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 (sales) when the sale is recorded.

NOTE 2. 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 its useful life.

Effective April 1, 2004, the Company has adopted retroactively this change in accounting policy to account for asset retirement obligations.

The Company's asset retirement obligations represent essentially environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil that were estimated at $4,700 and provided for in prior years, and are included in the Company's accounts payable and accrued liabilities at March 31, 2004.

The impact of this new accounting policy on the Company's balance sheet at March 31, 2004, using a discount rate of 4.5%, was as follows:

• Increase in capital assets	$ 1,582
• (Increase) in accumulated amortization of capital assets	$ (1,582)
• Increase in retained earnings	$ (178)
• (Decrease) in future income taxes included in current assets	$ (96)
• Decrease in accounts payable and accrued liabilities	$ 274

The impact of this change in accounting policy on the consolidated statements of income (loss) for the periods ended September 30 is as follows:

	Quarters ended September 30		Six months ended September 30	
	2004	2003	**2004**	2003
Increase in Financial expenses	**$ 50**	$ 48	**$ 100**	$ 96
(Increase) in Income tax recovery	**(17)**	(17)	**(34)**	(34)
Increase of net loss	**$ 33**	$ 31	**$ 66**	$ 62

The estimated $4,700 rehabilitation costs are expected to be paid in the next three fiscal years.

NOTE 3. BUSINESS ACQUISITION

Description of business

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 and acquired all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector with annual current sales of approximately $50,000. This acquisition was accounted for using the purchase method. Therefore the earnings of Progressive have been accounted for in the Company's Consolidated Statement of income (loss) since the acquisition date and are included in the Aerospace & Defence activity segment. The total purchase price represented $74,193 (US$56,356), and can be detailed as follows:

Basic purchase price	**$ 59,499**
Tax impacts	**7,767**
Acquisition of a large specialized manufacturing equipment	**4,246**
Transaction costs and other	**2,681**
	$ 74,193

NOTE 3. BUSINESS ACQUISITION *(cont'd)*

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. At September 30, 2004, an additional payment of $658 (US$500) was made and is included in the basic purchase price.

Financing of the acquisition

In order to finance this acquisition, the Company used $36,409 of its existing Secured Syndicated Evergreen Revolving Credit Facilities, issued 3,500,000 common shares through private placements for a total net cash consideration of $16,180 and used $21,604 of its available cash at March 31, 2004. The financing and the total outlay of cash and cash equivalents can be broken down as follows:

Secured Syndicated Evergreen Revolving Credit Facilities		$ 36,409
Issuance of common shares		16,180
Cash	14,363	
Sale balance in escrow	7,241	21,604
		74,193
Less: cash and cash equivalent acquired		2,498
		$ 71,695

Purchase Price Allocation

The identifiable intangible asset related to the acquisition of Progressive which amounted to $9,601 was attributed to the backlog. 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. The excess of the purchase price over the fair value of the net tangible assets acquired and the backlog value amounted to $21,168 and represented the allocated value to goodwill. Backlog and goodwill acquired are tax deductible, and the initial purchase price allocation was broken down as follows:

Cash	$ 2,498
Tangible assets	44,936
Backlog	9,601
Goodwill	21,168
Accounts payable and accrued liabilities	(4,010)
	$ 74,193

NOTE 4. 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:

	September 30, 2004	March 31, 2004
26,936,559 common shares (23,401,559 at March 31, 2004)	$ 87,195	$ 70,883

NOTE 4. CAPITAL STOCK *(cont'd)*

Stock-based compensation

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black & Scholes model to determine their fair value. The expense related to stock options recorded in the quarter ended September 30, 2004 amounted to $48 ($33 in 2003), and to $91 for the six-month period ended September 30, 2004 ($60 in 2003).

During the quarter and the six-month period ended September 30, 2004, 12,500 and 35,000 stock options were exercised at an average granted price of $3.60 and $3.79 for a total cash consideration of $45 and $132 respectively. During the quarter ended September 30, 2004, 200,000 stock options were granted at $5 that are vesting over a four-year period and can be exercised over a seven-year period and 149,059 were cancelled.

Stock appreciation rights

The Company has a Stock Appreciation Right plan (SAR) 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 over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR during the quarters and the six-month periods ended September 30, 2004 and 2003.

Issuance of common shares

On April 1, 2004, in conjunction with the closing of the acquisition of Progressive, the Company issued 3,500,000 common shares for a total net cash consideration of $16,180 (net of $970 fees and expenses). During the quarter and the six-month period ended September 30, 2004, 12,500 and 35,000 common shares respectively were issued following the exercise of stock options for a total cash consideration of $45 and $132.

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 to 1,585,700. Last year, during the quarter ended September 30, 2003, the Company repurchased for cancellation 6,200 common shares for a total cash consideration of $34. The excess ($16) of the cost of the common shares repurchased over their average book value ($18) was accounted for as a reduction of the Company's retained earnings.

For the six-month period ended September 30, 2003, the Company had repurchased for cancellation a total of 95,400 common shares for a total cash consideration of $333. The excess ($45) of the cost of common shares repurchased over their average book value ($288) was accounted for as a reduction of the Company's retained earnings.

Employee stock purchase plan

On September 2, 2004, the Board of Directors of the Company approved an employee stock purchase plan to induce key employees to hold, on a permanent basis, common shares of the Company.

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

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

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

During the quarter ended September 30, 2004, no common shares were issued or attributed to the participating employees.

NOTE 5. FINANCIAL EXPENSES

The financial expenses for the quarters and the six-month periods ended September 30 are as follows:

	Quarters ended September 30		Six months ended September 30	
	2004	2003 (Restated) (Note 2)	**2004**	2003 (Restated) (Note 2)
Interest expense	**$ 1,016**	$ 873	**$ 2,072**	$ 1,772
Interest revenue	**(39)**	(306)	**(167)**	(642)
Gain on financial derivative instrument	**–**	–	**(528)**	–
Amortization of net deferred loss related to financial derivative instrument	**39**	–	**80**	–
Financial expenses	**$ 1,016**	$ 567	**$ 1,457**	$ 1,130

NOTE 6. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations for the quarters and the six-month periods ended September 30 represents the following:

	Quarters ended September 30		Six months ended September 30	
	2004	2003	**2004**	2003
Accounts receivable	**$ (656)**	$ (3,448)	**$ 1,956**	$ 6,023
Income taxes receivable	**(716)**	(623)	**(980)**	(9)
Other receivables	**(114)**	668	**225**	1,654
Inventories	**(1,075)**	2,658	**(3,967)**	(62)
Prepaid expenses	**(590)**	422	**(471)**	864
Accounts payable and accrued liabilities and other liabilities	**(428)**	(1,462)	**(7,875)**	(9,488)
Customers' advance	**(3,177)**	(1,769)	**(7,380)**	(3,908)
Income taxes payable	**235**	(426)	**1,195**	(1,031)
Effect of changes in exchange rate	**(1,480)**	(29)	**(1,383)**	(1,360)
Net change in non-cash items related to operations	**$ (8,001)**	$ (4,009)	**$ (18,680)**	$ (7,317)

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

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

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS *(cont'd)*

Defined pension plan obligations are impacted by factors including interest rate, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The 2004 costs are based on a measurement of the pension benefit plan obligations and the funds' assets at March 31, 2004. The total pension plan expense is as follows:

	Quarters ended September 30		Six months ended September 30	
	2004	2003	**2004**	2003
Defined benefit plans	**$ 457**	$ 467	**$ 963**	$ 990
Defined contribution plans	**435**	283	**735**	538
	$ 892	$ 750	**$ 1,698**	$ 1,528

NOTE 8. LONG-TERM DEBT

	September 30, 2004	March 31, 2004
Secured Syndicated Evergreen Revolving Credit Facilities of up to $100,000 (either in Canadian or U.S. currency equivalent) having revolving periods of two (2) years extendible annually, bearing interest at prime rate plus 1.0% for the Canadian operating facility, at Bankers' acceptance plus 2.0% for the Canadian term facility, at U.S. base rate plus 1.0% for the U.S. operating facility, and at Libor plus 2.0% for the U.S. term facility.	**$ 61,432**	$ 34,322
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	**14,289**	15,509
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between June 2005 and September 2009, with amortization periods varying between five (5) to eight (8) years, secured by the related capital assets.	**12,518**	13,682
	88,239	63,513
Less: current portion	**3,769**	4,049
	$ 84,470	$ 59,464

NOTE 9. SEGMENTED INFORMATION

Quarters ended September 30

Activity Segments

	2004			2003		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence (Restated) (Note 2)	Industrial Products (Restated) (Note 2)	Total (Restated) (Note 2)
Sales	$ 55,685	$ 5,381	$ 61,066	$ 47,814	$ 5,345	$ 53,159
Operating income (loss)	(455)	(863)	(1,318)	526	(900)	(374)
Financial expenses			1,016			567
Restructuring charges			–			461
Loss before income tax recovery			(2,334)			(1,402)
Assets	286,971	24,684	311,655	236,774	29,811	266,585
Backlog, net	8,599	–	8,599	–	–	–
Goodwill	42,345	–	42,345	22,060	–	22,060
Purchase of capital assets	2,193	234	2,427	2,859	303	3,162
Amortization	3,963	723	4,686	3,012	517	3,529

Geographic Segments

	2004			2003		
	Canada	Outside Canada	Total	Canada (Restated) (Note 2)	Outside Canada (Restated) (Note 2)	Total (Restated) (Note 2)
Sales	$ 35,052	$ 26,014	$ 61,066	$ 42,895	$ 10,264	$ 53,159
Operating income (loss)	(2,570)	1,252	(1,318)	1,035	(1,409)	(374)
Financial expenses			1,016			567
Restructuring charges			–			461
Loss before income tax recovery			(2,334)			(1,402)
Assets	179,449	132,206	311,655	217,088	49,497	266,585
Backlog, net	–	8,599	8,599	–	–	–
Goodwill	20,977	21,368	42,345	20,977	1,083	22,060
Purchase of capital assets	2,032	395	2,427	2,590	572	3,162
Amortization	2,959	1,727	4,686	2,544	985	3,529

NOTE 9. SEGMENTED INFORMATION *(cont'd)*

Six months ended September 30

Activity Segments

	2004			2003		
	Products related to Aerospace & Defence	Industrial Products	Total	Products related to Aerospace & Defence (Restated) (Note 2)	Industrial Products (Restated) (Note 2)	Total (Restated) (Note 2)
Sales	$107,203	$ 10,231	$117,434	$ 94,488	$ 11,056	$105,544
Operating income (loss)	(843)	(1,822)	(2,665)	2,331	(2,929)	(598)
Financial expenses			1,457			1,130
Restructuring charges			–			835
Loss before income tax recovery			(4,122)			(2,563)
Assets	286,971	24,684	311,655	236,774	29,811	266,585
Backlog - net	8,599	–	8,599	–	–	–
Goodwill	42,345	–	42,345	22,060	–	22,060
Purchase of capital assets	4,622	2,171	6,793	4,154	607	4,761
Amortization	8,012	1,246	9,258	5,801	1,284	7,085

Geographic Segments

	2004			2003		
	Canada	Outside Canada	Total	Canada (Restated) (Note 2)	Outside Canada (Restated) (Note 2)	Total (Restated) (Note 2)
Sales	$ 68,715	$ 48,719	$117,434	$ 85,116	$ 20,428	$105,544
Operating income (loss)	(4,707)	2,042	(2,665)	2,822	(3,420)	(598)
Financial expenses			1,457			1,130
Restructuring charges			–			835
Loss before income tax recovery			(4,122)			(2,563)
Assets	179,449	132,206	311,655	217,088	49,497	266,585
Backlog – net	–	8,599	8,599	–	–	–
Goodwill	20,977	21,368	42,345	20,977	1,083	22,060
Purchase of capital assets	2,774	4,019	6,793	3,870	891	4,761
Amortization	5,622	3,636	9,258	5,083	2,002	7,085

NOTE 10. RECLASSIFICATION

Comparative figures for the financial statements as at September 30, 2003 have been reclassified to comply with the September 30, 2004 presentation.

Management Discussion and Analysis of Financial Position and Operating Results

This management discussion and analysis of financial condition and results of operations (MD&A) comments on the operations, financial condition and cash flows of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") for the three and six months ended September 30, 2004 and 2003. It should be read in conjunction with the Company's MD&As as at March 31 and June 30, 2004, as well as its interim financial statements to September 30, 2004. Héroux-Devtek's financial statements are 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 on Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements. Such statements are 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 US standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2004.

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 these expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

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

Aerospace:
- Landing Gear products
- Aerostructure products
- Aircraft Engine Components

Defence:
- Small Arms and accessories
- Other Defence products

The Industrial segment includes:
- Industrial Gas Turbine Components
- Other Industrial products

On April 1, 2004, following the acquisition of Progressive Incorporated ("Progressive"), the Company changed the presentation and discussion of its results to better reflect the activity sectors in which it operates.

Significant developments to September 30, 2004

- In the second quarter, the Company was awarded $22.0 million in new contracts by the United States Air Force (USAF) to produce landing gear components and complete landing gear assemblies for the F-16 aircraft. The F-16 is a multirole fighter aircraft and the workhorse of the USAF fighter fleet. There are more than 2,900 F-16 aircraft on active duty.
- Also in the second quarter, Héroux-Devtek's Gas Turbine Component Division was awarded a $10.9 million contract to produce components for the USAF F-100 engine.
- In the first quarter, the Company won new military orders for at least $22.0 million in landing gear components for the B1B, F-15, F-16, B-52, E-3, KC-135R and P-3 programs.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended September 30, 2004 rose 14.9% to $61.1 million from $53.2 million last year, mainly due to the acquisition of Progressive. This new business unit generated $15.9 million in the second quarter sales for Héroux-Devtek. Sales were negatively affected during the quarter by a stronger Canadian dollar, which had an impact of $1.4 million or 2.6%, as well as by an $8.3 million reduction in business volume at the Landing Gear Division.

Consolidated sales for the first six months of the year were up 11.3%, totalling $117.4 million compared to $105.5 million last year. Progressive generated sales of $28.6 million for the period, while a stronger Canadian dollar had a $3.7 million negative impact.

The Company's sales by segment were as follows:

	Second quarters ended September 30			Six months ended September 30		
	2004 ($'000)	2003 ($'000)	% Change	**2004 ($'000)**	2003 ($'000)	% Change
Aerospace & Defence	**55,685**	47,814	16.5	**107,203**	94,488	13.5
Industrial	**5,381**	5,345	0.7	**10,231**	11,056	(7.5)
Total	**61,066**	53,159	14.9	**117,434**	105,544	11.3

Aerospace & Defence Segment

Sales for the Aerospace & Defence segment were as follows:

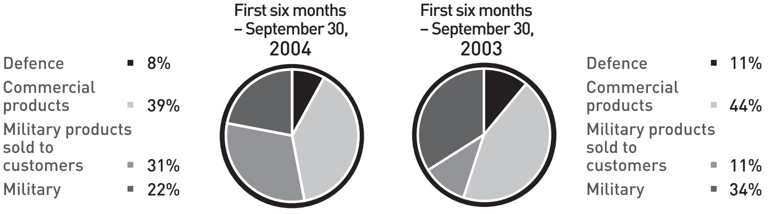
	Second quarters ended September 30			Six months ended September 30		
Sector	**2004 ($'000)**	2003 ($'000)	% Change	**2004 ($'000)**	2003 ($'000)	% Change
Landing Gear	**24,943**	33,253	(25.0)	**49,377**	64,382	(23.3)
Aerostructure	**21,458**	4,648	361.7	**39,141**	10,290	280.4
Aircraft Engine Components	**4,792**	4,920	(2.6)	**9,923**	9,373	5.9
Defence	**4,492**	4,993	(10.0)	**8,762**	10,443	(16.1)
Total	**55,685**	47,814	16.5	**107,203**	94,488	13.5

Sales for the Aerospace & Defence segment were up 16.5% in the quarter to $55.7 million, compared to $47.8 million for the same period last year. The increase in second quarter Aerospace & Defence sales was primarily due to the acquisition of Progressive, which contributed $15.9 million to Aerostructure sales for the period. The Aerostructure Division also made up for some of its late first quarter deliveries, which further boosted sales. Landing Gear sales fell by $6.5 million in the military sector due to manufacturing contract completions on P-3 and KC-135R and $1.8 million in the commercial sector, due to reduced activity in repair and overhaul. Aircraft Engine Component sales were stable prior to conversion from US to Canadian dollars. The decline in Defence sales was attributable to lower demand in Other Defence products, with year-over-year Small Arms product sales holding stable.

Aerospace & Defence sales for the first six months of the year increased 13.5% from $94.5 million to $107.2 million.

The sales shortfalls seen in the first quarter at the Longueuil and Dorval plants were partially recovered in the second quarter. Sales are expected to improve further in the second half of this year given the current backlog.

Aerospace & Defence Sales



Industrial Segment

Sales for the Industrial segment were as follows:

	Second quarters ended September 30			Six months ended September 30		
Sector	**2004 ($'000)**	2003 ($'000)	% Change	**2004 ($'000)**	2003 ($'000)	% Change
Industrial Gas Turbine	**3,565**	4,799	(25.7)	**6,621**	9,743	(32.0)
Other Industrial	**1,816**	546	232.6	**3,610**	1,313	174.9
Total	**5,381**	5,345	0.7	**10,231**	11,056	(7.5)

Sales for the Industrial segment rose 0.7% to $5.4 million in the second quarter of this year from $5.3 million last year. Other Industrial sales were up once again in the second quarter. The Company increased sales in this sector with the win last year of a contract to manufacture new parts for a new customer. Meanwhile, Industrial Gas Turbine sales continued to reflect persistent weak demand. Overall, the Gas Turbine Component Division continues to adjust to the introduction of new parts and is actively working to improve its manufacturing and delivery processes for these products.

For the six-month period ended September 30, 2004, Industrial segment sales were $10.2 million, 7.5% lower than sales of $11.1 million in the first half of last year.

Sales by Destination

The Company's sales by destination were as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 (%)	2003 (%)	**2004 (%)**	2003 (%)
Canada	**23**	26	**23**	27
U.S.	**70**	67	**71**	65
International	**7**	7	**6**	8
Total	**100**	100	**100**	100

The proportion of US sales is higher this year due to the acquisition of Progressive, which generates all of its sales in the United States.

Gross Profit

Consolidated gross profit as a percentage of sales decreased in the second quarter from 9.9% last year to 5.8%. The Canadian dollar accounted for a decline of 0.5%. Other factors that contributed to the decrease were higher unabsorbed manufacturing overhead costs caused by lower sales at the Landing Gear Division, increased manufacturing costs arising from the introduction of new landing gear parts, and market pricing pressure.

Gross profit for the six-month period ended September 30, 2004 totalled 6.4% of sales compared to 10.5% a year earlier.

Selling and Administrative Expenses

Selling and administrative expenses decreased in the second quarter, as shown below:

	Second quarters ended September 30		Six months ended September 30	
	2004	2003	**2004**	2003
Selling and administrative expenses ($'000)	**4,845**	5,649	**10,175**	11,640
% of sales	**7.9 %**	10.6 %	**8.7 %**	11.0 %

The main reason for the lower expenses this year is the inclusion of a $0.7 million gain on foreign exchange resulting from the conversion of monetary items denominated in foreign currencies included in current assets and liabilities following the adoption of Accounting Guideline No. 13 on hedging relationships (see Note 2 to the consolidated financial statements). Last year, net monetary items in foreign currencies hedged by forward foreign exchange contracts were translated using the average exchange rate of the contracts prevailing at the end of the period, and the resulting gains or losses were included in the Company's revenues.

A $0.3 million decline in royalties arising from lower military product sales at the Landing Gear Division also contributed to the lower selling and administrative expenses for the quarter.

Operating Loss

Aerospace & Defence Segment

Aerospace & Defence operating income as a percentage of sales was down 1.9% in the second quarter of this year compared to last year. This was mainly due to lower sales and new parts manufacturing challenges at the Landing Gear Division, and pricing pressures resulting from the sluggish aerospace market of recent years. These negative factors were somewhat offset by Progressive's good performance.

For the first six months of the year, operating loss in this segment represented 0.8% of sales, compared to an operating income of 2.5% for the same period last year.

Industrial Segment

Expressed as a percentage of sales, the second quarter operating loss for the Industrial segment was 16.0%, approximately the same as last year. The Gas Turbine Component Division continues to face operational challenges, with the introduction of new manufactured parts and reduced sales in the Industrial Gas Turbines sector.

The operating loss was nonetheless slightly smaller in the second quarter than in the first quarter. The overall operating loss in this segment for the first six months of the year was 17.8% of sales, down from 26.5% last year.

Financial Expenses

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	2003 ($'000)	**2004 ($'000)**	2003 ($'000)
Interest expense	**1,016**	873	**2,072**	1,772
Interest revenue	**(39)**	(306)	**(167)**	(642)
Gain on financial derivative instrument – interest rate swap	**–**	–	**(528)**	–
Amortization of net deferred loss related to financial derivative instrument	**39**	–	**80**	–
Financial expenses	**1,016**	567	**1,457**	1,130

Second quarter financial expenses rose this year due to the financing of the Progressive acquisition. The Company used $36.4 million of its available credit facilities and $21.6 million of its cash available at March 31, 2004 for the acquisition (see Note 3 to the consolidated financial statements).

In the first quarter, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $528,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004 (see Note 2 to the consolidated financial statements).

Net Loss

For the second quarter of fiscal 2005, the Company posted a net loss of $1.6 million, as shown below:

	Second quarters ended September 30		Six months ended September 30	
	2004	2003	**2004**	2003
Net loss ($'000)	**(1,561)**	(886)	**(2,877)**	(1,704)
Loss per share ($)	**(0.06)**	(0.04)	**(0.11)**	(0.07)

Loss per share figures are based on weighted averages of 26,931,202 common shares outstanding for the second quarter of this year and 23,454,111 for last year. The increase is mainly due to the issuance of 3,500,000 common shares for the Progressive acquisition (see Notes 3 and 4 to the consolidated financial statements).

The second quarter net loss for last year increased by $31,000 as it was restated to reflect a change in accounting policy on asset retirement obligations (see Note 2 to the consolidated financial statements).

On October 28, 2004, the date of this MD&A, the Company had 26,936,559 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Internally, the Company generated cash flow from operations and used cash and cash equivalents for its operating activities as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	2003 ($'000)	**2004 ($'000)**	2003 ($'000)
Cash flow from operations	**2,212**	1,675	**4,491**	3,571
Net change in non-cash items related to operations	**(8,001)**	(4,009)	**(18,680)**	(7,317)
Cash and cash equivalents used for operating activities	**(5,789)**	(2,334)	**(14,189)**	(3,746)

In the second quarter ended September 30, 2004, the $8.0 million net change in non-cash items related to operations was mainly due to a $3.2 million decrease in customers' advances, and increases of $1.1 million in inventories, $0.7 million in accounts receivable and $0.6 million in prepaid expenses (see under Consolidated Balance Sheets, below, and Note 6 to the consolidated financial statements).

The $18.7 million net change in non-cash items for the first six months of the year consisted primarily of reductions of $7.4 million in customers' advances and $7.9 million in accounts payable and accrued liabilities, and other liabilities as well as a $4.0 million increase in inventories (see under Consolidated Balance Sheets, below and Note 6 to the Consolidated Financial statements).

Investing Activities

In the second quarter and first half of the year, the Company's investing activities were as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	2003 ($'000)	**2004 ($'000)**	2003 ($'000)
Net change in temporary investments	**4,972**	6,229	**–**	8,461
Purchase of capital assets	**(2,427)**	(3,162)	**(6,793)**	(4,761)
Proceeds on disposal of capital assets	**–**	–	**793**	74
Business acquisition	**(8,141)**	–	**(71,695)**	–
Cash and cash equivalents provided by (used for) investing activities	**(5,596)**	3,067	**(77,695)**	3,774

During the quarter ended September 30, 2004, Héroux-Devtek paid $8.1 million in relation to the Progressive acquisition, consisting of the $7.8 million tax impact plus the outstanding balance of the transaction cost. At September 30, 2004, the Progressive purchase price accounted for at the date of acquisition had been paid. Additional payments of up to $15.8 million (US$ 12 million) could be required over the next two fiscal years depending on profitability performance.

Second quarter purchases of capital assets included $1.2 million spent at the Laval Landing Gear plant to enlarge the assembly and machining section and add a new landing gear test facility for business aircraft and regional jets. This $3.0 million project is scheduled for completion next quarter.

Capital asset purchases for the first six months of the year included $2.3 million invested at the Landing Gear Division and $3.9 million at the Gas Turbine Components Division, the latter representing essentially the exercise of purchase lease options for equipment under operating leases.

Financing Activities

The Company's second quarter financing activities were as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	2003 ($'000)	**2004 ($'000)**	2003 ($'000)
Increase in long-term debt	**7,000**	–	**43,598**	108
Repayment of long-term debt	**(7,705)**	(555)	**(16,451)**	(2,046)
Repurchase of common shares	**–**	(34)	**–**	(333)
Issuance of common shares	**45**	–	**16,312**	–
Other	**(80)**	(44)	**(160)**	(236)
Cash and cash equivalents provided by (used for) financing activities	**(740)**	(633)	**43,299**	(2,507)

Early in the second quarter, the Company repaid $7.0 million on its Canadian Syndicated Evergreen Revolving Term Credit Facility and borrowed the same amount under its Canadian Syndicated Evergreen Revolving Operating Credit Facility.

During the first six months of the year, Héroux-Devtek issued 3,535,000 common shares for a total net cash consideration of $16.3 million (see Notes 3 and 4 to the consolidated financial statements), mainly in relation to the Progressive acquisition. A sum of $36.4 million of the total $43.6 borrowed during the period was also used to finance the acquisition (see Note 3 to the consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and September 30, 2004:

Item	Change ($ million)	Explanation
Cash and temporary investments	(48.9)	See statement of cash flows
Accounts receivable	1.6	Due to the acquisition of Progressive, offset by the impact of a lower business volume in the first six months of the year
Inventories	22.6	Due to the acquisition of Progressive ($18.6 million), and to an increase in inventories ($4.0 million) at the Landing Gear Division due to late deliveries. Landing Gear sales are expected to increase in the next quarter
Capital assets	22.0	Due to: • Acquisition of Progressive ($26.5 million) • Purchase of capital assets ($6.8 million) Net of: • Amortization ($8.5 million) • Impact of the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($2.0 million) • Disposal of capital assets ($0.8 million)
Other assets	(1.7)	Due to: • Capitalization of $2.0 million in transaction costs at March 31, 2004 related to the Progressive acquisition • Amortization of deferred financing costs and deferred loss related to financial derivative instrument ($0.2 million) Offset by: • Unamortized portion of the deferred loss ($0.5 million) on the interest rate swap agreement (financial derivative instrument) recorded following the adoption of AcG-13 (see Note 2 to the consolidated financial statements)
Backlog	8.6	Underlying value of the net backlog acquired pursuant to the acquisition of Progressive ($9.6 million), reduced by amortization ($0.6 million) and the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($0.4 million)
Goodwill	20.3	Due to the acquisition of Progressive ($21.2 million), reduced by the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	(1.8)	Decrease due to a lower volume of activity offset by the impact of the Progressive acquisition

Item	Change ($ million)	Explanation
Customers' advances	(7.4)	Represents unearned amounts received by the Logistics & Defence and Landing Gear divisions; these advances are liquidated based on units delivered to customers (see Note 10 to the consolidated financial statements dated March 31, 2004)
Long-term debt (including current portion)	24.7	Due to: • New long-term debt assumed to finance the acquisition of Progressive ($36.4 million) • Increase in long-term debt ($7.2 million), consisting mainly of a $7.0 million draw on the operating line of credit (syndicated loans) Net of: • Repayment of long-term debt ($16.5 million) including $14.0 million repayment of Canadian Syndicated Evergreen Revolving Term Credit Facility • Impact of the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($2.4 million)
Capital stock	16.3	Represents the issuance of 3,500,000 common shares to finance the acquisition of Progressive for a total net cash consideration of $ 16.2 million, and 35,000 common shares for total proceeds of $0.1 million pursuant to the exercise of stock options
Cumulative translation adjustment	(2.8)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(2.9)	See consolidated statement of retained earnings

The Company's long-term debt-to-equity ratio was 0.64:1 on September 30, 2004 compared to 0.49:1 on March 31, 2004. At September 30, 2004, the balance sheet included cash and cash equivalents of $9.7 million compared to $58.6 million at March 31, 2004.

Off-Balance Sheet Arrangements and Commitments

At September 30, 2004, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $119.0 million at an average rate of 1.3758. These contracts relate to export sales and mature over the next five fiscal years.

The Company also had commitments to purchase $6.0 million in new machinery and equipment for the Landing Gear Division.

Employee Stock Purchase Plan

On September 2, 2004, the Company established an employee stock purchase plan for certain key employees. A total of 90,000 of the Company's common shares were reserved for this plan out of those already reserved for the Company's stock option plan. Under the stock purchase plan, each employee may contribute 2% to 10% of their basic salary to acquire treasury shares of the Company. The Company matches the employee's contribution by attributing an amount equal to 1% to 4% of the employee's basic salary to purchase Company's common shares on the stock market. The common shares purchased with the Company's attribution vest over a three-year period (see Note 4 to the consolidated financial statements).

CHANGES IN ACCOUNTING POLICIES

All changes in accounting policy adopted since the last fiscal year-end were previously discussed in the Company's MD&A for the quarter ended June 30, 2004 (see also Note 2 to the consolidated financial statements).

Integration of Progressive

The Company has established a plan to integrate Progressive, the new business unit acquired on April 1, 2004. The plan includes the implementation of a complete computerized business information system, scheduled for completion by the end of the current fiscal year. There are risks and uncertainties related to this integration and implementation that could have a material adverse effect on the financial information reported during the transition period. The Company has taken steps to minimize these risks and uncertainties, including in particular an in-depth review of its financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2004.

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

Additional Information and Continuous Disclosure

This MD&A was prepared as of October 28, 2004. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

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