Management Discussion and Analysis
of Financial Position and Operating Results

This Management Discussion and Analysis of Financial Position and Operating Results (MD&A) is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") has changed between March 31, 2006 and June 30, 2006. It also compares the operating results and cash flows for the first quarter ended June 30, 2006 to those for the same period in the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2006 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements of June 30, 2006. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices or availability; foreign exchange and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and US standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2006.

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

OVERVIEW

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

- landing gear products
- aerostructure products
- aircraft engine components

The Industrial segment includes:

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

During the first quarter ended June 30, 2006, the economic and industry factors influencing Héroux-Devtek's business remained essentially unchanged from those discussed at March 31, 2006, our last fiscal year-end. The recovery in the civil aerospace market had a favourable impact on Héroux-Devtek's sales for fiscal 2006, mainly in the large civil aircraft, business jets and turboprop (commuter) markets, which continued in the first quarter. The military aerospace market remains generally strong. On the industrial side, wind energy helped counterbalance the slowdown in Gas Turbine sales. Finally, the strength of the Canadian dollar continued to have a significant negative impact on Héroux-Devtek's results.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended June 30, 2006 grew by 23% to $66.3 million from $53.9 million for the same period last year.

The increase in first quarter sales was mainly due to the continued improved sales for commercial products, consisting of landing gear products for large aircraft and business jets, as well as growth in military repair and overhaul sales.

The decrease in military products sold to civil customers reflects mainly the reduction of aircraft engine components contracts.

The strength of the Canadian dollar relative to the US dollar (US dollar denominated sales) reduced sales by $4.0 million or 7.4%.

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

Segment	Quarters ended June 30			
	2006	2005	VARIANCE	
	($'000)	($'000)	($'000)	%
Aerospace				
Military	14,684	10,886	3,798	34.9
Civil				
Military products sold to civil customers	13,213	14,713	(1,500)	(10.2)
Commercial products	32,465	22,836	9,629	42.2
Total Civil	45,678	37,549	8,129	21.6
Total Aerospace	60,362	48,435	11,927	24.6
Total Industrial	5,955	5,482	473	8.6
Total	66,317	53,917	12,400	23.0

Aerospace Segment

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

Product	Quarters ended June 30			
	2006	2005	VARIANCE	
	($'000)	($'000)	($'000)	%
Landing Gear	40,704	28,648	12,056	42.1
Aerostructure	18,348	14,755	3,593	24.3
Aircraft Engine Components	1,310	5,032	(3,722)	(74.0)
Total	60,362	48,435	11,927	24.6

For the first quarter ended June 30, 2006, overall sales for the Aerospace segment were up 24.6% to $60.4 million compared to $48.4 million for the same period last year.

During the first quarter, Landing Gear sales increased by $12.1 million or 42.1% relative to the same period last year. This resulted from continued growth in sales for large civil and business jets, and the full quarter impact of the supply of materials under the US Air Force (USAF) repair and overhaul contract, which started last August.

First quarter Aerostructure sales were higher than last year due to a higher build rate on business jet and turboprop (commuter) contracts, although this was somewhat offset by reduced regional jet sales due to the reduction of the Bombardier RJ200 program.

Increased military sales made to civil customers representing $2.5 million in the first quarter also explained the variation in the Aerostructure sales.

Aircraft engine components sales further declined in the first quarter, as anticipated. Sales were $1.3 million compared to $5.0 million for the corresponding quarter last year. In the last quarter of the fiscal year ended March 31, 2006, these sales totalled $1.9 million. Management is expecting to exit this market by the end of the current fiscal year based on a mutual agreement with the customer.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended June 30			
	2006 ($'000)	2005 ($'000)	VARIANCE ($'000)	%
Gas Turbine	2,450	3,045	(595)	(19.5)
Other Industrial	3,505	2,437	1,068	43.8
Total	5,955	5,482	473	8.6

First quarter sales for the Industrial segment totalled $5.9 million this year, about 9% higher than last year. A year-over-year decline of $0.6 million in Industrial Gas Turbine sales, where the expected modest growth has not yet materialized, was partially offset by stronger Wind Energy sales, which totalled $1.2 million in the first quarter compared to $0.1 million in the same period last year.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Canada	29%	28%
US	68%	70%
International	3%	2%
	100%	100%

The slight increase in sales in Canada for the year to date reflects improved commercial Landing Gear and Aerostructure sales to Canadian customers relative to the same period last year.

Gross Profit

For the quarter ended June 30, 2006, consolidated gross profit as a percentage of sales was 8.2%, up from 3.8% last year in spite of a 0.9% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency.

Gross profit was also favourably impacted by improved margin on certain contracts and by overall increased sales, which contributed to a better absorption of manufacturing overhead costs. Improved productivity at the Landing Gear division was also a positive factor.

In the first quarter of last year, gross profit was impacted by certain late deliveries and a sales shortfall at the Landing Gear division.

Selling and Administrative Expenses

First quarter selling and administrative expenses went down this year, as shown below:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Selling and administrative expenses ($'000)	3,918	4,153
% of sales	5.9	7.7

First quarter selling and administrative expenses were lower this year in spite of higher variable selling costs in line with increased sales, as these costs were offset by a $0.9

million gain on currency translation that reduced selling and administrative expenses by the same amount.

Operating Income (Loss)

Aerospace Segment

Aerospace operating income was $2.2 million or 3.6% of sales in the first quarter compared to an operating loss of $2.1 million in the first quarter of last year, essentially reflecting higher sales and improved performance at the Landing Gear Division.

Industrial Segment

The operating loss of $0.6 million in the first quarter of this year compares to a $0.1 million operating income for the same period last year and reflects continued overall low business volume at the Gas Turbine Components division, where expected modest growth in the industrial Gas Turbine has not yet materialized.

Financial Expenses

	Quarters ended June 30	
	2006 ($'000)	**2005 ($'000)**
Interest	808	989
Amortization of deferred financing costs	69	76
Standby fees	48	67
Amortization of net deferred loss related to financial derivative instrument	87	35
Interest revenue	(138)	(53)
Financial expenses – net	874	1,114

For the first quarter ended June 30, 2006, financial expenses were $0.9 million, $0.2 million lower than for the same period last year. The decrease is mainly attributable to lower debt, resulting from debt capital repayments made last year following the sale of Diemaco in May 2005 for proceeds of $19.0 million and the treasury issue of 4.5 million common shares in November 2005 for net proceeds of $15.7 million.

Income Tax Recovery

In the first quarter ended June 30, 2006, the income tax recovery was favourably impacted by $0.2 million in permanent differences and $0.1 million in net future tax adjustments. This was partially offset by the $0.1 million negative impact on the Company's net future tax assets following a decrease in the Canadian federal income tax rate announced last May.

Discontinued Operations

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

Net Income (Loss)

	Quarters ended June 30	
	2006	**2005**
Net income (loss) from continuing operations ($'000)	688	(2,432)
Net income from discontinued operations ($'000)	-	8,844
Net income ($'000)	688	6,412
Income (loss) per share from continuing operations ($)	0.02	(0.09)
Earnings per share from discontinued operations ($)	-	0.33
Earnings per share ($)	0.02	0.24

The Company posted net income from continuing operations of $0.7 million in the first quarter ended June 30, 2006, compared to the net loss from continuing operations of $2.4 million for the quarter ended June 30, 2005. The difference mainly reflects the improved sales and performance at the Landing Gear division.

Net income was $0.7 million for the quarter ended June 30, 2006, compared to $6.4 million for the same period last year. In fiscal 2006, net income for the first quarter included the $8.6 million gain on the sale of the Company's Logistics and Defence Division (Diemaco), net of income taxes of $2.3 million, and Diemaco's net income from operations of $0.2 million for the period of April 1, 2005 to May 20, 2005, the closing date of the sale transaction.

Earnings (loss) per share figures are based on weighted averages of 31,492,855 common shares outstanding for the first quarter of this year and 26,959,538 for the same period last year. The increase in the number of shares is essentially due to the treasury issue of 4.5 million common shares last November, and the issuance of common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 6 to the interim consolidated financial statements).

On August 2, 2006, the date of this MD&A, the Company had 31,509,512 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarters ended June 30	
	2006 ($'000)	**2005 ($'000)**
Cash flows from continuing operations	4,860	2,379
Net change in non-cash items related to operations	(11,228)	(7,501)
Cash and cash equivalents used for operating activities	(6,368)	(5,122)

For the first quarter ended June 30, 2006, cash flows from continuing operations was $4.9 million, $2.5 million higher than for the same period last year, due mainly to a $3.1 million improvement in net income.

The net change of $11.2 million in non-cash items for the first quarter ended June 30, 2006, was mainly caused by a $6.5 million increase in inventories in line with the increased level of activity, and a $9.2 million reduction in accounts payable and accrued liabilities and other liabilities following a return to more standard levels. These were somewhat offset by decreases of $3.1 million in accounts receivable and $3.5 million in other receivables.

In the first quarter ended June 30, 2005, the net change in non-cash items included a $2.7 million reduction in accounts payable and accrued liabilities and other liabilities, a $2.2 million increase in income tax receivable and a $6.1 million increase in inventories. The increase in inventories was directly related to the overall increase in business activity and the sales shortfall experienced in the first quarter of the year, explained earlier. These items were partially offset by a $3.5 million reduction in accounts receivable during the quarter ended June 30, 2005.

Investing Activities

The Company's investing activities were as follows:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(2,063)	(1,178)
Proceeds on disposal of property, plant and equipment	-	6
Business acquisition	(1,577)	-
Proceeds on sale of Logistics and Defence Division, Diemaco	-	19,172
Cash and cash equivalents provided by (used for) investing activities	(3,640)	18,000

First quarter purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) was $2.1 million this year compared to $1.2 million last year. In all, capital expenditures of about $25 million are planned for the current fiscal year.

The $1.6 million business acquisition in the first quarter ended June 30, 2006, represents the last additional payments made in relation to profitability performance for fiscal 2006, related to the acquisition of Progressive on April 1, 2004. See Note 2 to the interim consolidated financial statements.

On May 20, 2005, the Company concluded the sale of its Logistics and Defence Division, Diemaco. The final total sale price amounted to $19.0 million. (See Note 3 to the interim consolidated financial statements).

Financing Activities

The Company's financing activities were as follows:

	Quarters ended June 30	
	2006 ($'000)	2005 ($'000)
Repayment of long-term debt	(2,380)	(16,656)
Issuance of common shares	29	32
Cash and cash equivalents used for financing activities	(2,351)	(16,624)

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

Extension of Secured Syndicated Revolving Credit Facilities (Credit Facilities)

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

The Company was in compliance with all its restrictive debt covenants at June 30, 2006, and expects to remain so for the balance of the current fiscal year.

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to directors, officers and key employees. At June 30, 2006, the Company had 873,021 outstanding stock options at an average strike price of $5.72 that will expire over the next seven years (between June 2007 and August 2012). The Company also has a stock purchase and ownership incentive plan for management employees and a stock appreciation rights plan for its non-employee directors. (See Note 6 to the interim consolidated financial statements).

Changes to the Company's Stock Option Plan

On February 1, 2006, the Human Resources and Corporate Governance Committee recommended to the Board of Directors (the "Board") the approval of certain changes to the Company's stock option plan, which were approved the same day by the Board. The purpose of these changes is to increase the number of common shares that may be issued under the stock option plan and under the stock purchase and ownership incentive plan from an aggregate of 2,277,118 common shares (of which 300,319 common shares remain available for future grants at March 31, 2006, including 90,000 reserved for the stock purchase and ownership incentive plan) to 3,148,257 common shares (representing about 10% of the common shares outstanding at March 31, 2006, and of which 340,000 will be reserved for the stock purchase and ownership incentive plan).

These changes were approved by the Toronto Stock Exchange subject to final approval by the Company's shareholders at the next annual general meeting on August 3, 2006.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2006 and June 30, 2006:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(12.5)	See consolidated statements of cash flows
Accounts receivable	(3.1)	Increased level of business activity more than offset by improved accounts receivable collection
Other receivables	(3.5)	Collection of other receivables related to tooling invoiced to customers
Inventories	6.5	Mainly related to increased business activity for the upcoming quarters
Property, plant and equipment, net	(3.6)	Due to: • Purchase of capital assets ($2.1 million) Net of: • Amortization ($4.1 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.6 million)
Finite-life intangible assets, net (includes a $6.0 million net backlog)	(0.4)	Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive, net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries
Goodwill	(0.5)	Due to the variation between actual additional payments made to the sellers in the first quarter in relation to the profitability performance of Progressive and the estimated payments accrued for at the last fiscal year-end ($0.4 million), net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	(10.4)	Impact of increased raw material purchases at the end of the fourth quarter of last year and a return to a more standard payables level.
Long-term debt (including current portion)	(4.1)	Due to: • Net capital repayments of long-term debt ($2.4 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.7 million)

Item	Change ($ million)	Explanation
Cumulative translation adjustment	(2.6)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	0.7	See consolidated statements of retained earnings

At June 30, 2006 and March 31, 2006, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	June 30, 2006	March 31, 2006
Working capital ratio	1.80:1	1.76:1
Cash and cash equivalents	$8.3 million	$20.9 million
Long-term debt-to-equity ratio	0.31:1	0.33:1

CHANGES IN ACCOUNTING POLICIES

Changes in accounting policies adopted in the fiscal year ended March 31, 2006 and future changes in accounting policies are discussed in the MD&A included in the Company's annual report for fiscal 2006.

SUBSEQUENT EVENT: MACHINERY AND EQUIPMENT ACQUISITION COMMITMENTS

Subsequent to the end of the first quarter ended June 30, 2006, the Company released purchase orders relating to machinery and equipment, which have not been delivered to the Company's Kitchener, Ontario (Landing Gear Division) and Arlington, Texas (Aerostructure Division) facilities (see Note 10, to the interim consolidated financial statements).

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2006.

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

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

OUTLOOK

As already reported in our MD&A for the year ended March 31, 2006, the Company expects its business to continue to improve through the remainder of this year as we continue to execute our business plan. Military sales should remain solid. Sales for large commercial aircraft, business jets and turboprops (commuters) should increase as the civil market continues to improve, while regional jet product sales could remain at a lower level. The Company's recent move into the wind energy markets is starting to bear fruit and will contribute positively to future industrial product sales. However, aircraft engine component sale will continue to decline in the coming quarters, as the Company prepares to exit this market segment by the end of the current fiscal year.

Based on the existing backlog, Company management is expecting internal sales growth of approximately 10% per year over the next three years and an improvement in the Company's overall performance, with a return to profitability in the current fiscal year.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on August 2, 2006. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.