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, 2004 and March 31, 2005. It also compares the operating results and cash flows for the 12-month period ended March 31, 2005 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, 2005. 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, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft, thereby boosting its aerostructure capability and opening access to the important aerostructure military sector.

Héroux-Devtek serves two main segments: Aerospace and Industrial. The former Aerospace & Defense segment became the Aerospace segment as of March 31, 2005, following the sale of Diemaco, which formed the Company's Logistics and Defense Division. This Division is shown as discontinued operation. The Company supplies both the commercial and military sectors of the Aerospace market with landing gear (including spare parts and repair and overhaul services), airframe structural components including kits, and aircraft engine components. In the commercial sector, the Company is active in the business jet, regional jet and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for electricity-generating gas turbines, with its largest customer being The General Electric Company (GE). It also sells precision components for other industrial applications.

The Company's sales by segment are as follows:

	2005	**2004**
Aerospace	91%	89%
Industrial	9%	11%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Lockheed Martin, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force (USAF) and U.S. Navy. In fiscal 2005, sales to these customers represented approximately 65% of total sales.

Héroux-Devtek is structured around two segments: Aerospace and Industrial. The Aerospace segment is comprised of the Landing Gear and Aerostructure Divisions and of the Aircraft Engine Components of the Gas Turbine Components Division. The Industrial segment is comprised of the large components for the power generation and other industrial products. The Landing Gear Division designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team. The Aerostructure Division manufactures airframe components ranging in size from small to very large, for the commercial and military aerospace markets. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets.

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 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 sourcing components for their products on the global market, in order to benefit from the best cost-quality-delivery parameters, wherever they can. This is expected to be an ongoing trend.

Within these broader trends, the commercial aerospace market has been in a downturn since 2001. Calendar year 2004 showed the first signs of a turnaround, with a slight increase in deliveries for large aircraft. The two manufacturers of large commercial aircraft, Airbus and Boeing, together delivered 605 units in 2004, up from 586 units in 2003. For calendar 2005, both manufacturers expect to further increase their deliveries. Suppliers such as Héroux-Devtek should begin to see the impact of this upturn in the coming years.

In the regional aircraft market, deliveries began to slowdown in calendar 2004, particularly in the 50 seat and fewer category. The trend towards larger, 70^{+}-passenger regional jets continued. There remain virtually only two players in the regional jet market: Embraer and Bombardier.

Corporate jet deliveries showed significant improvement in calendar 2004, growing by 14% to 591 aircraft compared to 518 in calendar 2003. The growth in this market is expected to continue.

The military market remains solid. The U.S. Department of Defense is still planning to increase its budget by US $102 billion for the period from 2005 to 2011[1]. Significant growth is expected to come from emerging programs for next generation aircraft, such as the Joint Strike Fighter (“JSF”). There is also continued interest in unmanned aircraft vehicles (“UAV”), and more specifically in unmanned combat aircraft vehicles (“UCAV”) as replacements for fighter aircraft. Finally, the U.S. military is still contemplating replacing its aging fleet of tanker aircraft.

Overall, a return to growth in the aerospace market should gradually absorb the excess capacity of second-tier manufacturers such as Héroux-Devtek and contribute to their improved performance.

On the industrial side, the downturn in the power generation market is believed to have ended in 2004, with total deliveries estimated at 550 machines, equivalent to the 2003 level. Deliveries for 2005 are expected to grow to 580 units.

Finally, the continued strength of the Canadian dollar has had a significant negative impact on Héroux-Devtek over the past few years, given that a substantial portion of the Company’s sales is in U.S. dollars while it reports in Canadian currency.

---

[1] Reference: U.S. Department of Defense –Merrill Lynch Aerospace & Defense.

Major Achievements of Fiscal 2005

- **Acquisition of Progressive**

  Fiscal 2005 began with the announcement of the completion of the Progressive Incorporated acquisition on April 1, 2004 (see note 3 to the consolidated financial statements).

- **$22 million in new USAF and US Navy orders**

  On May 11, 2004, the Company was awarded a minimum of $22 million in new orders from the US Air Force and the US Navy to manufacture landing gear components for the B1B, F-15, F-16, E-3, KC-135R and P-3 programs. Deliveries will be ongoing through 2008.

- **Expansion of Laval facility**

  On June 1, 2004, the Company announced a $3 million investment to expand its Laval landing gear plant. The expansion included an enlargement of the assembly and machining section of the existing factory as well as the addition of new landing gear test facilities for business aircraft and regional jets. This expansion has been completed and the test facilities are in use.

- **$10.9 million contract for Gas Turbine Components Division**

  On July 7, 2004, the Company's Gas Turbine Components Division was awarded a $10.9 million contract by the US Air Force to manufacture components for the F100 engine. Final delivery of all units is planned for February 2006, with $7.0 million to be shipped in fiscal 2006.

- **USAF F-16 landing gear contract**

  On September 29, 2004, the US Air Force awarded the Company two contracts to manufacture landing gear components and complete landing gear assemblies for the F-16 multirole fighter aircraft. The total value of the contracts is $22.0 million, with $7.0 million to be delivered in fiscal 2006. Deliveries are to be completed by fiscal 2008. The F-16 is the workhorse of the USAF fighter fleet. There are more than 2,900 aircraft in active duty.

- **$180.0 million contract with USAF**

  On December 22, 2004, the Company announced an award by the US Air Force of a long-term contract valued at $180.0 million to supply components required for the repair and overhaul of landing gear on C-130, KC-135 and E-3 aircraft. For fiscal 2006, deliveries are expected to be $13.0 million, with the remaining value of the contract to be delivered over the following eight years.

- **Divesture of Diemaco, Logistic & Defence Division**

  On February 10, 2005, the Company announced the execution of an agreement for the sale of its Logistic & Defence Division, which consists of Diemaco. The basic sale price was established at $18.2 million, subject to certain final adjustments. Although the Company believes that Diemaco prospered under its ownership, it does not consider small arms manufacturing to be part of its core business. The transaction closed on May 20, 2005.

Selected Annual Financial Information

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

Years ended March 31 **($'000, except per share data)**	**2005**	**2004 restated[1]**	**2003 restated[1]**
Sales	232,998	192,678	237,724
Restructuring charges and goodwill impairment, net of income tax recovery	-	(694)	(6,467)
EBITDA	14,623	9,249	22,635
Net loss from continuing operations	(4,291)	(3,972)	(1,855)
Net loss	(2,129)	(2,335)	(483)
Loss per share from continuing operations ($) – basic and diluted	(0.16)	(0.17)	(0.08)
Loss per share ($) – basic and diluted	(0.08)	(0.10)	(0.02)
Total assets from continuing operations	295,197	262,948	269,254
Long-term debt	65,660	59,464	63,650
Cash and cash equivalents, and temporary investments	9,550	53,599	49,060

The Company's EBITDA from continuing operations is calculated as follows:

Years ended March 31 **($'000)**	**2005**	**2004 restated[1]**	**2003 restated[1]**
Net loss from continuing operations	(4,291)	(3,972)	(1,855)
Income tax recovery	(2,043)	(3,041)	(1,458)
Restructuring charges and goodwill impairment	–	1,052	9,177
Financial expenses	4,009	1,920	2,039
Amortization	16,948	13,290	14,732
EBITDA	14,623	9,249	22,635

Sales and profitability declined from fiscal 2003 to fiscal 2004 as large commercial aerospace sales slowed and business volume for the Landing Gear Division dropped following the completion of certain military manufacturing contracts. The reduction in Industrial Gas Turbine sales also contributed to lower sales and profit for 2004, as did the stronger Canadian dollar. The restructuring charges recorded in fiscal 2003 were related to the closing of the Company's Tampa facilities and the integration of the Tampa business into the Cincinnati operations.

---

[1] Due to the change in accounting policy on asset retirement obligations – see Note 2 to the consolidated financial statements.

Due mainly to the acquisition of Progressive in April 2004, sales and EBITDA rose in fiscal 2005. The strong performance of Progressive was partially offset by further reductions in sales and profitability at the Landing Gear Division arising from reduced business activity and an unfavourable sales mix. The Company's fiscal 2005 results were also negatively affected by continued marginal capacity utilization at its plants, mainly attributable to sluggish business activity in its key markets. The sustained strength of the Canadian dollar, sharp raw materials price increases and lengthening raw materials delivery times also had a significant impact on the Company's results for fiscal 2005.

RESULTS OF OPERATIONS

Following the February 2005 announcement of an agreement for the sale of its Logistics & Defence Division (Diemaco), all Diemaco's operations were reclassified as discontinued operations (see Discontinued Operations below and note 4 to the consolidated financial statements). The Diemaco sales transaction was completed on May 20, 2005.

Consolidated Sales

Consolidated sales for the year ended March 31, 2005 rose 20.9% to $233.0 million from $192.7 million last year, essentially due to the acquisition of Progressive. This new business unit generated $51.4 million in sales for Héroux-Devtek. However, sales were negatively affected by the strength of the Canadian dollar relative to the U.S. dollar, which reduced sales figures by $10.2 million or 4.4%.

The Company's sales by segment were as follows:

	2005 ($'000)	**2004 ($'000)**	**% Change**
Aerospace	211,689	170,635	24.1
Industrial	21,309	22,043	(3.3)
Total	**232,998**	**192,678**	20.9

Aerospace Segment

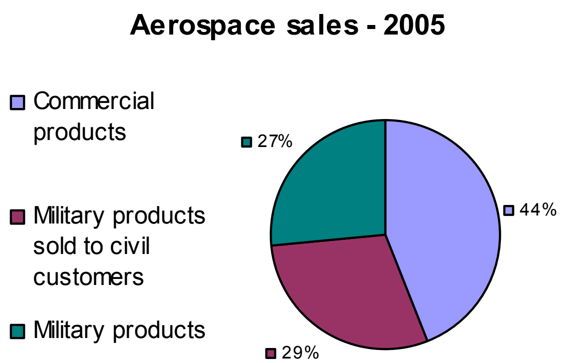
Sales for the Aerospace segment were as follows:

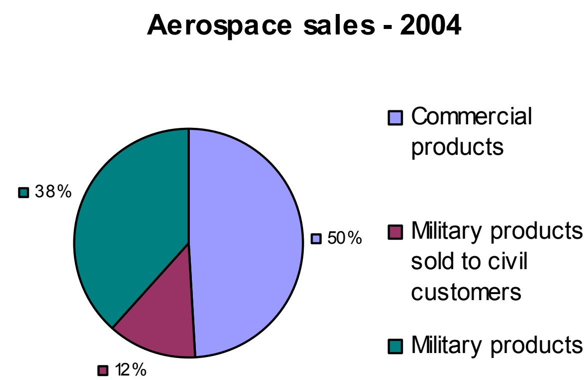
	2005 ($'000)	**2004 ($'000)**	**% Change**
Landing Gear	116,864	127,356	(8.2)
Aerostructure	75,913	22,983	230.3
Aircraft Engine Components	18,912	20,296	(6.8)
Total	**211,689**	**170,635**	**24.1**

Aerospace sales rose by 24.1% to $211.7 million from $170.6 million last year. The increase was primarily due to the acquisition of Progressive, which contributed $51.4 million to Aerostructure sales. Aerostructure sales were also higher because of an improved delivery performance at the Dorval plant in the last six months of fiscal 2005.

Landing Gear sales fell by $10.5 million, of which $4.1 million was due to a lower exchange rate. Military landing gear sales were also down from the previous year, mainly due to the completion of P-3 and KC-135R manufacturing contracts, which accounted for a sales decrease of $14.7 million. However, this decrease in the military landing gear sector was partially offset by stronger demand for the A380 and B777 programs, which generated $5.9 million in new sales.

The decline in Aircraft Engine Component sales from last year was mainly due to a lower exchange rate, which accounted for a decrease of $1.1 million.





Industrial Segment

Sales for the Industrial segment were as follows:

	2005 ($'000)	2004 ($'000)	% Change
Industrial Gas Turbine Components	13,206	17,095	(22.7)
Other Industrial	8,103	4,948	63.8
Total	**21,309**	**22,043**	**(3.3)**

Industrial sales declined by 3.3% to $21.3 million from $22.0 million last year, with the impact of the lower currency exchange rate amounting to a decrease of $1.3 million. Other Industrial sales were up for the year due to a contract to manufacture new parts for Caterpillar. This increase was offset by reduced demand for Industrial Gas Turbine parts sold to GE Power.

Sales by Destination

The acquisition of Progressive at the beginning of fiscal 2005 strengthened the Company's U.S. sales, as virtually all of Progressive's sales are in the United States. Consequently, from fiscal 2004 to fiscal 2005, the Company's sales by destination changed as shown below:

	2005 (%)	**2004 (%)**
Canada	24	28
U.S.	74	70
International	2	2
Total	**100**	**100**

Gross Profit

Consolidated gross profit declined to 5.8% of sales from 7.5% in fiscal 2004. Fluctuations in the U.S. exchange rate accounted for a 1.0% decrease in gross profit.

The low gross profit figure for the year is due to a number of factors. Earlier market pricing pressure and price concessions granted to customers on some principal contracts continued to impact the Company's results in fiscal 2005. In addition, manufacturing costs rose due to the introduction of new landing gear components and sub-assemblies. Gross profit was also negatively impacted by an unfavourable sales mix, particularly at the Landing Gear and Gas Turbine Components divisions, where sales for the military and industrial sectors were lower than last year. Finally, the transfer of the Tampa gas turbine operations to Cincinnati following the closure of the Tampa facility in fiscal 2004 was more difficult than anticipated, and resulted in unforeseen manufacturing inefficiencies, particularly for aircraft engine parts.

The Company's gross profit continues to be negatively affected by low capacity utilization at the Dorval plant. This situation is being addressed by management, with corrective measures still being evaluated.

The negative impact of the factors cited above was somewhat offset by Progressive's strong performance at the Aerostructure Division.

Selling and Administrative Expenses

Selling and administrative expenses decreased from fiscal 2004 to fiscal 2005, as shown below:

	2005	**2004**
Selling and administrative expenses ($'000)	15,746	18,489
% of sales	6.8%	9.6%

The main reason for the lower expenses in fiscal 2005 is the inclusion of a $0.9 million gain on foreign exchange from the conversion of monetary items denominated in foreign currencies included in current assets and liabilities following the adoption of Accounting Guideline No. 13

(AcG-13) on hedging relationships on April 1, 2004 (see Note 2 to the consolidated financial statements). Previously, net monetary items in foreign currencies hedged by forward foreign exchange contracts were translated using the average exchange rate of the forward foreign exchange contracts prevailing at the end of the period, and the resulting gains or losses were included in the Company's revenues. In fiscal 2004, selling and administrative expenses included a foreign exchange currency loss of $0.4 million.

Also contributing to the decrease in fiscal 2005 selling and administrative expenses were lower commission and royalty expenses related to certain military products. These contracts were completed during the year.

Operating Income (Loss)

Aerospace Segment

Aerospace operating income as a percentage of sales was 0.5% compared to 0.1% last year. The improvement was mainly due to Progressive's good performance, which was somewhat offset by the lower landing gear profitability level explained earlier.

Industrial Segment

Expressed as a percentage of sales, the operating loss for the Industrial segment was 15.5%, compared to 19.4% last year. The Gas Turbine Components Division continued to face operational challenges in fiscal 2005, with the introduction of new manufactured parts and reduced sales in the Industrial Gas Turbine Components sector. However, sales for that sector are expected to increase this year, which should allow the division to further reduce its operating loss.

Financial Expenses	**2005 ($'000)**	**2004 ($'000) restated**
Interest expense and other related expenses	4,600	3,054
Interest revenue	(211)	(1,134)
Gain on financial derivative instrument - interest rate swap	(528)	-
Amortization of net deferred loss related to financial derivative instrument	148	-
Financial expenses	**4,009**	**1,920**

Financial expenses rose this year, mainly due to the financing of the Progressive acquisition. The Company used $36.4 million from its available credit facilities and $18.7 million from its cash available at March 31, 2004 for the acquisition (see Note 3 to the consolidated financial statements).

During the fiscal year 2005, 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).

Discontinued Operations

On May 20, 2005, the Company concluded the sale of its Logistics & Defence Division (Diemaco) to Colt Defense LLC. The total price of $18.2 million is subject to certain final adjustments. All assets and liabilities related to Diemaco were reclassified as discontinued assets and liabilities in the balance sheets. Diemaco's revenues, expenses and net income are shown under discontinued operations in the 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 statements of cash flows (see Note 4 to the consolidated financial statements).

The bulk of the net proceeds from the sale of Diemaco was used to repay $15.0 million on the Company's Secured Syndicated Revolving Credit Facilities.

Net Loss

For fiscal year 2005, the Company posted a net loss of $2.1 million, as shown below:

	2005	**2004 restated**
Net loss from continuing operations ($'000)	(4,291)	(3,972)
Net income from discontinued operations ($'000)	2,162	1,637
Net loss ($'000)	(2,129)	(2,335)
Loss per share from continuing operations ($)	(0.16)	(0.17)
Loss per share ($)	(0.08)	(0.10)

Loss per share figures are based on weighted averages of 26,932,650 common shares outstanding for fiscal 2005 and 23,437,928 for the previous year. The year-over-year increase is mainly due to the issuance of 3,500,000 common shares to finance the Progressive acquisition (see Notes 3 and 17 to the consolidated financial statements).

The net loss from continuing operations for the years ended March 31, 2005 and 2004 increased by $132,000 and $123,000 respectively when restated to reflect a change in accounting policy on asset retirement obligations (see Note 2 to the consolidated financial statements).

On May 26, 2005, the date of this MD&A, the Company had 26,960,482 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, the Company had cash and equivalents amounting to $9.5 million, compared to $53.6 million a year earlier.

Operating Activities

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

	2005 ($'000)	2004 ($'000)
Cash flows from continuing operations	11,934	8,386
Net change in non-cash items related to operations	(17,908)	11,526
Cash and cash equivalents provided by (used for) operating activities	**(5,974)**	**19,912**

The $3.5 million increase in cash flows from continuing operations for fiscal 2005 was mainly due to the good performance of Progressive. The cash flow generated by Progressive was somewhat offset by reduced cash flows from continuing operations for the Landing Gear Division compared to last year.

The net change in non-cash items reduced cash flows from continuing operations by $17.9 million in fiscal 2005. The main reasons for this were the following. Accounts receivable increased by $4.1 million due to higher fourth quarter sales ($66.4 million in 2005 compared to $45.2 million in 2004). Other receivables rose by $3.3 million, reflecting mainly tooling costs invoiced to customers. Inventories also grew by $3.6 million, primarily on the strength of higher business volume at the Landing Gear Division at fiscal year-end 2005. Other current assets were up $2.3 million because of deposits for the purchase of machinery and equipment included in this item. Finally, customer advances at the Landing Gear Division declined by $5.0 million during the course of fiscal 2005. All these net uses of cash flows were somewhat offset by a $2.8 million increase in accounts payable and accrued liabilities during fiscal 2005.

Investing Activities

The Company's investing activities were as follows:

	2005 ($'000)	2004 ($'000)
Net change in temporary investments	-	45,191
Purchase of property, plant and equipment	(13,370)	(13,624)
Proceeds on disposal of property, plant and equipment	1,388	1,496
Business acquisition, net of cash acquired	(67,349)	-
Cash and cash equivalents provided by (used for) investing activities	**(79,331)**	**33,063**

The Company's investing activities used cash and cash equivalents of $79.3 million, having provided $33.1 million last year.

On April 1, 2004, the Company concluded the acquisition of Progressive for a total adjusted purchase price of $71.3 million, representing a net cash outlay of $67.3 million. Additional payments of up to $7.3 million (US $6.0 million) related to profitability performance could still be made or provided for in fiscal 2006. If so, the amount would be added to the total purchase price. (See Note 3 to the consolidated financial statements.)

During the fiscal year 2005, the Company invested $13.4 million in property plant and equipment, including $3.3 million invested at the Laval plant to expand the assembly and machining section and add a new landing gear test facility for business and regional jet landing gear. A further $3.9 million was invested at the Gas Turbine Components Division, representing essentially the exercise of a purchase options for equipment under operating lease.

Financing Activities

The Company's financing activities were as follows:

	2005 ($'000)	**2004 ($'000)**
Increase in long-term debt	51,488	1,101
Repayment of long-term debt	(24,335)	(3,060)
Repurchase of common shares	-	(579)
Issuance of common shares	16,386	-
Other	(530)	(502)
Cash and cash equivalents provided by (used for) financing activities	**43,009**	**(3,040)**

In fiscal 2005, in order to finance the acquisition of Progressive, the Company used $36.4 million from its Secured Syndicated Revolving Credit Facilities and issued 3.5 million common shares for proceeds of $16.2 million.

The Company also drew an additional $15.1 million and repaid a total of $20.6 million on its credit facilities. The Company changed the renewal date of its credit facilities from February 19, 2005 to August 30, 2005. The annual extension of the credit facilities will consequently be made during the current fiscal year (2006). However, the anniversary date remains March 21 of each year, and the facilities mature on March 21, 2006.

At March 31, 2005, the Company was in compliance with all its restrictive debt covenants. However, based on the expected results of operations and cash flow levels for the first three quarters of the current fiscal year, the Company renegotiated less restrictive financial covenants on its credit facilities for these quarters, and reduced its total credit limit on these facilities from $100.0 million to $90.0 million. This was partly accomplished following the sale of Diemaco, as $15.0 million in proceeds from the sale was applied toward the Company's credit facilities. The Company expects to continue to comply with its restrictive financial covenants in fiscal 2006. However, should the Company fail to comply with these covenants, it will attempt to renegotiate them, although the Company cannot predict what would be the outcome of these renegotiations. (See Note 15 to the consolidated financial statements.)

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, 2005 ($'000)	March 31, 2004 ($'000)
Deficit	14,285	12,576
Accrued liabilities	6,949	6,836

The pension plan deficit of $14.3 million at March 31, 2005 includes $9.2 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.

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and March 31, 2005:

Item	Change ($ Million)	Explanation
Cash and cash equivalents	(44.0)	See consolidated statements of cash flows.
Accounts receivable	7.7	Increase due to higher year-over-year fourth quarter sales, as well as the acquisition of Progressive.
Other receivables	3.6	Mainly due to tooling costs invoiced to customers.
Inventories	17.8	Due to the acquisition of Progressive ($14.2 million), and to an increase in inventories at the Landing Gear Division arising from the introduction of new manufacturing programs and increased business volume at fiscal year-end 2005.
Other current assets	2.3	Represents deposits made for the purchase of new property, plant and equipment (see Note 22 to consolidated financial statements).

Item	Change ($ Million)	Explanation
Property, plant and equipment	18.8	Due to: – Acquisition of Progressive ($26.5 million). – Purchase of property, plant and equipment ($13.4 million). Net of: – Amortization ($15.9 million). – Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($3.7 million). – Disposal of property, plant and equipment ($1.5 million).
Other assets	(1.8)	Due to: – Capitalization of $2.0 million in transaction costs at March 31, 2004 related to the Progressive acquisition (see note 11 to the consolidated financial statements) – Amortization of deferred financing costs and the deferred loss related to a financial derivative instrument ($0.4 million). Offset by: – A $0.5 million gain on financial derivative instrument (interest rate swap agreement) recorded following the adoption of AcG-13 (see Note 2 to the consolidated financial statements). – A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.1M).
Finite-life intangible assets, net	7.8	Mainly due to the net backlog acquired pursuant to the acquisition of Progressive ($9.6 million), reduced by amortization ($1.2 million) and the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($0.7 million) (see note 10 to the consolidated financial statements).
Goodwill	16.7	Due to the acquisition of Progressive ($18.3 million), reduced by the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($1.6 million) (see note 12 to the consolidated financial statements).
Accounts payable and accrued liabilities	4.8	Mainly due to the acquisition of Progressive and to the year-over-year increase in the fourth quarter business activity.

Item	Change ($ Million)	Explanation
Customers' advances	(5.0)	Represents unearned amounts received by customers of the Landing Gear Division. These advances were liquidated based on units delivered to customers during fiscal 2005 (see Note 14 to the consolidated financial statements).
Long-term debt (including current portion)	22.3	Due to: – Increase in long-term debt to finance the acquisition of Progressive ($36.4 million)· – Increase in long-term debt ($15.1 million), consisting mainly of net draws on the Secured Syndicated Revolving Credit Facilities. Net of: – Repayment of long-term debt ($24.3 million) including $20.6 million net repayments on the Secured Syndicated Revolving Credit Facilities. – Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($4.9 million).
Capital stock	16.4	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 52,993 common shares for total proceeds of $0.2 million pursuant to the exercise of stock options and the issuance of common shares pursuant to the stock purchase and ownership incentive plan (see Note 17 to the consolidated financial statements).
Cumulative translation adjustment	(5.2)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries.
Retained earnings	(2.1)	See consolidated statements of retained earnings.

The Company's working capital ratio was 1.48:1 on March 31, 2005 compared to 1.87:1 on March 31, 2004 while the long-term debt-to-equity ratio was 0.51:1 on March 31, 2005 compared to 0.49:1 on March 31, 2004. At March 31, 2005, the balance sheet included cash and cash equivalents of $9.6 million. At March 31, 2004, cash and cash equivalents stood at $53.6 million.

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

Contractual Obligations ($'000)	**Total**	**Payments due by period** Less than 1 year	**1-3 years**	**4-5 years**	**After 5 years**
Loans bearing no interest	14,117	1,671	5,644	3,243	3,559
Capital lease (including interest expenses)	12,747	3,111	6,651	2,985	-
Operating lease – Machinery and equipment	5,789	2,002	3,181	606	-
Operating lease - Building	1,065	333	594	138	-
Sub-total contractual obligations	33,718	7,117	16,070	6,972	3,559
Secured Syndicated Revolving Credit Facilities, if not extended next year					
– Operating credit facilities	16,048	16,048	-	-	-
– Term credit facilities	44,501	-	8,900	35,601	-
Total contractual obligations	94,267	23,165	24,970	42,573	3,559

Off-Balance Sheet Items and Commitments

The Company had entered into operating leases amounting to $5.8 million as at March 31, 2005, mainly for machinery and equipment. All these amounts are repayable over the next five years (see Note 22 to the consolidated financial statements). At March 31, 2005, the Company had also machinery and equipment purchase commitments totalling $10.1 million (see Note 22 to the consolidated financial statements).

At March 31, 2005, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $128.0 million at an average exchange rate of 1.3308. These contracts relate to its export sales and mature at various dates between April 2005 and December 2009 (see Note 6 to the consolidated financial statements). This compares to US $103.1 million in forward foreign exchange contracts held at March 31, 2004 at an average exchange rate of 1.4089.

Critical Accounting Estimates

– *Design-to-manufacture programs and major assembly manufacturing programs*

The Company's management uses estimates to value the inventory and cost of sales related to design-to-manufacture programs and major assembly manufacturing programs. In fact, non-recurring costs (development, pre-production and tooling costs) and the excess over production costs (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.

Recovery of these costs is expected from related program sales as production costs decline to below the average production unit cost.

Two major assumptions are made when capitalizing 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 materials, 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 bases 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 into account mainly 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 entire related reporting unit is less than its carrying value. Future cash flows are forecast 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 Company senior management. 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 pension plan 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 are important assumptions used to measure these costs and obligations. Other assumptions include the rate of increase in employee compensation, as well as demographic factors such as employee retirement ages, mortality rates and turnover. These assumptions are reviewed annually.

  A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $3.4 million respectively on the Company's pension plan expense and accrued benefit obligation.

  A lower expected return on pension plan assets also increases 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 loss carry-forwards and deductible temporary differences. Company 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 and a history of loss carry-forwards, as well as reasonable tax planning strategies.

CHANGES IN ACCOUNTING POLICIES

- *Hedging Relationships*

  On April 1, 2004, the Company adopted Accounting Guideline No.13 (AcG-13) on Hedging Relationships, which applies to all existing and new hedging relationships, 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 as qualifying for hedge accounting.

  As at April 1, 2004, all derivative instruments used by the Company that previously qualified for hedge accounting continued to qualify under the accounting guideline, except for the US $10.0 million interest rate swap agreement.

- *Interest Rate Swap Agreement*

As at April 1, 2004, the Company recorded a deferred loss amounting to $727,000 regarding the interest rate swap agreement. On May 20, 2004, the interest rate swap agreement was designated for hedge accounting purposes, and the change on its fair value since April 1, 2004, representing a gain of $528,000, is included as a reduction of the Company’s financial expenses. In fiscal 2005, the amortization of the resulting net deferred loss amounted to $148,000 and is also included in the Company’s financial expenses.

As at March 31, 2005, the net deferred loss of $334,000 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 Contracts*

Pursuant to its adoption of AcG-13 as of 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 end of the period. For accounts receivable qualifying 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 March 31, 2005, the Company’s "other receivables" included $1.5 million of unrealized gains related to the conversion of accounts receivable qualifying for hedge accounting. Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates for 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 derivate financial instruments used to hedge anticipated U.S. dollar denominated sales are recognized as an adjustment to revenues (sales) when a 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 its useful life.

Effective April 1, 2004, the Company adopted this change in accounting policy retroactively 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, including $4.6 million included in the Company’s accounts payable and accrued liabilities at March 31, 2005 ($4.4 million in 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:

	($'000)
– Increase in property, plant and equipment	1,582
– (Increase) in accumulated amortization of property, plant and equipment	(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 for the years ended March 31, 2005 and 2004 is as follows:

	2005 ($'000)	2004 ($'000)
Increase in financial expenses	200	192
(Increase) in income tax recovery	(68)	(69)
Increase in net loss	**132**	**123**

Rehabilitation costs are expected to be paid over the next three fiscal years.

FUTURE CHANGES IN ACCOUNTING POLICIES

- **Financial Instruments**

The CICA issued revisions to Section 3860 of the CICA Handbook, *Financial Instruments - Disclosure and Presentation*. These changes are effective for fiscal years beginning on or after November 1, 2004. 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 instruments were previously classified as equities. The Company currently does not have any instruments with these characteristics.

- **Comprehensive Income**

The CICA issued Section 1530 of the CICA Handbook, *Comprehensive Income*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net income, including the following:
- changes in the currency translation adjustment relating to self-sustaining foreign operations;
- unrealized gains or losses on available-for-sale investments;
- changes in fair value for derivatives.

The CICA also made changes to Section 3250 of the CICA Handbook, *Surplus*, and reissued it as Section 3251, *Equity*. This section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income*.

Adopting these sections on April 1, 2007 will require the Company to start reporting the following items in the consolidated financial statements:
- comprehensive income and its components;
- accumulated other comprehensive income and its components.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting these sections on April 1, 2007.

- **Financial Instruments – Recognition and Measurement**

The CICA also issued Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes the accounting policies for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

This CICA section requires the following:
- all financial assets be measured at fair value, with certain exceptions such as loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

- **Hedges**

The CICA recently issued Section 3865 of the CICA Handbook, *Hedges*. This section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between the following:
- changes in the fair value of a hedged item and a hedging item;
- changes in the cash flows attributable to a hedged item and a hedging item, or
- changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the hedged item are recorded in the statement of income in the same period.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

SUBSEQUENT EVENT: Sale of Logistics & Defence Division (Diemaco)

On May 20, 2005, the Company concluded the sale of its Logistics & Defence Division (Diemaco) (see Notes 4 and 25 to the consolidated financial statements).

FIRST CERTIFICATION ON DISCLOSURE CONTROLS AND PROCEDURES, AND OTHER CORPORATE GOVERNANCE POLICIES

At March 31, 2005, Company management proceeded with its first certification on disclosure controls and procedures by its Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures have the general objective of seeking to ensure that information disclosable by the Company in its reports, regulatory statements, filings and other communications is recorded, processed, summarized and reported on a timely basis. This information also includes controls to ensure compliance with Canadian disclosure requirements beyond the Company's consolidated financial statements.

In that regard, in February 2005, the Company's Human Resources and Corporate Governance Committee and the Board approved the formation of a disclosure management committee. This committee has the responsibility to ensure that management has access to all information that must be disclosed in the Company's public reporting to provide accurate and complete information to security holders.

It also ensures that the Company's Chief Executive Officer and Chief Financial Officer can evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures for the purpose of improving them as necessary and disclosing the results of evaluation in the reports.

The president and CEO and the Executive Vice-president and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company, and they have:

1. Designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared;

2. Evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the annual filings and concluded that the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation are adequate.

The required certification on disclosure controls and procedures will be filed on SEDAR on or before June 29, 2005.

The Human Resources and Corporate Governance Committee and the Board also approved the Company's Code of Business Conduct in February 2005, which establishes a high standard for ethical behaviour throughout the Company, and the Company's Whistleblower Policy in September 2004, which encourages and enables employees to raise any serious concerns, particularly in relation to the violation of laws within the Company, without fear of reprisal or discrimination.

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, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 65% of 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, has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. Furthermore, the industrial power generation market, which collapsed in 2002, is now recovering slowly. 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 recent years, 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. The Company currently has collective agreements in place with all its unionized employees for the next two years (three years for the Longueuil plant unionized employees).

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	**Total**	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
For the fiscal year ended March 31, 2005					
Sales	232,998	52,318	57,165	57,101	66,414
Net income (loss) from continuing operations	(4,291)	(1,440)	(1,734)	(1,631)	514
Net income (loss)	(2,129)	(1,316)	(1,561)	(887)	1,635
Earnings (loss) per share from continuing operations ($) – basic and diluted	(0.16)	(0.05)	(0.06)	(0.06)	0.02
Earnings (loss) per share ($) – basic and diluted	(0.08)	(0.05)	(0.06)	(0.03)	0.06
For the fiscal year ended March 31, 2004 - Restated					
Sales	192,678	48,010	49,112	41,304	54,252
Net income (loss) from continuing operations	(3,972)	(1,090)	(1,124)	(1,727)	(31)
Net income (loss)	(2,335)	(818)	(886)	(1,626)	995
Earnings (loss) per share from continuing operations ($) – basic and diluted	(0.17)	(0.05)	(0.05)	(0.07)	-
Earning (loss) per share ($) – basic and diluted	(0.10)	(0.03)	(0.04)	(0.07)	0.04

A sustained good performance by Progressive at the Aerostructure Division favourably impacted the Company's results throughout 2005. During the first quarter, overall sales were negatively impacted by delays in deliveries at both the Landing Gear and the Gas Turbine Components Division. These delays were made up in subsequent quarters.

Fourth Quarter 2005 Results

As anticipated, the Company posted improved results for the fourth quarter, traditionally a strong period, due primarily to increased sales at the Landing Gear Division. Progressive continued to contribute strongly to Aerostructure Division results. The Gas Turbine Division also increased deliveries in the fourth quarter, but did not yet succeed in improving its manufacturing productivity or results of operation.

OUTLOOK

In the past year, the civil aerospace market entered a new cycle of growth that should continue for the next several years. New aircraft such as the Airbus 380 and the Boeing 787 are now in development. Héroux-Devtek is well placed to participate in this industry growth, and is already seeing stronger backlog and improved profit margins on new business.

The military aerospace market, which has been strong for several years now, should continue to grow in the near term, albeit at a slower pace. Given its participation in new generation aircraft programs such as the JSF, Héroux-Devtek is extremely well positioned to gain an increasing share of this market. The JSF program is scheduled to gradually ramp up over a seven-year period beginning in 2008.

Improvement in the power generation market, which has been in a slump since 2002, is expected to begin this year and accelerate in fiscal 2007. The centralization of Héroux-Devtek's gas turbine components operations is now complete, and very little capital investment will be required to meet increased business volume.

On April 13, 2005, the Company announced that it had renewed its collective agreement with employees at its Landing Gear plant in Longueuil, Quebec. This was the last collective agreement up for renewal, and the Company now has agreements in place for the next few years.

For the current year, management's expectations remain cautiously optimistic. The Company continues to work on managing the impact of the low US/Canada exchange rate and high raw materials prices and, as business conditions improve, increases the Company's overall performance through the execution of its business plan.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 25, 2005 and by the Board of Directors on May 26, 2005. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.