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quarterly report to shareholders

third quarter ended December 31, 2002

HÉROUX DEVTEK

Message to shareholders

On behalf of the Board of Directors, I would like to take this opportunity to present the financial results of the Company's third quarter and nine-month period ending December 31, 2002.

Given the prevailing weak economic environment in the United States and a significant reduction in demand in the industrial gas turbine market, management has taken steps to consolidate its U.S. operations. Specifically, the Company has decided to integrate its gas turbine components manufacturing plants in Tampa with its operations in Cincinnati. In order to minimize the impact on customer deliveries, the Company has implemented a restructuring plan spread over a six-month period.

In this business, you need to act quickly and decisively if you want to stay competitive. The consolidation of our Gas Turbines Components Division will benefit the Company in the long run. However, the full benefit of this consolidation will materialize after the end of the transition period. We also believe that this decision will enhance our customer service offering by improving our competitiveness and reducing our cycle times.

In order to account for this decision, the Company recorded restructuring charges of $7.4 million in the third quarter. As a result, the Company incurred a net loss of $6.8 million ($0.28 loss per share), compared to net income of $4.6 million ($0.19 per share) for the same period a year ago. Sales for the third quarter were $59.4 million, down 24.7% from the $78.9 million reported for the same period last year.

REALIGNMENT OF AEROSTRUCTURE DIVISION

Our other operations are faring better mainly because of demand from the military sector. However, the Aerostructure Division was impacted by manufacturing inefficiencies and parts reworks during the quarter. We have taken appropriate action to address these issues.

Additionally, we have decided to integrate the management of our Aerostructure Division with the Landing Gear Division's management team. Because our Aerostructure business shares the same customer and supplier base, it will be able to benefit from the Landing Gear Division's established purchasing, quality control, engineering, sales and marketing capabilities. This initiative will allow our Aerostructure operations to realize their full potential going forward, mainly through improved customer service and a larger product offering.

OUTLOOK

Since the beginning of the year, all of our Divisions have suffered from the economic downturn. However, we believe that our initiatives to consolidate our operations, to cut fixed costs and to improve our work methods will translate into improved performance in the near future. These kinds of decisions are always hard to make, but were necessary in the current economic context.

Furthermore, our strong financial position is proving to be a considerable asset, as it reinforces our reputation as a solid and reliable supplier of aerospace and industrial components with the capacity to carry on through the economic downturn. It also provides us with the means to benefit from any growth opportunities.

I wish to thank our shareholders for their confidence and support. The management of Héroux-Devtek reiterates its commitment to the Company's growth objectives in these difficult times.

Gilles Labbé
President and Chief Executive Officer
February 19, 2003

Consolidated statements of income

For the periods ended December 31, 2002 and 2001

(in thousands of dollars, except per share data) (unaudited)	Quarters ended 2002 Dec. 31	Quarters ended 2001 Dec. 31	Nine months ended 2002 Dec. 31	Nine months ended 2001 Dec. 31
Sales	$ 59,394	$ 78,911	$ 190,853	$ 233,155
Cost of sales	53,896	61,755	157,871	183,052
Amortization	3,959	2,833	11,338	8,926
Gross profit	1,539	14,323	21,644	41,177
Selling and administrative expenses	5,056	5,788	15,424	17,117
Research and development expenses	100	324	298	849
Operating income (loss)	(3,617)	8,211	5,922	23,211
Financial expenses (Note 4)	430	328	1,334	1,020
Income (loss) before restructuring charges, income taxes and goodwill amortization	(4,047)	7,883	4,588	22,191
Restructuring charges (Note 5)	7,376	–	7,376	–
Income (loss) before income taxes and goodwill amortization	(11,423)	7,883	(2,788)	22,191
Income taxes (recovery)	(4,609)	2,927	(1,881)	8,288
Income (loss) before goodwill amortization	(6,814)	4,956	(907)	13,903
Goodwill amortization	–	336	–	1,008
Net income (loss)	$ (6,814)	$ 4,620	$ (907)	$ 12,895
Earnings (loss) per share before goodwill amortization	$ (0.28)	$ 0.20	$ (0.04)	$ 0.58
Earnings (loss) per share before goodwill amortization – fully diluted	$ (0.28)	$ 0.20	$ (0.04)	$ 0.57
Earnings (loss) per share	$ (0.28)	$ 0.19	$ (0.04)	$ 0.54
Earnings (loss) per share – fully diluted	$ (0.28)	$ 0.19	$ (0.04)	$ 0.53
Average number of shares outstanding	24,149,241	24,346,529	24,333,491	23,948,187

Consolidated statements of retained earnings

For the periods ended December 31, 2002 and 2001

(in thousands of dollars) (unaudited)	Quarters ended 2002 Dec. 31	Quarters ended 2001 Dec. 31	Nine months ended 2002 Dec. 31	Nine months ended 2001 Dec. 31
Balance at beginning of period	$ 58,605	$ 44,134	$ 53,283	$ 35,859
Repurchase of common shares (Note 3)	(436)	–	(1,021)	–
Net income (loss)	(6,814)	4,620	(907)	12,895
Balance at end of period	$ 51,355	$ 48,754	$ 51,355	$ 48,754

Consolidated balance sheets

As at December 31, 2002 and March 31, 2002

(in thousands of dollars)	2002 *December* (unaudited)	2002 *March* (audited)
Assets		
Current assets		
Cash and temporary investments	$ 45,846	$ 55,966
Accounts receivable	36,035	47,340
Income taxes receivable	3,966	–
Other receivables	2,760	4,301
Inventories	63,879	61,127
Prepaid expenses	819	2,114
Future income taxes	7,796	4,730
Total current assets	161,101	175,578
Capital assets, net (Note 5)	97,856	95,260
Other assets	1,011	1,720
Future income taxes	3,577	2,919
Goodwill, net	24,160	24,160
Total assets	$ 287,705	$ 299,637
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 72,117	$ 74,962
Customers' advances	8	6,123
Income taxes payable	1,654	3,919
Future income taxes	835	720
Current portion of long-term debt	3,731	5,075
Total current liabilities	78,345	90,799
Long-term debt	65,175	59,565
Other liabilities	7,692	7,938
Future income taxes	9,114	10,534
Total liabilities	160,326	168,836
Shareholders' equity		
Capital stock (Note 3)	72,757	73,958
Contributed surplus (Note 2)	57	–
Cumulative translation adjustment	3,210	3,560
Retained earnings	51,355	53,283
Total shareholders' equity	127,379	130,801
Total liabilities and shareholders' equity	$ 287,705	$ 299,637

Consolidated statements of cash flows

For the periods ended December 31, 2002 and 2001

(in thousands of dollars) (unaudited)	Quarters ended 2002 Dec. 31	Quarters ended 2001 Dec. 31	Nine months ended 2002 Dec. 31	Nine months ended 2001 Dec. 31
Cash and cash equivalents provided by (used for):				
Operating activities				
Net income (loss)	$ (6,814)	$ 4,620	$ (907)	$ 12,895
Items not requiring an outlay of cash				
Amortization	4,028	3,169	11,547	9,934
Future income taxes	(3,873)	8	(5,008)	(1,048)
Loss on sale of capital assets	312	–	251	–
Write-down of capital assets (Note 5)	3,937	–	3,937	–
Stock based compensation (Note 2)	25	–	57	–
Cash flow from operations	(2,385)	7,797	9,877	21,781
Net change in non-cash items related to operations	6,093	(935)	(5,719)	(7,714)
	3,708	6,862	4,158	14,067
Investing activities				
Net change in temporary investments	178	(5,375)	2,781	(6,974)
Purchase of capital assets	(4,671)	(5,217)	(10,842)	(16,700)
Proceeds on disposal of capital assets	436	–	498	80
Other	421	(23)	421	(78)
	(3,636)	(10,615)	(7,142)	(23,672)
Financing activities				
Net change in bank loan	–	2,913	–	632
Increase in long-term debt	1,085	1,156	2,919	3,744
Repayment of long-term debt	(1,013)	(2,186)	(4,379)	(5,715)
Repurchase of common shares (Note 3)	(1,188)	–	(2,370)	–
Issuance of common shares (Note 3)	–	525	148	10,509
	(1,116)	2,408	(3,682)	9,170
Effect of changes in exchange rates on cash and cash equivalents	(55)	(2)	(97)	7
Cash and cash equivalents used for discontinued operations included in other liabilities	(166)	962	(576)	679
Change in cash and cash equivalents	(1,265)	(385)	(7,339)	251
Cash and cash equivalents at beginning of period	7,642	7,683	13,716	7,047
Cash and cash equivalents at end of period	$ 6,377	$ 7,298	$ 6,377	$ 7,298
Cash and temporary investments are comprised of:				
Cash and cash equivalents	$ 6,377	$ 7,298	$ 6,377	$ 7,298
Temporary investments	39,469	40,646	39,469	40,646
	$ 45,846	$ 47,944	$ 45,846	$ 47,944
Interest paid	$ 630	$ 649	$ 1,859	$ 2,208
Income taxes paid	$ 1,708	$ 2,097	$ 10,352	$ 9,403

Notes to Consolidated Financial Statements

(Unaudited)
For the periods ended December 31, 2002 and 2001
(in thousands of dollars, except per share data)

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.

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 stock-based compensation and goodwill and other intangible assets 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 except for restructuring charges described in note 5. 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 audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2002.

Note 2 | Changes in accounting policies

Goodwill and other intangible assets

Effective April 1, 2002, the Company adopted prospectively the new recommendations of the Canadian Institute of Chartered Accountants (CICA) with respect to goodwill and other intangible assets. Accordingly, the Company ceased amortizing goodwill on April 1, 2002 and adopted the goodwill impairment model introduced by the new accounting rules. Transitional impairment tests on goodwill were performed during the current period and no loss was recognized as an adjustment to the retained earnings as at April 1, 2002.

The goodwill amortization expense, under the previous accounting rules, would have amounted to $336 for the quarter ended December 31, 2002, and $1,008 for the nine-month period ended December 31, 2002.

Stock-based compensation

Effective April 1, 2002, the Company adopted prospectively the new recommendations of section 3870 of the CICA handbook with respect to stock-based compensation. The Company elected to expense all granting of stock options.

On June 6, 2002, the Company granted to key employees 150,000 stock options, representing a fair value of $472 calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a risk free interest rate of 5.2%.

During the third quarter, the Company granted to a key employee 5,000 stock options representing a fair value of $8 calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a risk free interest rate of 4.82%.

Note 2 | Changes in accounting policies *(continued)*

Stock option costs are amortized over their earned period. The expense related to stock options amounted to $25 and $57 for the quarter and the nine-month period ended December 31, 2002 respectively. This expense is included in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

The Company also granted 12,500 stock appreciation rights to its non-employee directors. Stock appreciation rights are expensed on an earned basis and, their costs are determined based on the excess of the Company's common shares quoted market value over their granted value. No expense was recorded for the stock appreciation rights in the third quarter and for the nine-month period ended December 31, 2002.

Note 3 | 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:

	2002 *Dec. 31*	2002 *March 31*
24,023,537 common shares (24,443,937 at March 31, 2002)	**$ 72,757**	$ 73,958

Issuance of common shares

During the nine-month period ended December 31, 2002 the Company issued 25,000 common shares for a total cash consideration of $148 relating to the exercise of stock options.

On July 10, 2001, the Company issued 1,000,000 common shares at a price of $9.91 on a private placement basis representing a net proceed of $9,883. In addition, during the quarter ended December 31, 2001, the Company issued 94,750 common shares for a total cash consideration of $525 relating to the exercise of stock options (111,750 common shares for a total cash consideration of $626 for the nine-month period ended December 31, 2001 relating to the exercise of stock options).

Repurchase of common shares

On August 21, 2002, the Company obtained approval from the Toronto Stock Exchange 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.

During the quarter and the nine-month period ended December 31, 2002, the Company repurchased for cancellation 248,300 and 445,400 common shares for a total cash consideration of $1,188 and $2,370 respectively. The excess ($436 for the quarter and $1,021 for the nine-month period) of the cost of the common shares repurchased ($1,188 for the quarter and $2,370 for the nine-month period) over their average book value ($752 for the quarter and $1,349 for the nine-month period) was accounted for in reduction of the Company's retained earnings.

Note 3 | Capital stock *(continued)*

Diluted earnings per share

For the quarter ended December 31, 2002, the use of the treasury method, for the diluted earnings per share calculations had no impact on the average number of common shares but increased the average number of common shares by 56,694 to 24,390,185 for the nine-month period ended at that date. (256,857 and 301,486 to 24,603,386 and 24,249,673 respectively for the quarter and the nine-month period ended December 31, 2001).

Note 4 | Financial expenses

The financial expenses for the quarters and the nine-month periods ended December 31 are as follows:

	Quarters ended		*Nine months ended*	
	2002 *Dec. 31*	2001 *Dec. 31*	**2002** *Dec. 31*	2001 *Dec. 31*
Interest expenses	**$ 768**	$ 662	**$ 2,303**	$ 2,105
Interest revenue	**(338)**	(334)	**(969)**	(1,085)
	$ 430	$ 328	**$ 1,334**	$ 1,020

Note 5 | Restructuring charges

In the third quarter, the Company's management decided to fully integrate and transfer all the manufacturing operations of its Tampa, Florida plants (ABA Industries) to its operating plants in Cincinnati, Ohio (McSwain Manufacturing). These plants manufacture aircraft engine parts for the military and commercial sectors as well as industrial gas turbine components. This decision was made, following the significant reduction in demand of its power generation business (industrial gas turbine) experienced in the last nine months of operations, taking into account the manufacturing capacity utilization of both business units in this Division at this time, and the economic environment that prevails in the main markets it serves in the United States. Company's management concluded that it was more appropriate to fully integrate and continue the manufacturing operations of both sites at its Cincinnati plants.

In its effort to minimize the impact on the manufacturing operations, which will be continued in the Cincinnati plants, and on customer deliveries, the Company has implemented a restructuring plan of its U.S. operations spread over a six-month period. This plan includes the gradual transfer of necessary machinery and equipment, manufacturing tools, as well as personnel. The restructuring charges, amounting to $7,376, include the following:

- Write-down of capital assets to be disposed of;
- Provisions for unused leased equipment;
- Other related direct expenses necessary to the realization of this restructuring plan.

Other restructuring charges of $681 that could not be recorded during the third quarter, under Canadian generally accepted accounting principles, will be accounted for in the last quarter of the current fiscal year.

In the third quarter, recovery of income taxes related to these restructuring charges and included in income taxes in the statement of income amounted to $2,508.

At December 31, 2002, capital assets include assets for resale totaling $3,943, net of write-down, which are related to the restructuring plan referred to above.

Note 6 | Segmented information

Quarters ended December 31

	2002			2001		
	Products related to Aerospace and Defence	*Industrial Products*	*Total*	*Products related to Aerospace and Defence*	*Industrial Products*	*Total*
A) Activity segments						
Sales	$ 54,038	$ 5,356	$ 59,394	$ 62,829	$ 16,082	$ 78,911
Operating income (loss)	882	(4,499)	(3,617)	5,797	2,414	8,211
Financial expenses			430			328
Restructuring charges			7,376			–
Income (loss) before income taxes and goodwill amortization			(11,423)			7,883
Assets	245,290	42,415	287,705	233,185	58,634	291,819
Goodwill	22,060	2,100	24,160	22,365	2,131	24,496
Purchase of capital assets	8,675	488	9,163	5,523	4,612	10,135
Amortization	3,086	942	4,028	2,269	900	3,169

	2002			2001		
	Canada	*Outside Canada*	*Total*	*Canada*	*Outside Canada*	*Total*
B) Geographic segments						
Sales	$ 48,937	$ 10,457	$ 59,394	$ 57,374	$ 21,537	$ 78,911
Operating income (loss)	2,623	(6,240)	(3,617)	6,078	2,133	8,211
Financial expenses			430			328
Restructuring charges			7,376			–
Income (loss) before income taxes and goodwill amortization			(11,423)			7,883
Assets	227,445	60,260	287,705	226,993	64,826	291,819
Goodwill	20,977	3,183	24,160	21,267	3,229	24,496
Purchase of capital assets	8,624	539	9,163	5,054	5,081	10,135
Amortization	2,654	1,374	4,028	2,065	1,104	3,169

Note 6 | Segmented information *(continued)*

Nine months ended December 31

	2002			2001		
	Products related to Aerospace and Defence	*Industrial Products*	*Total*	*Products related to Aerospace and Defence*	*Industrial Products*	*Total*
A) Activity segments						
Sales	**$ 164,587**	**$ 26,266**	**$ 190,853**	$ 186,290	$ 46,865	$ 233,155
Operating income (loss)	**9,727**	**(3,805)**	**5,922**	17,406	5,805	23,211
Financial expenses			**1,334**			1,020
Restructuring charges			**7,376**			–
Income (loss) before income taxes and goodwill amortization			**(2,788)**			22,191
Assets	**245,290**	**42,415**	**287,705**	233,185	58,634	291,819
Goodwill	**22,060**	**2,100**	**24,160**	22,365	2,131	24,496
Purchase of capital assets	**15,032**	**3,908**	**18,940**	14,902	6,716	21,618
Amortization	**8,664**	**2,883**	**11,547**	7,120	2,814	9,934

	2002			2001		
	Canada	*Outside Canada*	*Total*	*Canada*	*Outside Canada*	*Total*
B) Geographic segments						
Sales	**$ 150,721**	**$ 40,132**	**$ 190,853**	$ 167,396	$ 65,759	$ 233,155
Operating income (loss)	**11,761**	**(5,839)**	**5,922**	17,282	5,929	23,211
Financial expenses			**1,334**			1,020
Restructuring charges			**7,376**			–
Income (loss) before income taxes and goodwill amortization			**(2,788)**			22,191
Assets	**227,445**	**60,260**	**287,705**	226,993	64,826	291,819
Goodwill	**20,977**	**3,183**	**24,160**	21,267	3,229	24,496
Purchase of capital assets	**13,530**	**5,410**	**18,940**	13,681	7,937	21,618
Amortization	**7,647**	**3,900**	**11,547**	6,346	3,588	9,934

Note 7 | Reclassification

Comparative figures for the quarterly financial statements as at December 31, 2001 have been reclassified to comply with the December 31, 2002 presentation.

Management's Discussion
and Analysis of Financial Position and Operating Results

The purpose of this analysis is to provide the reader with an overview of how the Company's financial position changed between March 31, 2002 and December 31, 2002. It also compares the operating results and cash flow for the quarter and the nine-month period ended December 31, 2002 to those for the corresponding periods the previous year. This analysis should be read in conjunction with the Company's consolidated audited financial statements dated March 31, 2002, as well as the interim results to June 30 and September 30, 2002.

FORWARD-LOOKING STATEMENTS

Statements made in this analysis, other than historical financial results, may be considered as forward-looking statements. These statements express the current beliefs and expectations of management about the Company's future results and performance. Factors that could cause actual results to differ materially from current expectations include, but are not limited to, fluctuations in the interim results to December 31, 2002, changes in level of demand for the Company's services and the impact of competitive price pressures, as well as general market trends and changes in economic conditions.

OVERVIEW OF THE THIRD QUARTER

Considering the significant reduction in demand in the industrial gas turbine market, and taking into account the current economic environment in the United States and the Company's manufacturing capacity utilization, management has taken steps to consolidate production and thereby cut its fixed manufacturing and overhead costs. The decision has been taken to close the gas turbine components manufacturing plants in Tampa and gradually transfer all of these operations to Héroux-Devtek's Cincinnati plants. In order to minimize the impact on customer deliveries, the Company has implemented a restructuring plan spread over a six-month period.

In order to account for the closure of the Tampa plants, the Company recorded restructuring charges of $7.4 million to provide for the following:

- The write-down of capital assets to be disposed of;
- Provisions for unused leased equipment;
- Other related direct expenses necessary to the realization of the restructuring plan.

OPERATING RESULTS

Consolidated sales for the third quarter were $59.4 million, 24.7% less than third quarter sales of $78.9 million last year. This brought consolidated sales for the first nine months of the year to $190.9 million, 18.1% below last year's figure of $233.2 million. Impacted by prevailing weakness in the civil aerospace sector and the continued effect of drastic cutbacks in the industrial gas turbine sector, all divisions posted lower third quarter sales than last year.

Landing Gear Division

The slowdown in the large civil aerospace sector and the reduced demand for out-of-production aircraft replacement parts seen in the first six months of the year continued in the third quarter. As a result, the Landing Gear Division continued to post lower sales than the previous year. Third quarter sales slipped 9.9% to $38.6 million, while sales for the first nine months of the year decline 8.8% to $116.1 million. Partly compensating for the slowdown in civil aerospace were rising engineering sales and growing military sector sales. Engineering, a new profit center within the Division, contributed $1.0 million to the Division's sales in the third quarter and $2.1 million to date this year.

It should be noted that for comparison purposes, last year's figures for the Landing Gear Division have been restated to include the results for D.A.L.S., previously part of the Logistics & Defence Division.

Gas Turbine Components Division

Reflecting the full brunt of the deep cuts seen in industrial gas turbine demand since the first quarter of the year, third quarter sales for the Gas Turbine Components Division were off sharply compared to last year. Third quarter sales decreased to $10.5 million compared to $21.5 million last year, while sales for the first nine months of the year amounted to $40.1 million this year compared to $65.8 million last year.

Sales of industrial gas turbine components alone declined by $11.5 million in the third quarter and $19.6 million in the first nine months of this year.

In addition to industrial gas turbines, this Division also manufactures aircraft engine parts. While demand for civil aerospace product remains weak, sales of aircraft engine parts were essentially stable in the third quarter and were similar to third quarter 2001-2002 figures. However, sales of these items decreased by $5.8 million for the year to date relative to last year.

Aerostructure Division

Aerostructure Division sales amounted to $5.1 million for the third quarter, down 8.9% compared to $5.6 million last year. The Division reported sales of $17.2 million for the first nine months of this year compared to $18.8 million for the same period last year.

Third quarter shipments were impacted by manufacturing inefficiencies and parts reworks during the quarter. Management has since taken appropriate action to address these issues. Created only a few years ago, the Aerostructure Division is now being restructured to respond to these concerns. Sharing the same customer and supplier base as the Landing Gear Division, the Aerostructure Division will henceforth be under the responsibility of the other division so as to benefit particularly from its established purchasing, quality, engineering, sales and marketing capabilities. This will have a favorable impact on the Company's product offering and production costs. While merged from a business perspective, the two divisions will remain separate for financial reporting purposes.

Logistics & Defence Division

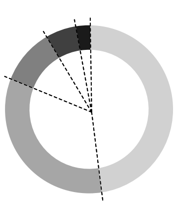
Third quarter sales for the Logistics & Defence Division were $5.2 million for this fiscal year, down from $8.9 million last year. The decrease was mainly due to lower demand this year for scopes and other small arms accessories sold under contract to the Danish and U.K. governments.

For the nine-month period, the falloff in scope demand was somewhat offset by sales of manufactured products. Sales for the period were therefore down 18.3%, at $17.5 million compared to $21.4 million last year.

Activity and Geographic Segments

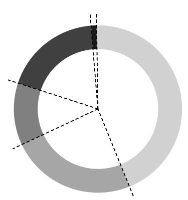
The severe cuts seen in industrial gas turbine production in recent months have significantly changed the weighting of the Company's sales by sector, as shown below.

Third Quarter 2002



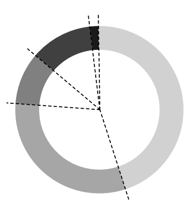
Aerospace	**91%**
Civil	48%
Military	33%
Defence	10%
Industrial Products	**9%**
Gas Turbines	6%
Other Parts	3%

Third Quarter 2001



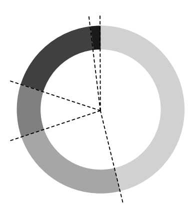
Aerospace	**80%**
Civil	44%
Military	24%
Defence	12%
Industrial Products	**20%**
Gas Turbines	19%
Other Parts	1%

Nine Months 2002



Aerospace	**86%**
Civil	45%
Military	31%
Defence	10%
Industrial Products	**14%**
Gas Turbines	12%
Other Parts	2%

Nine Months 2001



Aerospace	**80%**
Civil	46%
Military	24%
Defence	10%
Industrial Products	**20%**
Gas Turbines	18%
Other Parts	2%

In the third quarter, sales in the aerospace and defence sector decline by 14.0% to $54.0 million from $62.8 million for the same period last year. Sales for the first nine months were off 11.7% at $164.6 million, compared to $186.3 million last year. The declines seen in aerospace and defence sector sales this year mainly reflect a sustained reduction in demand for large civil aerospace products and out-of-production aircraft parts. However, these factors have been partially offset by strong military sales.

Industrial sector sales, which previously consisted almost exclusively of industrial gas turbine sales, reflected the loss of much of that business in the second and third quarters of this year due to customer production cutbacks announce earlier this year. Sales in this sector fell by $10.7 million in the third quarter to $5.4 million, and by $20.6 million in the first nine months of the year to $26.3 million.

With the decline in U.S.-based industrial gas turbine production, Canadian-made products represented a larger proportion of the Company's third quarter sales this year, at 82.4% compared to 72.7% last year. Sales of products manufactured in the United States made up the balance, slipping to 17.6% from 27.3%. For the first nine months of the year, sales of Canadian products represented 79.0% of total sales compared to 71.8% last year, with U.S.-made products again accounting for the balance.

In the third quarter, the Company's customer base was made up of 29.3% Canadian, 64.2% American and 6.5% international customers, a slight shift from last year, when it represented 24.6%, 62.2% and 13.2% respectively. For the first nine months of the year, the breakdown this year stood at 27.8% Canadian, 63.5% American and 8.7% international customers compared to 27.1%, 62.7% and 10.2% respectively the previous year.

Gross Profit

For the third quarter, the Company's consolidated gross profit as a percentage of sales decreased to 2.6% compared to 18.2% for the same period last year. For the first nine months of the year, gross profit declined from 17.7% of sales last year to 11.3% this year. Generally, gross profit is down because of lower sales, which entailed higher non-absorption of fixed manufacturing overhead costs.

The Landing Gear Division's gross profit as a percentage of sales was down 4.9% in the third quarter and 2.5% for the first nine months of the year. As in previous quarters, the declines continue to be a result of the reduced demand in large civil aerospace and out-of-production aircraft replacement parts.

As the industrial gas turbine sector is higher margin that aerospace, the loss of business volume in this sector had a substantial impact on gross profit for the Gas Turbine Components Division. The gross profit fell by $9.3 million in the third quarter of this year and by $13.9 million in the first nine months of the year. By integrating the Tampa production into the Cincinnati operations the Company's management expects to better utilize the available production capacity, thus reducing non-absorption of fixed manufacturing overhead costs.

The third quarter gross profit for the Aerostructure Division decreased by 18.5% as a percentage of sales and by 8.7% in the first nine months of this year, in part due to inefficiencies and parts reworks in the third quarter. The integration of this division into the Landing Gear Division should improve its engineering and quality capabilities and should have a favorable impact on its production costs.

At the Logistics & Defence Division, gross profit as a percentage of sales slipped 3.1% from last year in the third quarter but still showed an increase of 0.5% for the first nine months of the year due to a different sales mix.

Selling and Administrative Expenses

Selling and administrative expenses for the third quarter amounted to $5.1 million, $0.7 million less than last year. As a percentage of sales, these expenses increased by 1.2%, as sales were down and a fair portion of these expenses are fixed. Additional non-recurring administrative expenses were also incurred for the integration of the Aerostructure Division into the Landing Gear Division.

For the first nine months of the year, selling and administrative expenses came down by about $1.7 million to $15.4 million or 8.1% of sales. For the same period last year, these expenses represented $17.1 million or 7.3% of sales.

Selling and administrative expenses include amortization costs of $25,000 for the third quarter and $57,000 for the first nine months of the year related to the granting of stock options, which the Company began expensing in accordance with new CICA recommendations as of April 1, 2002.

Operating Income

The Company posted an operating loss of $3.6 million for the third quarter compared to operating income of $8.2 million for the same quarter last year. This decrease of $11.8 million was mainly attributable to the drop of $6.9 million in the industrial sector caused by the poor demand for industrial gas turbine components. On the other hand, Aerospace & Defence operating income decreased by $4.9 million due to weak demand in the civil aerospace and out-of-production aircraft replacement parts markets.

For the first nine months, operating income totalled $5.9 million, compared to $23.2 million for the same period last year. Industrial operating loss was 14.5% compared to an operating income of 12.4% last year. Aerospace & Defence operating income stood at 5.9% compared to 9.3% a year earlier.

Financial Expenses

Financial expenses for the third quarter were $430,000, net of $338,000 in interest revenue. Last year, third quarter financial expenses were $328,000 net of $334,000 in interest revenue.

This brings the total for the first nine months of the year to $1,334,000 net of interest revenue of $969,000, which compares to last year's figure of $1,020,000 with interest revenues of $1,085,000.

Restructuring Charges

As discussed in the Overview section of this analysis, the Company recorded restructuring charges of $7.4 million this third quarter to account for the closure of its Tampa gas turbine components manufacturing facilities. As explained earlier, these charges represent the write-down of capital assets to be disposed of, provisions for unused leased equipment and other related direct expenses necessary to the realization of the restructuring plan. Other restructuring charges of $681,000 that could not be recorded during the third quarter under Canadian generally accepted accounting principles will be accounted for in the last quarter of the current fiscal year. (See Note 5 to the financial statements)

Income Taxes

The third quarter provision for income taxes includes a tax recovery of $3.5 million for losses before restructuring charges of the Gas Turbine Components and Aerostructure divisions. It also includes an income tax recovery of $2.5 million for the restructuring charges recorded in the third quarter and a favourable future income taxes adjustment of $150,000.

Income taxes for the first nine months of the year include the above-mentioned recoveries as well as a favourable future income taxes adjustment of $450,000.

Net Loss

The Company posted a net loss of $6.8 million or $0.28 loss per share fully diluted in the third quarter of this year. This compares to net income of $4.6 million or $0.19 per share fully diluted for the corresponding quarter last year.

For the first nine months of 2002-2003, the net loss stood at $907,000 or $0.04 loss per share fully diluted, compared to net income of $12.9 million or $0.53 per share fully diluted for the same period a year earlier.

CASH FLOW AND FINANCIAL POSITION

The Company's operations used cash flow of $2.4 million in the third quarter of this year, having generated $7.8 million in cash flow during the same period last year. This was mainly due to the decrease in net income of $11.4 million and a variation in future income taxes of $3.9 million arising mainly from the income tax recovery related to restructuring charges. These factors were somewhat offset by a slight increase in amortization of $0.8 million and a write-down of capital assets related to restructuring charges of $3.9 million.

The net change in non-cash items related to third quarter operations increased cash and cash equivalents by $6.1 million, bringing cash flow from operating activities to $3.7 million for the quarter. The net rise in non-cash items was attributable to a number of factors. Accounts receivable fell by $3.2 million due to the low business volume, and accounts payable and accrued liabilities rose by $3.9 million, primarily reflecting the addition of $3.4 million in restructuring charges. These amounts were attenuated by an additional $3.5 million in income taxes receivable resulting from losses in the Gas Turbine Components and Aerostructure divisions.

In the third quarter of last year, the net change in non-cash items related to operations reduced cash flow from operating activities by $0.9 million to $6.9 million. The decrease was mainly due to the $2.0 million increase in accounts receivable due to stepped up business activity, and by a $3.6 million drop in customer advances, both partially offset by increases of $3.0 million and $1.4 million in accounts payable and income taxes payable respectively.

For the nine-month period, the Company generated cash flow from operations of $9.9 million compared to $21.8 million for the same period last year. Non-cash items related to operations used $5.7 million in cash and cash equivalents during the period, compared to $7.7 million last year. Cash flow from operating activities were then reduced to $4.2 million compared to $14.1 million last year. The use of $5.7 million of cash and cash equivalents was mainly attributable to increases of $2.8 million in inventories and $4.0 million in income taxes receivable, combined with reductions of $6.1 million in customer advances, $2.8 million in accounts payable and accrued liabilities and $2.3 million in income taxes payable. These variations were partially offset by an $11.3 million decrease in accounts receivable.

Investing Activities

In the third quarter of this fiscal year, the Company applied $3.6 million in cash and cash equivalents to its investing activities compared to $10.6 million in the same period last year. Since the beginning of the year, investing activities have used $7.1 million in cash and cash equivalents, compared to $23.7 million for the first nine months of last year.

During the third quarter of this year, purchases of capital assets totalled $9.2 million compared to $10.1 million last year, of which $4.5 million and $4.9 million respectively were financed through capital leases. Of the total, $7.1 million was invested this quarter in new equipment for the Aerostructure Division. Ordered at the beginning of the year, these purchases were made to increase the Division's production capacity so as to gain market share in the regional jet market. An additional $1.5 million was mainly invested in the Landing Gear Division. Purchases of capital assets for the first nine months amounted to $18.9 million, compared to $21.6 million last year. These amounts include capital assets financed through capital leases of $8.1 million this year and $4.9 million last year.

Temporary investments remained approximately the same in the third quarter, while last year they increased, using $5.4 million in cash and cash equivalents during the quarter. In the first nine months of this fiscal year, temporary investments fell by $2.8 million, while in the same period last year they grew by $7.0 million.

Financing Activities

Cash and cash equivalents used in financing activities amounted to $1.1 million in the third quarter and $3.7 million in the first nine months of this year. Last year, these activities generated $2.4 million in the third quarter and $9.2 million in the first nine months of the year.

In the third quarter of this year, cash and cash equivalents of $1.0 million were used to repay long-term debt compared to $1.2 million in the same quarter last year. An increase in long-term debt of $1.1 million shown in the third quarter of this year reflects a sale-and-leaseback arrangement relating to machinery and equipment for the Aerostructure Division.

For the first nine months of this year, repayment of long-term debt amounted to $4.4 million compared to $5.7 million last year. The increase in long-term debt represented $2.9 million compared to $3.7 million last year.

In August 2002, the Company obtained TSE approval for the repurchase of up to 1,222,195 common shares during the 12-month period ending August 20, 2003. In the third quarter, cash of $1.2 million was used to repurchase 248,300 common shares for cancellation purposes. At December 31, 2002, the Company had repurchased a total of 445,400 common shares for a cash consideration of $2.4 million. The excess of the cost of the repurchased common shares over their average book value amounted to $436,000 for the third quarter and $1.0 million for the year to date, and is accounted for in reduction of the Company's retained earnings.

Last year, in July 2001, the Company issued 1,000,000 common shares through a private placement representing a net proceed of $9.9 million.

Consolidated Balance Sheet

As of December 31, 2002, the Company had working capital of $82.8 million compared to $84.8 million at March 31, 2002. The working capital ratio rose in the first nine months of the year to stand at 2.06:1 at December 31, 2002, up from 1.93:1 at March 31, 2002.

The Company's balance sheet remains strong, with $45.8 million in cash and temporary investments as of December 31, 2002 compared to $56.0 million at March 31, 2002. The long-term debt-to-equity ratio was up slightly from the beginning of the year at 0.51:1 on December 31, 2002.

OUTLOOK

Management has taken appropriate action to address efficiency and rework problems that arose in the Aerostructure Division in the third quarter, and as of the end of last January the Division was back on track with the customer's production schedule.

More generally, it is clear that the civil aerospace and industrial gas turbine sectors remain in a slump that can be expected to last some time. The Company is restructuring the divisions in question so as to reduce fixed costs and improve its margins. However, the full benefit of the Gas Turbines Components Division restructuring will materialize after the end of the transfer of all Tampa operations to the Cincinnati plants. The Company's strong balance sheet is an advantage in this effort, as customers are concerned about suppliers' financial viability and durability in the current economic climate.

Recent increases in the U.S. defence budget indicate that military spending will remain strong into 2003-2004.

The Company's strong financial position and low debt level will enable it to take advantage of any future growth opportunities.

RISK AND UNCERTAINTIES

An overview of the risks and uncertainties associated with the conduct of the Company's business is included in the "Management Discussion and Analysis of Financial Position and Operating Results" for the fiscal year ended March 31, 2002 (page 12 of the Company's annual report). That overview constitutes an integral part of this document.

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