Management Discussion and Analysis of Financial Position and Operating Results

This Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") is intended to provide an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2009 and September 30, 2009. It also compares the operating results and cash flows for the three- and six-month periods ended September 30, 2009 to those for the same periods in the previous year. It should be read in conjunction with the audited consolidated financial statements for the year ended March 31, 2009 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2009 and September 30, 2009. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of general economic conditions particularly 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; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in the Company's MD&A for the year ended March 31, 2009. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to the Company 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. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

OVERVIEW

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

- landing gear products;
- aerostructure products;
- other aerospace products.

The Industrial segment includes:

- industrial gas turbine products;
- other industrial products, including products for the wind energy and heavy equipment markets.

For the quarter and six months ended September 30, 2009, the Company's commercial sales in the Aerospace and Industrial segments have been negatively impacted by the difficult worldwide economic situation. This impact on sales was mainly offset by the military product sales and the weakening of the Canadian dollar relative to the US dollar for the same periods last year. The impact of the worldwide financial turmoil and economic situation is discussed later in this MD&A (see under Impact of the International Financial Crisis and Economic Situation).

RESULTS OF OPERATIONS

Currency rates

The table below shows exchange rates applicable to the quarters and six months ended September 30, 2009 and 2008. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts and expenses for the periods mentioned, while closing rates translate assets and liabilities of self-sustaining foreign operations and monetary assets and liabilities of the Canadian operations.

	Quarter ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Average	1,0974	1,0418	1,1323	1,0259
Closing rates to September 30, 2009/March 31, 2009			1,0707	1,2613

Consolidated Sales

Consolidated sales for the quarter ended September 30, 2009 decreased by 1.0% to $76.6 million from $77.3 million for the same period last year.

The decrease in second quarter sales this year was mainly due to decelerations of production schedules and push-outs experienced in the commercial aerospace business jet and helicopter markets, and to deteriorating market conditions in the overall Industrial market. This decrease was mainly offset by the increase in military product sales and the favourable impact on sales of the fluctuations in the value of the Canadian dollar versus the US dollar in the quarter. The weakening of the Canadian dollar relative to the US dollar had a favourable impact of $3.0 million or 3.9% on the second quarter sales this year, when compared to last year's second quarter.

To date, consolidated sales totalled $158.7 million or 0.7% lower than last year's sales of $159.9 million. As it is the case for the second quarter, lower business jet, commercial helicopter and industrial product sales were not totally counterbalanced by the higher military product sales. For the six months ended September 30, 2009, the Canadian dollar when compared to its US counterpart had a $9.9 million or 6.2% favourable impact on sales when compared to the same period last year.

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

	Quarters ended September 30				**Six months ended September 30**			
Segment	**2009**	**2008**	**Variance**		**2009**	**2008**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**	**($'000)**	**($'000)**	**($'000)**	**%**
Aerospace								
Military								
Military sales to government	16,656	14,144	2,512	17.8	33,223	26,708	6,515	24.4
Military sales to civil customers	26,812	20,165	6,647	33.0	58,131	44,546	13,585	30.5
Total Military	43,468	34,309	9,159	26.7	91,354	71,254	20,100	28.2
Total Commercial	27,443	33,817	(6,374)	(18.9)	54,740	70,865	(16,125)	(22.8)
Total Aerospace	**70,911**	**68,126**	**2,785**	**4.1**	**146,094**	**142,119**	**3,975**	**2.8**
Total Industrial	**5,659**	**9,214**	**(3,555)**	**(38.6)**	**12,636**	**17,792**	**(5,156)**	**(29.0)**
Total	**76,570**	**77,340**	**(770)**	**(1.0)**	**158,730**	**159,911**	**(1,181)**	**(0.7)**

Aerospace Segment

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

	Quarters ended September 30				**Six months ended September 30**			
Product	**2009**	**2008**	**Variance**		**2009**	**2008**	**Variance**	
	($'000)	**($'000)**	**($'000)**	**%**	**($'000)**	**($'000)**	**($'000)**	**%**
Landing Gear	47,375	44,839	2,536	5.7	95,493	91,036	4,457	4.9
Aerostructure	23,342	22,942	400	1.7	50,084	50,438	(354)	(0.7)
Other aerospace products	194	345	(151)	(43.8)	517	645	(128)	(19.8)
Total	70,911	68,126	2,785	4.1	146,094	142,119	3,975	2.8

For the second quarter ended September 30, 2009, overall sales for the Aerospace segment were up 4.1% to $70.9 million from $68.1 million for the same period last year.

During the second quarter, landing gear product sales increased by $2.5 million or 5.7% to $47.4 million relative to the same period last year. This resulted mainly from the positive impact of the weakening Canadian dollar relative to the US dollar and increased military repair and overhaul sales, specifically for new business on military helicopter and on the P-3 program. The Landing gear product sales also benefited from increased large commercial sales in the quarter with new business on the A320 program. These were partially offset by decelerations of production schedules which reduced commercial business jet and helicopter product sales.

Second quarter Aerostructure product sales were almost flat when compared to last year with a 1.7% increase to $23.3 million. Additional sales coming from the Joint Strike Fighter (JSF) F-35 ramped-up program were offset by reduced aftermarket sales (F-16 program) and by reduced commercial business jet product sales. The Canadian dollar fluctuations relative to the US dollar in the second quarter this year had a positive impact on Aerostructure product sales, compared to the same period last year.

Year-to-date, the Aerospace segment sales were almost $4.0 million higher than for the corresponding six months last year and now stand at $146.1 million. The Landing gear products led the way with sales of $95.5 million, $4.5 million or 4.9% higher than last year. The increase, as mentioned above, comes from higher military repair and overhaul sales and new business, mainly on the A320 program and from the favourable impact of the lower Canadian dollar compared to the US currency. These were somewhat offset by lower business jet and helicopter product sales.

The Aerostructure sales to September 30, 2009, at $50.1 million are 0.7% lower than for the same period a year ago. As mentioned above, the JSF new work was more than offset by the reduction of F-16 military aftermarket sales and lower business jet and commercial helicopter product sales.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended September 30				Six months ended September 30			
	2009	2008	Variance		2009	2008	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	3,083	4,723	(1,640)	(34.7)	7,046	8,842	(1,796)	(20.3)
Other Industrial	2,576	4,491	(1,915)	(42.6)	5,590	8,950	(3,360)	(37.5)
Total	5,659	9,214	(3,555)	(38.6)	12,636	17,792	(5,156)	(29.0)

Second quarter sales for the Industrial segment totalled $5.7 million this year, 38.6% lower than last year. Due to market conditions prevailing in this segment since the beginning of the year, overall industrial sales were negatively impacted in Gas Turbine, Wind Energy and heavy equipment sales. This decrease in sales was slightly offset by the favourable Canadian dollar fluctuation relative to the US dollar in the second quarter this year.

Year-to-date, the Industrial segment sales of $12.6 million are $5.2 million or 29% lower than for the first six months of last year, for the reasons mentioned above.

Sales by Destination

The Company's sales by destination were as follows:

Destination	**Quarters ended September 30**		**Six months ended September 30**	
	2009	**2008**	**2009**	**2008**
Canada	30%	36%	29%	35%
US	69%	63%	69%	64%
International	1%	1%	2%	2%
	100%	100%	100%	100%

The second quarter and year-to-date changes in the sales-by-destination mix reflect the increase in landing gear military product sales to US customers and the overall decrease in commercial sales to Canadian customers.

Gross Profit

For the quarter ended September 30, 2009, consolidated gross profit as a percentage of sales was 15.3%, down 0.6% from 15.9% last year.

In the second quarter of this year, gross profit was negatively impacted by the decelerations of production schedules and push-outs in the commercial business, particularly for aerostructure products. In addition, last year's second quarter gross profit for the aerostructure products was impacted by a more favourable sales mix. The market conditions in the Industrial segment discussed earlier also had a negative impact on the second quarter gross profit margin but not to the same extent, given the successful cost reduction program put forward in the Industrial segment. A similar cost reduction program was also beneficial for the Aerospace landing gear products, which actually posted a higher gross profit margin than last year for the quarter. In addition to this program, the Aerospace segment also benefited from the overall increase in landing gear product sales and higher production efficiency during the quarter.

Year-to-date, the consolidated gross profit margin stood at 15.8% compared to 17.1% for the six months ended September 30, 2008. As already discussed above, the reduced commercial Aerospace business and unfavourable sales mix and the reduced Industrial sales were not completely compensated by the increased sales and improved throughput of landing gear products, when compared to the corresponding period last year.

For the quarter ended September 30, 2009, the Canadian dollar fluctuations relative to the US dollar had a slightly favourable impact on gross profit in dollars of $0.4 million and a marginal but negative impact of 0.1% on the gross profit margin, expressed as a percentage of sales, compared to the same period last year. For the first six months this year, the favourable impact on gross profit in dollars was $0.5 million but netted a 0.8% negative impact as a percentage of sales.

Besides the natural hedging from the purchase of materials made in US dollars, the Company uses forward foreign exchange sales contracts to mitigate the risks related to Canadian currency fluctuations against the US currency and its impact on the Company's gross profit.

Selling and Administrative Expenses

Second quarter and year-to-date selling and administrative expenses were as follows:

	Quarters ended September 30		Six months ended September 30	
	2009	2008	2009	2008
Selling and administrative expenses ($'000)	5,376	5,505	11,244	10,823
% of sales	7.0	7.1	7.1	6.8

Selling and administrative expenses were respectively $5.4 million and $11.2 million for the quarter and six months ended September 30, 2009. For the quarter, selling and administrative expenses include the loss on currency translation on net monetary items of $0.7 million which compares to a $0.5 million loss last year. The selling and administrative expenses also include a non-recurring gain of $350,000.

To date, besides the non-recurring gain mentioned above, the loss on currency translation on net monetary items stood at $1.0 million for the first six months ended September 30, 2009, compared to a loss of $0.5 million for the same period last year.

Operating Income

Consolidated operating income stood at $6.4 million or 8.3% of consolidated sales for the quarter ended September 30, 2009, and was $0.4 million lower than the $6.8 million or 8.8% operating income for the same period last year. Year-to-date, the operating income was $13.8 million or 8.7% of consolidated sales compared to $16.6 million or 10.4% for the same period last year.

Aerospace Segment

Aerospace operating income was $5.6 million or 7.9% of sales in the second quarter this year, compared to $5.3 million or 7.8% of sales for the comparative quarter last year. The increase in operating income this year is mainly reflecting improved landing gear product throughput and sales somewhat attenuated by the reduced aerostructure commercial aerospace sales and less favourable sales mix explained above.

For the six months ended September 30, 2009, the Aerospace segment operating income stood at $12.3 million or 8.4% of sales compared to $13.7 million or 9.6% last year, for the same reasons explained above.

Industrial Segment

The operating income was $0.7 million or 13.1% of sales for the second quarter of this year and compares to $1.5 million or 16.3% of sales for the same period last year. It reflects the negative impact from market conditions on overall Industrial sales and the related gross profit margin explained above. Year-to date, the operating income of $1.5 million or 12.2% compares to $2.9 million or 16.3% for the six-months ended September 30, 2008.

Financial Expenses

Financial expenses for the quarter stood at $1.2 million while it stood at $2.3 million for the six months ended September 30, 2009. Both amounts are $0.2 million higher when compared with the corresponding periods last year and can be explained by the higher average debt when compared to last year. Furthermore, the impact from the favourable interest rate for the quarter and year-to-date was offset by lower interest revenues when compared to the corresponding periods last year.

Income Tax Expense

The Company had an income tax expense of $1.7 million for the quarter ended September 30, 2009, compared to an expense of $1.8 million last year. Year-to-date, the Company posted an income tax expense of $3.4 million for the six months this year compared to an expense of $4.8 million for the same period a year before.

The Company's effective income tax rate for the six months ended September 30, 2009 was 29.9% compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.4 million) all but offset mainly by the negative impact of a higher US income tax rate for the Company's US subsidiaries.

For the six months ended September 30, 2008, the effective tax rate was 32.8% compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by increased income from the Company's self-sustaining US subsidiaries with a higher income tax rate, and the impact of future tax adjustments ($0.3 million), net of the favourable impact of permanent differences ($0.3 million).

Net Income

	Quarters ended September 30		Six months ended September 30	
	2009	**2008**	**2009**	**2008**
Net income ($'000)	**3,518**	**4,056**	**8,060**	**9,754**
Earnings per share – basic & diluted ($)	**0.11**	**0.13**	**0.26**	**0.31**

The Company posted net income of $3.5 million for the second quarter ended September 30, 2009, compared to net income of $4.1 million for the corresponding quarter last year. This reduction in net income reflects essentially the decrease in sales and also the different sales mix impacting the Aerostructure and Gas Turbine Components divisions, as explained above. These negative impacts were not completely offset by the improved results for the quarter at the Landing Gear division. Year-to-date, and for the same reasons as already explained above, the net income stood at $8.1 million compared to $9.8 million last year.

Earnings per share figures are based on year-to-date weighted averages of 30,795,183 common shares outstanding for the six months of this year and 31,651,611 for the same period last year. The decrease in the number of shares is essentially due to the 1,180,400 common shares redeemed under the normal course issuer bid launched by the Company since November 2008 through September 30, 2009, less the issuance of common shares, including 40,327 common shares during the six-months ended September 30, 2009, under the Company's stock purchase and ownership incentive plan (see note 11 to the Interim Consolidated Financial Statements).

On October 29, 2009, the date of this MD&A, the Company had 30,567,848 common shares outstanding. Since most of the outstanding options are not in the money, the basic and diluted earnings per share, both for the corresponding quarters and year-to-date, are the same (see "Stock Option Plan" section below).

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

The Company generated cash flows from operations and had cash flows relating to its operating activities as follows:

	Quarters ended September 30		Six months ended September 30	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Cash flows from operations	11,657	10,558	23,487	22,277
Net change in non-cash working capital items related to operations	364	3,416	(25,080)	(5,574)
Cash flows relating to operating activities	12,021	13,974	(1,593)	16,703

For the second quarter ended September 30, 2009, cash flows from operations were $11.7 million, $1.1 million higher than for the same period last year and can be explained by the higher amortization expense ($0.5 million) and future income taxes ($1.3 million) somewhat offset by the lower net income ($0.5 million). The net change of $0.4 million in non-cash items can be explained by a $6.0 million reduction in inventory offset by a decrease of $3.7 million of the accounts payable and accrued liabilities, both variances being attributable to the cost reduction effort and lower Canadian/US exchange rate.

The net change of $3.4 million in non-cash items for the quarter ended September 30, 2008, can be explained by a $4.1 million decrease in accounts receivable, with improved collection in spite of higher sales, an increase of $1.5 million in accounts payable and accrued liabilities and other liabilities related to increased inventories, and a decrease of $1.3 million in other current assets. These amounts were somewhat offset by an increase of $5.0 million in inventories, in line with the upcoming business activity at that time.

For the six months ended September 30, 2009, the $25.1 million outflow of non-cash related items can be explained mainly by the lower accounts payable and accrued liabilities ($19.5 million) when compared with March 31, 2009, and the lower income tax payable ($3.1 million) following the payment of income taxes from the prior year. It also reflects the negative net impact on working capital items coming from the currency conversion ($4.3 million) of self-sustaining US subsidiaries somewhat offset by the favourable impact of the lower accounts receivable ($9.2 million), in line with the sales volume and lower Canadian/US currency rate for Canadian operations.

The net change of $5.6 million in non-cash items for the six months ended September 30, 2008, can be explained by lower accounts receivable ($1.0 million) and other receivables ($1.7 million), and higher income tax payable ($0.9 million). This favourable variance was offset by higher inventories ($8.8 million) before last year's inventory adjustment following the implementation of new accounting guidelines.

Investing Activities

The Company's investing activities were as follows:

	Quarters ended September 30		**Six months ended September 30**	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Additions to property, plant and equipment	**(971)**	**(5,977)**	**(5,200)**	**(10,016)**
Net increase in finite-life intangible assets	**(833)**	**(315)**	**(1,378)**	**(1,518)**
Proceeds on disposal of property, plant and equipment	**7**	**-**	**9**	**-**
Cash flows relating to investing activities	**(1,797)**	**(6,292)**	**(6,569)**	**(11,534)**

Second quarter additions to property, plant and equipment totalled $1.0 million this year, compared to $6.0 million last year. The additions to property, plant and equipment include the payment for property, plant and equipment received and accounted for in the last quarter of fiscal 2009, net of the capital expenditures financed through capital leases (see Consolidated Balance Sheets section below and note 6 to the Interim Consolidated Financial Statements). Year-to-date, $5.2 million were invested in capital expenditures, net of $7.6 million of investments which were financed through capital leases, compared to $10.0 million for the corresponding period last year. Capital expenditures of about $20 million, including those acquired through capital leases, are planned for the current fiscal year, mostly for normal maintenance projects and also for certain investments related to the JSF program in our Texas facilities.

In the second quarter this year, the $0.8 million net increase in finite-life intangible assets represents mainly the increase in capitalized development costs for aerospace long-term contracts compared to $0.3 million last year, in accordance with the implementation last year of new accounting guidelines on inventories. The year-to-date increases of $1.4 million and $1.5 million are essentially for the same reasons.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2009 ($'000)	**2008 ($'000)**	**2009 ($'000)**	**2008 ($'000)**
Increase in long-term debt	5,663	2,106	5,663	2,106
Repayment of long-term debt	(1,165)	(736)	(2,999)	(2,153)
Repurchase of common shares	(1,042)	-	(2,879)	-
Issuance of common shares	79	81	159	161
Other	-	-	-	(185)
Cash flows relating to financing activities	3,535	1,451	(56)	(71)

During the second quarter ended September 30, 2009, the Company drew $5.0 million from its Canadian Credit Facilities. Furthermore, the Company repurchased, in the same quarter, 239,400 common shares under its normal course issuer bid (NCIB) initiated in November 2008 at an average price of $4.35 (see Note 11 to the Interim Consolidated Financial Statements).

Year-to-date, the Company repurchased 646,400 common shares under its NCIB (1,180,400 common shares since the beginning of the plan in November 2008) at an average price of $4.45 per share ($4.20 since the beginning of the plan) and issued 40,327 common shares under the Company's stock purchase and ownership incentive plan at a weighted average price of $3.94 per share (see Note 11 to the Interim Consolidated Financial Statements).

Stock Option Plan

The Company has a stock option plan whereby options to purchase common shares are issued to officers and key employees. At September 30, 2009, the Company had 1,555,221 outstanding stock options at a weighted-average exercise price of $5.83 that will expire over the next six years.

During the quarter ended September 30, 2009, 246,000 stock options were granted at an exercise price of $4.56. In addition, for the six months ended September 30, 2009, 75,000 options were cancelled (all in the first quarter) while 65,000 options were cancelled during the same quarter last year, having reached their expiry dates.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 133,718 had not yet been granted at September 30, 2009. The Company also has a stock purchase and ownership incentive plan for management employees, and a stock appreciation rights plan for its non-employee directors. (See Note 11 to the interim consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes to the consolidated balance sheets between March 31, 2009 and September 30, 2009:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(12.5)	See consolidated statements of cash flows.
Accounts receivable	(9.2)	In line with the reduced sales volume and number of days outstanding in receivables. This reduction also includes the impact of the strengthening of the Canadian dollar since March 31, 2009, on US denominated accounts receivable ($1.6 million).
Income tax receivable	2.7	Mainly reflects adjustments following the finalization of the Company's income tax returns for last year and additional tax credits for this current year.
Inventories	1.3	Inventories were impacted by certain aerospace program decelerations and push-outs, along with the purchase of certain raw materials for military and new commercial contracts, net of the impact of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($4.2 million).
Future Income taxes (current assets)	(4.7)	Mainly reflects the future income tax impact of the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Other current assets	1.7	Essentially reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.

Item	Change ($ millions)	Explanation
Property, plant and equipment, net	(14.3)	Due to: • Purchase of capital assets ($5.2 million); Net of: • Amortization expense ($10.1 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($9.4 million).
Finite-life intangible assets, net (includes a $4.2 million net backlog)	(0.1)	Due to: • Net increase in finite-life intangible assets ($1.8 million), representing capitalized aerospace development costs for long-term contracts. Net of: • The amortization expense ($0.4 million) of the underlying value of the net backlog and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.1 million). • The amortization expense of software costs ($0.4 million).
Other assets	11.2	Essentially reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	(19.3)	Mainly reflects an overall reduction of days in accounts payable and accrued liabilities. It also reflects the impact of the lower US exchange rate used to convert the US denominated accounts payable and accrued liabilities ($1.2 million).
Accounts payable – other	(17.6)	Mainly reflects the payment of property, plant and equipment received and accounted for in the last quarter of fiscal year 2009 and the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Income tax payable	(3.1)	Represents the payments made in the current fiscal year of the related income tax due from the prior fiscal year.
Long-term debt (including current portion)	1.2	Due to: • New capital lease obligations related to equipment ($7.6 million); • Non-interest bearing loan ($0.7 million) to support new eligible development and engineering costs related to new Aerospace programs; • Drawing of $5.0 million from the Company's Canadian Credit Facilities; • Interest accretion on non-interest bearing loans ($0.5 million); Net of:

Item	Change ($ millions)	Explanation
		• Capital repayments of long-term debt ($3.0 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($9.6 million).
Other long-term liabilities	(8.0)	Mainly reflects the variation in the Company's balance sheet of long-term derivative financial instruments measured at fair value.
Future income taxes (liabilities, long-term)	8.2	Mainly reflects the increase coming from timing differences between book and tax capital assets depreciation ($1.8 million) and the future income tax impact of the recognition in the Company's balance sheets of the derivative financial instruments measured at fair value.
Capital stock	(2.0)	Reflects the common shares issued under the Company's stock purchase and ownership plan ($0.2 million) net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($2.2 million).
Accumulated other comprehensive loss	6.3	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries, and the unrealized gains (losses), net of taxes, on the fair value of financial instruments designated as cash flow hedges.
Retained earnings	7.3	See consolidated statements of changes in shareholders' equity.

At September 30, 2009 and March 31, 2009, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio were as follows:

	September 30, 2009	March 31, 2009
Working capital ratio	2.59:1	1.86:1
Cash and cash equivalents	$27.2 million	$39.8 million
Long-term debt-to-equity ratio	0.40:1	0.42:1
Net debt-to-equity ratio(1)	0.29:1	0.24:1

(1): Defined as total long-term debt, including the current portion, less cash and cash equivalents, over shareholders' equity.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $8.4 million as at September 30, 2009 ($9.2 million as at March 31, 2009), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At September 30, 2009, the Company also had purchase commitments totalling $4.2 million ($4.7 million to March 31, 2009), mainly for machinery and equipment, for which deposits of $0.8 million ($1.1 million to March 31, 2009) on machinery and equipment were made and are included in the Company's other receivables.

At September 30, 2009, the Company had entered into forward foreign exchange sales contracts to sell US$166.4 million at a weighted-average exchange rate of 1.1427 (US$162.8 million at a weighted-average exchange rate of 1.1396 as at March 31, 2009 and US$135.5 million at a weighted-average exchange rate of 1.0674 as at September 30, 2008) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between October 2009 and March 2014, with the majority maturing in fiscal 2010 and 2011.

At September 30, 2009, the Company had also entered into forward foreign exchange sales contracts totalling US$11.3 million at a weighted-average exchange rate of 1.2397 maturing over the next four fiscal years (the majority of which over the next two fiscal years) to cover foreign exchange risk related to certain embedded derivatives.

IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS AND ECONOMIC SITUATION

In light of the financial and economic market situation, the Company is carefully monitoring its strategy and risk management. Although the results of the Company are positive, this economic market situation prompted management to take a conservative approach in its daily decisions.

In the first six months ended September 30, 2009, the Company's results were impacted by certain decelerations of product schedules and push-outs on commercial aerospace programs as well as by the impact from softer conditions in industrial markets. However, the Company's backlog is still strong but the prevailing business environment, and the push-backs or cancellations of certain additional purchase orders, could have an adverse impact on upcoming results. It is worth mentioning that the Company is striving to maintain a well-balanced portfolio between commercial and military aerospace sales, which should help it better manage any potential slowdown. This being said, the impact of OEM announcements over recent quarters will continue to adversely impact the aerospace commercial market while the military side of the Company's business is still solid. Furthermore, the recent strengthening of the Canadian dollar will put additional pressure on the upcoming results. As already mentioned, and as highlighted in the Outlook section, Management is maintaining its focus on operational efficiencies and cost reduction initiatives to counterbalance the negative currency fluctuations.

From a financial standpoint, the Company has a healthy balance sheet. The Company is presently meeting all of its financial covenants and expects to do so for the next twelve months. Capital expenditure requirements are closely monitored by management. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with acceptable credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011.

Considering the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility that it usually has in its markets, the Company will nevertheless continue to closely monitor the situation (see Risks and Uncertainties and Outlook sections below).

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures. In the period leading up to the changeover, the AcSB is expected to continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2009 annual report. The Company's IFRS project is progressing according to plan. The Company continues to monitor standards to be issued by the International Accounting Standards Board ("IASB"), but it is difficult to predict the IFRS that will be effective at the end of its first IFRS reporting period, as the IASB work plan anticipates the completion of several projects in calendar years 2010 and 2011. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS at the conversion date are known.
The adoption of IFRS brings about several changes from Canadian GAAP. Following is the Company's, non-exhaustive preliminary assessment of certain main differences that may have some impact on its consolidated financial statements:

Area	**IFRS requirement**
Provisions	Provisions with predictable settlement dates must be discounted. This could result in a reduction of provisions in accounts payable and accrued liabilities with a corresponding net after tax increase of Shareholders' equity.
Property, plant and equipment	Breakdown assets by major components based on useful life, for the calculation of amortization. The Company is already, in all material respect, in compliance with this requirement with no material impact on amortization cost.
Impairment of long-lived assets	Impairment tests must be based on discounted future cash flows. Under certain circumstances, previous impairment taken (other than goodwill), if any, is required to be reversed.

Leases	Certain operating leases may have to be accounted for as finance leases (capital leases).
Borrowing costs	Borrowing costs will be capitalized as part of the cost of certain inventories or development costs and when certain criteria will be respected.
Defined pension plan	The projected unit credit method must be applied for the measurement of pension plan obligations.
Pension plan – Past service costs	The past service costs must be fully recognized at the time they are vested. By virtue of the policy choice, actuarial gains or losses, as they occur, should be recognized on Other Comprehensive Income (OCI), with no impact to income.

In addition, IFRS 1 requires that first-time adopters select accounting policies that comply with each IFRS effective at the end of its first IFRS reporting period (March 31, 2012 for the Company), and apply those policies to all periods presented in its first IFRS financial statements.
However, IFRS 1 provides selected optional exemptions to the full retrospective application. The following are the Company's, non-exhaustive, key IFRS 1 optional exemptions:

Optional exemptions	**Company's action items**
Business combinations	Review of certain business acquisition purchase price determination and allocation.
Long-lived assets	Determination of the value (cost or fair value) of its property, plant and equipment. The Company elected to record (and consequentially keep) these long-lived assets at cost at transition date.
Defined pension plan	Recognition of the cumulative net actuarial gains and losses and transitional obligations at the transition date.
Cumulative translation adjustment (CTA)	Option to eliminate, or not, the CTA balance at the transition date.
Borrowing costs	Capitalization of borrowing costs as part of the capitalized development costs at the transition date.

At this time, the comprehensive impact of the changeover plan on the Company's future financial position and results of operations has not been finalized yet.
In addition, and as indicated above, the IASB currently contemplates a number of changes to existing IFRS. It is thus not possible to determine all IFRS that will be effective at transition date, nor the impact of the revised standards on the Company's financial statements. As the project progresses, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to international standards currently in development or in light of new information or other external factors that could arise from now until the changeover has been complete. Management expects to complete this assessment in time for parallel recording of financial information in accordance with IFRS beginning next fiscal year.
As part of the IFRS changeover plan, the Company is also preparing a preliminary IFRS financial statement format in accordance with IAS1, Presentation of Financial

Statements, and is in the process of analyzing the contractual implications of the new policy choices on financing arrangements and similar obligations.

The Company also continues to provide training to key employees and monitor the impact of the transition on its business practices, systems and internal controls over financial reporting.

CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with Canadian GAAP.

No changes that were made to our internal controls over financial reporting during the quarter and six-month periods ended September 30, 2009, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2009.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of terrorist activity
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

OUTLOOK

Although the economy is showing signs of recovery, the commercial aerospace market remains weak, as it typically lags the economy. Given fewer new orders, as well as cancellations or deferrals, production schedules have been reduced in the business jet, helicopter and large commercial aircraft segments. The military aerospace market remains solid with major programs progressing as expected, particularly the JSF program. While proposed funding for the US Department of Defense 2010 fiscal year budget is up 4%, subsequent budget funding may be reduced. The power generation industry is impacted over the short-term by the economic situation and tight lending conditions given significant capital requirements for these projects. The industrial gas turbine market is also affected by low natural gas prices, while infrastructure issues related to electricity transmission softened activity in the wind energy market, which still holds considerable potential over the mid-term.

Héroux-Devtek's funded (firm orders) backlog stood at $434 million as at September 30, 2009, down from $468 million three months earlier. Despite strong customer relationships and a backlog that nevertheless remains healthy, the Company is not anticipating any significant sales growth for fiscal 2010 considering the prevailing economic environment.

Increased volatility in the value of the Canadian dollar in recent weeks, and uncertainty surrounding its ongoing fluctuation versus the US currency, is prompting the Company to seek further productivity gains and streamline its cost base to remain globally competitive. Earlier in fiscal 2010, a cost reduction plan was implemented to reflect prevailing economic conditions. Time schedules were also reduced at some facilities, although the three main business units in Longueuil, Kitchener and Texas have not been significantly affected.

Fiscal 2010 capital expenditures are expected to be approximately $20 million, mostly for normal maintenance projects, but also certain investments related to the JSF program. After investing more than $100 million over the last three years, the Company plans to optimize these state-of-the-art investments in the coming quarters.

Héroux-Devtek still intends to pursue acquisition opportunities in its Aerospace segment that complement its existing core landing gear and aerostructure products, supported by a healthy balance sheet and Credit Facilities extending up to $125 million.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and the Board of Directors on October 29, 2009. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.