HÉROUX DEVTEK

Quarterly report 3

THIRD QUARTER ENDED
DECEMBER 31, 2006

message to shareholders

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's third quarter ended December 31, 2006.

We had a solid third quarter in all of our operations. The Landing Gear Division continues to perform well, as it has since the beginning of the year. We are also pleased to see the improvement at our Gas Turbine Components Division begin to materialize as the power generation market slowly turns around and our productivity enhancements of the past two years begin to bear fruit.

The Aerostructure Division was particularly strong. During the quarter, the Division began shipping parts for the F-35 Joint Strike Fighter (JSF) program after devoting substantial resources to JSF development work in the first half of the year.

Overall, sales for the period were $71.5 million, 7% higher than sales of $66.9 million reported for the same quarter last year. Third quarter Aerostructure sales were up 23% compared to the same period last year, while Landing Gear sales increased by 3%. However, the strong Canadian dollar continued to have a negative effect in the third quarter, reducing total sales by $2.5 million or 4% compared to the same period last year.

Third quarter operating income reached $3.8 million compared to $1.8 million last year, reflecting improved productivity and increased sales during the period in the Company's two segments, Aerospace and Industrial. Consequently, net income increased to $2.2 million or $0.07 per share compared to $0.7 million or $0.03 per share for the same period last year.

Year-to-date, sales are up nearly 10% at $200.5 million, and operating income reached $7.6 million compared to $1.3 million last year. Net income from continuing operations for the first nine months of the year stands at $4.4 million, compared to a net loss of $1.9 million last

year. Overall, net income for the year-to-date is $4.4 million or $0.14 per share, compared to $6.9 million or $0.25 per share last year, when discontinued operations contributed net income of $8.8 million or $0.32 per share last year.

As we have said previously, we expect business to continue to improve through the remainder of this year. With the commercial aerospace and power generation markets both improving and the military aerospace market remaining solid, Aerospace and Industrial sales should pursue their upward trend.

The fourth quarter is traditionally Héroux-Devtek's best quarter, and we are on track to achieve our anticipated 10% annual sales growth and turn a profit for the year. We continue to see opportunity in Aerospace, and with the start of deliveries we are now beginning to tap into the exciting long-term potential of the JSF program. We expect sales for our Gas Turbine Components Division to rise as the power generation market improves, while value-added work should contribute positively to operating income. While the fluctuating Canada/US exchange rate could still impact our upcoming results, management is monitoring the situation carefully, especially in light of recent currency fluctuations.

Signed by

Gilles Labbé
President and Chief Executive Officer
February 8, 2007

NOTICE OF DISCLOSURE OF NON-AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS FOR THE PERIODS ENDED DECEMBER 31, 2006 AND 2005.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the periods ended December 31, 2006 and 2005, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's external auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the external auditors of an entity.

Dated this 8th day of February 2007

CONSOLIDATED BALANCE SHEETS

As at December 31, 2006 and March 31, 2006
(In thousands of dollars) (Unaudited)

	Notes	Dec. 2006	March 2006
Assets	5		
Current assets			
Cash and cash equivalents		$ 15,045	$ 20,863
Accounts receivable		39,413	43,964
Income tax receivable		7,436	6,014
Other receivables		4,796	7,950
Inventories		90,167	71,785
Prepaid expenses		1,117	1,739
Future income taxes		9,945	8,883
Other current assets		2,756	1,146
		170,675	162,344
Property, plant and equipment, net		100,087	98,973
Finite-life intangible assets, net		8,043	9,243
Other assets		975	758
Future income taxes		6,651	6,476
Goodwill		38,285	37,879
		$ 324,716	$ 315,673
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		$ 72,815	$ 76,812
Income tax payable		544	2,899
Future income taxes		4,231	1,239
Current portion of long-term debt	5	6,277	11,064
		83,867	92,014
Long-term debt	5	65,218	50,637
Other liabilities		7,135	7,340
Future income taxes		11,621	13,398
		167,841	163,389
Shareholders' equity			
Capital stock	6	103,575	103,447
Contributed surplus	6	740	544
Cumulative translation adjustment		(7,487)	(7,372)
Retained earnings		60,047	55,665
		156,875	152,284
		$ 324,716	$ 315,673

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

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the periods ended December 31, 2006 and 2005
(In thousands of dollars, except per share data) (Unaudited)

		Quarters ended December 31		Nine months ended December 31	
	Notes	**2006**	2005	**2006**	2005
Sales		**$ 71,519**	$ 66,853	**$ 200,505**	$ 183,073
Cost of sales		**57,881**	56,169	**166,485**	156,933
Amortization		**4,224**	4,430	**12,591**	12,971
Gross profit		**9,414**	6,254	**21,429**	13,169
Selling and administrative expenses		**5,607**	4,472	**13,784**	11,831
Operating income		**3,807**	1,782	**7,645**	1,338
Financial expenses	5	**1,118**	958	**2,872**	3,283
Income (loss) before income tax and discontinued operations		**2,689**	824	**4,773**	(1,945)
Income tax		**491**	81	**391**	—
Net income (loss) from continuing operations		**2,198**	743	**4,382**	(1,945)
Net income from discontinued operations	3	**—**	—	**—**	8,844
Net income		**$ 2,198**	$ 743	**$ 4,382**	$ 6,899
Earnings (loss) per share from continuing operations – basic and diluted		**$ 0.07**	$ 0.03	**$ 0.14**	$ (0.07)
Earnings per share from discontinued operations – basic and diluted		**—**	—	**—**	0.32
Earnings per share – basic and diluted		**$ 0.07**	$ 0.03	**$ 0.14**	$ 0.25
Weighted-average number of common shares outstanding during the periods		**31,518,561**	29,547,207	**31,507,054**	27,825,100

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the periods ended December 31, 2006 and 2005
(In thousands of dollars) (Unaudited)

	Quarters ended December 31		Nine months ended December 31	
	2006	2005	**2006**	2005
Balance at beginning of period	**$ 57,849**	$ 53,566	**$ 55,665**	$ 47,410
Net Income	**2,198**	743	**4,382**	6,899
Balance at end of period	**$ 60,047**	$ 54,309	**$ 60,047**	$ 54,309

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the periods ended December 31, 2006 and 2005
(In thousands of dollars) (Unaudited)

	Notes	Quarters ended December 31 2006	Quarters ended December 31 2005	Nine months ended December 31 2006	Nine months ended December 31 2005
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income (loss) from continuing operations		$ 2,198	$ 743	$ 4,382	$ (1,945)
Items not requiring an outlay of cash:					
Amortization		4,224	4,430	12,591	12,971
Future income taxes		(118)	(748)	(31)	516
Gain on sale of property, plant and equipment		40	(12)	40	(18)
Amortization of deferred financing costs		57	140	194	304
Amortization of net deferred loss related to a financial derivative instrument		30	34	104	104
Accretion expense of asset retirement obligations		47	45	141	139
Stock-based compensation	6	101	54	218	150
Cash flows from continuing operations		6,579	4,686	17,639	12,221
Net change in non-cash items related to operations	9	2,154	4,117	(19,050)	(5,108)
Cash flows relating to operating activities		8,733	8,803	(1,411)	7,113
Investing activities					
Purchase of property, plant and equipment and finite-life intangible assets		(9,157)	(4,398)	(15,098)	(7,128)
Proceeds on disposal of property, plant and equipment		134	271	2,305	284
Business acquisition	2	—	—	(1,577)	(2,335)
Proceeds from the sale of a business	3	—	—	—	19,035
Cash flows relating to investing activities		(9,023)	(4,127)	(14,370)	9,856
Financing activities					
Increase in long-term debt	5	7,019	7,841	13,514	13,804
Repayment of long-term debt	5	(644)	(19,887)	(3,607)	(38,202)
Issuance of common shares	6	33	15,697	128	15,759
Other		—	(210)	—	(210)
Cash flows relating to financing activities		6,408	3,441	10,035	(8,849)
Effect of changes in exchange rates on cash and cash equivalents		372	299	(72)	(52)
Cash and cash equivalents used for discontinued operations		—	—	—	(799)
Change in cash and cash equivalents		6,490	8,416	(5,818)	7,269
Cash and cash equivalents at beginning of period		8,555	8,403	20,863	9,550
Cash and cash equivalents at end of period		$ 15,045	$ 16,819	$ 15,045	$ 16,819
Supplemental information:					
Interest paid		$ 773	$ 1,012	$ 2,257	$ 2,985
Income taxes paid		$ 84	$ 1,097	$ 1,040	$ 2,367

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the periods ended December 31, 2006 and 2005
(All dollar amounts in thousands, except share data) (Unaudited)

NOTE 1. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The Interim consolidated financial statements include the accounts of Héroux-Devtek Inc. (the "Company") and its subsidiaries, all of which are wholly-owned.

The interim consolidated 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. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2006.

NOTE 2. BUSINESS ACQUISITION

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 to acquire all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector. The earnings of Progressive have been accounted for in the Company's consolidated statement of income (loss) since the acquisition date and are included in the Aerospace segment. The total initial purchase price representing $74,193 (US$56,356) at the acquisition date (April 1, 2004) was adjusted upward by $687 to $74,880 up to December 31, 2006 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments made related to additional profitability performance for fiscal years 2004, 2005 and 2006. At December 31, 2006, the total adjusted purchase price can be detailed as follows:

Total Adjusted Purchase Price		
Basic purchase price	$	64,532
Tax impacts		3,421
Acquisition of a large specialized manufacturing equipment		4,246
Transaction costs and other		2,681
	$	74,880

As part of the asset purchase agreement and plan for merger, additional payments of up to $15,798 in total (US$6,000 for fiscal years 2004 and 2005 and US$6,000 for fiscal year 2006), could also be made based on additional profitability performance. At December 31, 2006, all additional payments amounting to $5,769 (US$4,725) were made. The basic purchase price was adjusted accordingly.

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO

On February 10, 2005, the Company entered into an agreement with Colt Defense LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a manufacturer of small arms for military and law enforcement agencies. The final sale price amounted to $19,035. The sale transaction closed on May 20, 2005. The gain on the sale transaction amounted to $8,385, net of income taxes of $2,521.

All assets and liabilities in the Company's consolidated balance sheets along with revenues and expenses in the Company's consolidated statements of income (loss) and the cash and cash equivalents in the Company's consolidated statements of cash flows related to the Logistics and Defence Division, Diemaco were segregated and presented as discontinued operations.

NOTE 3. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO (cont'd)

Sales, income before income taxes and net income related to Diemaco's operations for the period from April 1, 2005 to May 20, 2005, were as follows:

Sales	$	2,440
Income before taxes	$	418
Net income (including the gain on sale of Diemaco of $8,568)	$	8,844

All the activities of the Logistics & Defence Division, Diemaco operations were excluded from the Company's Aerospace segment and Canadian geographical segment in the segmented information (note 10).

NOTE 4. FINANCIAL INSTRUMENTS: FORWARD FOREIGN EXCHANGE CONTRACTS

At December 31, 2006, the Company had entered into forward foreign exchange contracts whereby it will sell American dollars, at an average exchange rate of 1.2241, an amount of US$128,750 (US$146,500 at an average rate of 1.2617 as at March 31, 2006 and US$138,500 at an average rate of 1.2840 as at December 31, 2005) for the purpose of foreign exchange risk management related to its export sales and maturing at various dates between January 1, 2007 and December 31, 2009.

NOTE 5. LONG-TERM DEBT

		December 31, 2006		March 31, 2006
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $80,000 (see below), either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, with no extension, which bear interest at Libor plus 1.4% at December 31, 2006 for the U.S. Credit Facilities (representing an effective interest rate of 6.7%) and, Bankers' acceptance plus 1.4% for the Canadian Credit Facilities at December 31, 2006 (representing an effective interest rate of 5.7%) and Libor plus 1.5% at March 31, 2006 for the U.S. Credit Facilities (representing an effective interest rate of 6.2%).				
At December 31, 2006, the Company used $8,400 and U.S.$35,000 (U.S.$30,656 at March 31, 2006) on the Credit Facilities.	$	49,227	$	35,806
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.		15,502		17,268
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between January 2007 and October 2009, with amortization periods varying between five to eight years, secured by the related property, plant and equipment.		6,766		8,627
		71,495		61,701
Less: current portion		6,277		11,064
	$	65,218	$	50,637

Senior Secured Syndicated Revolving Credit Facilities

During the quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature in five years, on October 4, 2011, with no extension. Consequently, at December 31, 2006, the outstanding debt relating to these Credit Facilities, amounting to $49,227, was included in the Company's long-term debt.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian and U.S. currency equivalent) from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes, are secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries.

NOTE 5. LONG-TERM DEBT (cont'd)

Interest rates vary based on Prime, Bankers' acceptance, Libor or U.S. base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows.

These Credit Facilities are governed by two credit agreements (Canadian and American).

The financial expenses, for the periods ended December 31, are comprised of:

	Quarters ended December 31		Nine months ended December 31	
	2006	2005	2006	2005
Interest	$ 1,096	$ 781	$ 2,776	$ 2,823
Amortization of deferred financing costs	57	140	194	304
Standby fees	46	71	142	209
Amortization of net deferred loss related to financial derivative instrument	30	34	104	104
Interest revenue	(111)	(68)	(344)	(157)
Financial expenses	$ 1,118	$ 958	$ 2,872	$ 3,283

NOTE 6. CAPITAL STOCK

Authorized capital stock

The authorized capital stock of the Company consists of the following:
An unlimited number of voting common shares, without par value;
An unlimited number of first preferred shares, issuable in series; and
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:

	December 31, 2006	March 31, 2006
31,521,301 common shares (31,488,599 at March 31, 2006)	$ 103,575	$ 103,447

Issuance of common shares

During the three- and nine-month periods ended December 31, 2006, the Company issued 7,265 common shares and 20,702 common shares, respectively, at weighted-average prices of $4.48 and $4.35 for total net cash considerations of $33 and $90 under the stock purchase and ownership incentive plan (see below). During the nine-month periods ended December 31, 2006, 12,000 common shares were also issued following the exercise of stock options for a total cash consideration of $38, all in the second quarter.

During the three- and nine-month periods ended December 31, 2005, the Company issued 8,276 and 25,222 common shares, respectively, at weighted-average prices of $3.27 and $3.53 for total net cash considerations of $27 and $89 under the stock purchase and ownership incentive plan (see below).

Last year, on November 10, 2005, the Company closed the public offering of 4,500,000 common shares at a price of $3.75 per share for net proceeds of $15,670 (net of $1,205 fees and expenses).

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Black-Scholes valuation model to determine their fair value. The expense related to stock options recorded in the quarter ended December 31, 2006 amounted to $79 ($54 for the quarter ended December 31, 2005) and to $196 ($150 in 2005) for the nine-month period ended December 31, 2006.

The aggregate number of shares reserved for issuance under this plan is 2,808,257 of which 691,718 shares have not yet been granted at December 31, 2006.

NOTE 6. CAPITAL STOCK (cont'd)

During the three- and nine-month periods ended December 31, 2006, 325,000 stock options were granted at a value of $4.79 per share. These options which are performance based, are vesting over a three-year period and can be exercised over a seven-year period. During the same periods, 95,500 stock options were cancelled.

During the nine-month periods ended December 31, 2005, 200,000 stock options were granted at a value of $3.98 per share that are vesting over a three-year period and can be exercised over a seven-year period. To December 31, 2005, 135,800 stock options were cancelled, all in the first quarter.

At December 31, 2006, the Company had 1,186,021 outstanding stock options at an average value of $5.49 which will expire over the next seven years (between June 2007 and August 2013).

Stock purchase and ownership incentive plan

The Company has a stock purchase and ownership incentive plan (the plan) to induce management employees to hold, on a long-term basis, common shares of the Company.

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

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

The aggregate number of shares reserved for issuance under this plan represents 340,000 common shares and has been taken out from the common shares already reserved for the Company's stock option plan.

During the three- and nine-month periods ended December 31, 2006, 7,265 and 20,702 common shares were issued (72,742 since the beginning of the plan) and 3,091 and 9,032 common shares were attributed to the participating employees (32,490 since the beginning of the plan). For the three- and nine-month periods ended December 31, 2006, the expense related to the attributed common shares amounting to $16 and $45 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and nine-month periods ended December 31, 2005, 8,276 and 25,222 common shares were issued and 3,695 and 11,317 common shares were attributed to the participating employees. For the three- and nine-month periods ended December 31, 2005, the expense related to the attributed common shares amounting to $13 and $44 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

Stock appreciation right plan

The Company has a stock appreciation right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. An expense of $8 and $22 was recorded for SAR during the three- and nine-month periods ended December 31, 2006 (no expense was recorded for the same periods in 2005). During the nine-month period ended December 31, 2006, 24,000 SAR were granted, all in the second quarter, at a granted value of $4.79 (15,000 SAR at a granted value of $3.84 for the same period in 2005).

At December 31, 2006, on a cumulative basis, 84,000 SAR were still outstanding at a weighted-average value of $5.34 which expires at various dates between fiscal years 2009 and 2013.

NOTE 7. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

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

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

Defined pension plan obligations are impacted by factors including interest rate, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The total pension plan costs for the three- and nine-month periods ended December 31 are as follows:

	Quarters ended December 31		Nine months ended December 31	
	2006	2005	**2006**	2005
Defined benefit pension costs	$ 291	$ 323	$ 860	$ 970
Defined contribution pension costs	358	350	1,029	946
	$ 649	$ 673	$ 1,889	$ 1,916

NOTE 8. COMMITMENTS

The Company had entered into operating leases amounting to $9,051 as at December 31, 2006 ($11,700 as at March 31, 2006), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2006, the Company also had purchase commitments totalling $28,500 ($7,400 to March 31, 2006) mainly for machinery and equipment.

NOTE 9. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations for the three- and nine-month periods ended December 31 can be detailed as follows:

	Quarters ended December 31		Nine months ended December 31	
	2006	2005	**2006**	2005
Accounts receivable	$ 136	$ 3,469	$ 4,551	$ 1,605
Income tax receivable	(47)	131	(1,422)	(3,090)
Other receivables	679	(1,315)	3,154	1,414
Inventories	(1,686)	1,459	(18,382)	(2,609)
Prepaid expenses	351	246	622	(845)
Other current assets	(800)	(9)	(1,610)	493
Accounts payable and accrued liabilities, and other liabilities	2,145	704	(3,633)	(612)
Income tax payable	350	(564)	(2,355)	(534)
Effect of changes in exchange rate	1,026	(4)	25	(930)
	$ 2,154	$ 4,117	$ (19,050)	$ (5,108)

NOTE 10. SEGMENTED INFORMATION

Quarters ended December 31

Activity Segments

	2006			2005		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	$ 64,775	$ 6,744	$ 71,519	$ 61,794	$ 5,059	$ 66,853
Operating income (loss)	4,250	(443)	3,807	3,097	(1,315)	1,782
Financial expenses			1,118			958
Income before income tax and discontinued operations			2,689			824
Assets from continuing operations	302,412	22,304	324,716	279,554	19,492	299,046
Goodwill	37,242	1,043	38,285	35,587	1,041	36,628
Purchase of property, plant and equipment	8,828	269	9,097	3,559	451	4,010
Purchase of finite-life intangible assets	58	2	60	388	—	388
Goodwill acquired	—	—	—	1,354	—	1,354
Amortization	3,539	685	4,224	3,892	538	4,430

Geographic Segments

	2006			2005		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$ 49,821	$ 21,698	$ 71,519	$ 44,668	$ 22,185	$ 66,853
Property plant and equipment, net	62,743	37,344	100,087	59,253	37,657	96,910
Finite-life intangible assets, net	1,485	6,558	8,043	2,162	7,339	9,501
Goodwill	17,534	20,751	38,285	17,534	19,094	36,628
Export sales [(1)]	$ 30,526			$ 28,312		

71% of the Company's sales (71% in 2005) were to US customers.

(1) Export sales are attributed to countries based on the location of the customers.

NOTE 10. SEGMENTED INFORMATION (cont'd)

Nine months ended December 31

Activity Segments

	2006			2005		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	$ 181,341	$ 19,164	$ 200,505	$ 166,651	$ 16,422	$ 183,073
Operating income (loss)	9,481	(1,836)	7,645	3,045	(1,707)	1,338
Financial expenses			2,872			3,283
Income (loss) before income tax and discontinued operations			4,773			(1,945)
Assets from continuing operations	302,412	22,304	324,716	279,554	19,492	299,046
Goodwill	37,242	1,043	38,285	35,587	1,041	36,628
Purchase of property, plant and equipment	13,663	1,097	14,760	5,993	637	6,630
Purchase of finite-life intangible assets	332	6	338	498	—	498
Goodwill acquired	440	—	440	2,212	—	2,212
Amortization	10,683	1,908	12,591	11,408	1,563	12,971

Geographic Segments

	2006			2005		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$ 144,626	$ 55,879	$ 200,505	$ 115,225	$ 67,848	$ 183,073
Property plant and equipment, net	62,743	37,344	100,087	59,253	37,657	96,910
Finite-life intangible assets, net	1,485	6,558	8,043	2,162	7,339	9,501
Goodwill	17,534	20,751	38,285	17,534	19,094	36,628
Export sales [(1)]	$ 86,921			$ 69,119		

69% of the Company's sales (71% in 2005) were to US customers.

(1) Export sales are attributed to countries based on the location of the customers.

NOTE 11. RECLASSIFICATION

Comparative figures for the financial statements as at December 31, 2005 have been reclassified to comply with the December 31, 2006 presentation.

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, 2006 and December 31, 2006. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 2006 to those for the same period the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2006 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the interim consolidated financial statements of June 30, 2006, September 30, 2006 and December 31, 2006. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

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

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

OVERVIEW

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

- landing gear products
- aerostructure products
- aircraft engine components

The Industrial segment includes:

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

The economic and industry factors that influenced Héroux-Devtek's business in the first six months of this fiscal year continued to effect the Company in the third quarter ended December 31, 2006. The civil aerospace market recovered further, and the military aerospace market remained generally strong. On the industrial side, the expected turnaround in the power gas turbine market began to materialize. Consequently, Héroux-Devtek's gas turbine sales improved, even though the Company is in the process of exiting the aircraft engine components market, as previously stated. Finally, the strength of the Canadian dollar continued to have a negative impact on Héroux-Devtek's results during the third quarter of fiscal 2007.

RESULTS OF OPERATIONS

CONSOLIDATED SALES

Consolidated sales for the quarter ended December 31, 2006 stood at $71.5 million compared to $66.8 million for the same period last year.

Third quarter sales, this year, were favourably impacted by a further increase in large commercial Landing Gear sales and by increased military Aerostructure sales to civil customers which included first deliveries on the Joint Strike Fighter (JSF) development phase contract. This increase was somewhat offset by declining aircraft engine components sales as the Company gradually exits this market through to fiscal year-end and, by reduced military manufacturing sales at Landing Gear following the completion of certain contracts last year. The increase in industrial gas Turbine sales also contributed to the overall increase in sales. The ongoing strength of the Canadian dollar against the US dollar once again had a negative impact on US dollar denominated sales, reducing total sales by $2.5 million or 3.7%.

Year-to-date consolidated sales stood at $200.5 million, $17.4 million higher than sales of $183.1M for the same period last year. The increase is mainly attributable to large commercial and military repair and overhaul Landing Gear sales, along with the increase in Aerostructure turboprop (commuter) sales, and industrial Gas Turbine sales. These were somewhat offset by the reduction in certain military manufacturing Landing Gear sales following the completion of the related sales contracts last year. The negative impact of a stronger Canadian dollar, reduced sales by $10.3 million or 5.6% compared to last year.

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

Segment	***Quarters ended Dec. 31***				***Nine months ended Dec. 31***			
	2006	2005	Variance		2006	2005	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Aerospace								
Military	12,108	14,514	(2,406)	(16.6)	39,775	41,692	(1,917)	(4.6)
Civil								
Military products sold to civil customers	20,555	17,447	3,108	17.8	46,150	46,680	(530)	(1.1)
Commercial products	32,114	29,833	2,281	7.6	95,416	78,279	17,137	21.9
Total Civil	52,669	47,280	5,389	11.4	141,566	124,959	16,607	13.3
Total Aerospace	64,777	61,794	2,983	4.8	181,341	166,651	14,690	8.8
Total Industrial	6,742	5,059	1,683	33.3	19,164	16,422	2,742	16.7
Total	71,519	66,853	4,666	7.0	200,505	183,073	17,432	9.5

Comparative figures for the Aerospace segment of last year have been reclassified to comply with this year presentation.

Aerospace Segment

The Aerospace segment sales shown in the table above can be broken down by sector as follows:

Sector	***Quarters ended Dec. 31***				***Nine months ended Dec. 31***			
	2006	2005	Variance		2006	2005	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	39,347	38,153	1,194	3.1	118,595	98,185	20,410	20.8
Aerostructure	24,949	20,315	4,634	22.8	59,966	55,193	4,773	8.6
Aircraft Engine Components	481	3,326	(2,845)	(85.5)	2,780	13,273	(10,493)	(79.1)
Total	64,777	61,794	2,983	4.8	181,341	166,651	14,690	8.8

For the third quarter ended December 31, 2006, overall sales for the Aerospace segment increased 4.8% to $64.8 million compared to $61.8 million for the same period last year.

During the third quarter, Landing Gear sales increased by $1.2 million or 3.1% relative to the same period last year. This resulted from continued growth, mainly in sales for large commercial sales.

Third quarter Aerostructure sales were up $4.6 million or 22.8% to $24.9 million, with increased military sales to civil customers, including first deliveries for the development phase of the JSF contract.

Aircraft engine component sales continued to shrink in the third quarter, as anticipated, totalling $0.5 million compared to $3.3 million last year. These sales have declined consistently over the last quarters as the Company will exit this market by the end of the current fiscal year based on a mutual agreement with the customer.

Aerospace sales for the first nine months of the year rose due to the increase in large commercial Landing Gear sales, mainly on B777 and B737 contracts and from the supply of material on the US Air Force (USAF) military repair and overhaul contract that started in late August 2005. It also reflects an increase in Aerostructure turboprop (commuter) sales. The decline in Aircraft Engine Components sales, year-to-date, reflects the exit of this market and, the completion of certain manufacturing Landing Gear sales contracts last year, as discussed previously.

Industrial Segment

Sales for the Industrial segment were as follows:

Sector	***Quarters ended Dec. 31***				***Nine months ended Dec. 31***			
	2006	2005	Variance		2006	2005	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	3,360	2,096	1,264	60.3	9,171	8,503	668	7.9
Other Industrial	3,382	2,963	419	14.2	9,993	7,919	2,074	26.2
Total	6,742	5,059	1,683	33.3	19,164	16,422	2,742	16.7

Third quarter sales for the Industrial segment were up 33.3% from last year. The anticipated increase in Industrial Gas Turbine sales has started to materialize, while wind energy business, which is included on the Other Industrial sales, although somewhat short of the Company's expectation because of certain material supply issues, was nevertheless $0.5 million higher than last year for the quarter and $2.5 million higher year-to-date.

Sales by Destination

The Company's sales by destination were as follows:

Destination	***Quarters ended Dec. 31***		***Nine months ended Dec. 31***	
	2006	2005	2006	2005
Canada	27%	25%	29%	26%
U.S.	71%	71%	69%	71%
International	2%	4%	2%	3%
	100%	100%	100%	100%

The increase in sales in Canada for the year to date reflects improved commercial landing gear and Aerostructure sales to Canadian customers and reduced aircraft engine components sales to US customers relative to the same period last year.

GROSS PROFIT

For the quarter ended December 31, 2006, consolidated gross profit as a percentage of sales was 13.2%, up from 9.4% last year. The stronger Canadian dollar relative to the US currency only had a 0.54% negative impact on gross profit as a percentage of sales.

Year-to-date consolidated gross profit as a percentage of sales also improved, from 7.2% last year to 10.7% for the nine months ended December 31, 2006, in spite of a 0.5% negative impact attributable to the stronger Canadian dollar.

Year-to-date, gross profit was favourably impacted by improved margins on certain contracts, mainly due to improved productivity at the Landing Gear division and the increase in sales at this division, which contributed to a better absorption of manufacturing overhead costs. Gross profit was also favourably impacted by improved margins at the Company's Gas Turbine Components division, which was facing production issues last year. These improvements were partially offset by somewhat lower margins and productivity at the Company's Aerostructure division due to development work on the JSF contract.

In the third quarter ended December 31, 2005, an insurance recovery of $1.8 million was recorded against the cost of sales. This recovery was partially offset by a provision of $1 million for non-quality and certain terminated parts on aircraft engine components. The net impact of the two above-mentioned items increased gross profit by $0.8 million or 1.2% of sales in the quarter ended December 31, 2005.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses rose this year, as shown below:

	Quarters ended Dec. 31		***Nine months ended Dec. 31***	
	2006	2005	2006	2005
Selling and administrative expenses ($'000)	5,607	4,472	13,784	11,831
% of sales	7.8	6.7	6.9	6.5

Third quarter selling and administrative expenses were $1.1 million higher than last year, mainly due to a loss on currency translation upon conversion of the Company's net monetary items this year. Year-to-date selling and administrative expenses were $2.0 million higher, due to a lower gain on currency translation and more business sales activity overall.

OPERATING INCOME (LOSS)

Consolidated operating income for the third quarter increased from $1.8 million last year to $3.8 million this year, while the year-to-date operating income improved from $1.3 million to $7.6 million.

Aerospace Segment

Aerospace operating income was $4.2 million or 6.6% of sales in the third quarter compared to $3.1 million or 5.0% of sales in the third quarter of last year, essentially reflecting overall higher sales and improved performance at the Landing Gear Division. The year-to-date operating income increase of $6.4 million relative to last year for the Aerospace segment is also mainly due to improved Landing Gear figures.

Industrial Segment

The operating loss of $0.4 million or 6.6% of sales in the third quarter of this year compares to an operating loss of $1.3 million or 26.0% of sales for the same period last year. The year-to-date operating loss of $1.8 million or 9.6% of sales this year compares to an operating loss of $1.7 million or 10.4% of sales for the same period last year. Although still negative, the reduction in the quarterly operating loss is in line with management's effort to concentrate on value-added industrial contracts and enhanced operating performance at the Gas Turbine Components division.

FINANCIAL EXPENSES

Financial expenses declined this year, as shown below:

	Quarters ended Dec. 31		*Nine months ended Dec. 31*	
	2006 ($'000)	2005 ($'000)	2006 ($'000)	2005 ($'000)
Interest	1,096	781	2,776	2,823
Amortization of deferred financing costs	57	140	194	304
Standby fees	46	71	142	209
Amortization of net deferred loss related to financial derivative instrument	30	34	104	104
Interest revenue	(111)	(68)	(344)	(157)
Financial expenses – net	1,118	958	2,872	3,283

For the third quarter ended December 31, 2006, financial expenses were $1.1 million, $0.2 million higher than for the same period last year. Year-to-date, financial expenses of $2.9 million were $0.4 million lower than for the first nine months of last year. The year-to-date decrease is mainly attributable to lower average outstanding debt. Debt capital repayments were made last year following the sale of Diemaco in May 2005 for proceeds of $19.0 million and the treasury issue of 4.5 million common shares in November 2005 for net proceeds of $15.7 million.

INCOME TAX RECOVERY

Year-to-date, the Company's effective income tax rate was 8.2% compared to the Company's Canadian blended statutory income tax rate of 32.8%. The income tax rate, year-to-date, represents an income tax expense of $0.4 million. The income tax expense was favourably impacted by $0.6 million in permanent differences and a $0.7 million in net future tax adjustments, partially offset by a $0.1 million negative impact on the Company's net future income tax assets following a decrease in the Canadian Federal income tax rate announced last May.

DISCONTINUED OPERATIONS

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

NET INCOME (LOSS)

	Quarters ended Dec. 31		*Nine months ended Dec. 31*	
	2006	2005	2006	2005
Net income (loss) from continuing operations ($'000)	2,198	743	4,382	(1,945)
Net income from discontinued operations ($'000)	—	—	—	8,844
Net income ($'000)	2,198	743	4,382	6,899
Earnings (loss) per share from continuing operations ($) – basic and diluted	0.07	0.03	0.14	(0.07)
Earnings per share from discontinued operations ($) – basic and diluted	—	—	—	0.32
Earnings per share ($) – basic and diluted	0.07	0.03	0.14	0.25

Earnings (loss) per share figures are based on weighted-averages of 31,518,561common shares outstanding for the third quarter of this year and 29,547,207 for the same period last year. Year-to-date, earnings (loss) per share figures are based on weighted-averages of 31,507,054 common shares outstanding this year and 27,825,100 for the same period last year. Since the beginning of the year, the increase in the number of shares is essentially due to the issuance of common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 6 to the interim consolidated financial statements).

On February 8, 2007, the date of this MD&A, the Company had 31,523,031 common shares outstanding and 1,186,021 outstanding stock options at an average price of $5.49.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

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

	Quarters ended Dec. 31		***Nine months ended Dec. 31***	
	2006	2005	2006	2005
	($'000)	($'000)	($'000)	($'000)
Cash flows from continuing operations	6,579	4,686	17,639	12,221
Net change in non-cash items related to operations	2,154	4,117	(19,050)	(5,108)
Cash flows relating to operating activities	8,733	8,803	(1,411)	7,113

The increase in cash flows from continuing operations for the third quarter ended December 31, 2006, was mainly due to the improvement in the Company's net income.

The net change in non-cash items for the third quarter ended December 31, 2006, was mainly caused by a $2.1 million increase in accounts payable and accrued liabilities and other liabilities and a $1.0 million favourable impact from the effect of changes in exchange rate on US denominated non-cash balance sheet items. These changes were somewhat offset by an increase of $1.7 million in inventories, in line with the rising level of business activity.

For the third quarter ended December 31, 2005, the net change of $4.1 million in non-cash items was mainly caused by a $3.5 million decrease in accounts receivable following improved accounts receivable collection, and a $1.5 million reduction in inventories, in line with our third quarter increase in deliveries.

The increase in cash flows from continuing operations for the nine months ended December 31, 2006, was also attributable to the improvement in the Company's net income. The net change in non-cash items included a $18.4 million increase in inventories since the beginning of this fiscal year to support upcoming activity levels, a $3.6 million reduction in accounts payable and accrued liabilities and other liabilities and a $2.4 million reduction in income tax payable, offset by a $4.5 million reduction in accounts receivable.

For the nine months ended December 31, 2005, the net change in non-cash items included an increase of $3.1 million in income taxes receivable due mainly to the income tax recovery related to the Company's operating losses in the last two years, and an increase of $2.6 million in inventories, in line with the overall increased business activity.

INVESTING ACTIVITIES

The Company's investing activities were as follows:

	Quarters ended Dec. 31		*Nine months ended Dec. 31*	
	2006 ($'000)	2005 ($'000)	2006 ($'000)	2005 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(9,157)	(4,398)	(15,098)	(7,128)
Proceeds on disposal of property, plant and equipment	134	271	2,305	284
Business acquisition	—	—	(1,577)	(2,335)
Proceeds on sale of Logistics and Defence Division, Diemaco	—	—	—	19,035
Cash flows relating to investing activities	(9,023)	(4,127)	(14,370)	9,856

The third quarter purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) was $9.2 million this year compared to $4.4 million last year. Year-to-date, capital expenditures stand at $15.1 million this year compared to $7.1 million last year. The quarterly and year-to-date increases relative to last year are attributable to the modernization of the plating department at the Company's Landing Gear plant in Longueuil, Quebec and production capacity increases in light of the upcoming business activity at the plants in Kitchener, Ontario and Arlington, Texas. In all, capital expenditures of about $30 million are now expected for the current fiscal year (see commitments below), including approximately $5 million additional capital expenditures related to the JSF contract. The Company is involved in all three versions of the development phase of the JSF contracts.

In the second quarter ended September 30, 2006, the Company sold its Tampa, Florida, facility for proceeds of $2.2 million, which generated no accounting gain or loss. This facility was closed some years ago and the Tampa operations were transferred to our operations in Cincinnati, Ohio.

The $1.6 million business acquisition in the nine months ended December 31, 2006, represents the final profitability performance payments in relation to the acquisition of Progressive on April 1, 2004. (See Note 2 to the interim consolidated financial statements.)

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

FINANCING ACTIVITIES

The Company's financing activities were as follows:

	Quarters ended Dec. 31		*Nine months ended Dec. 31*	
	2006 ($'000)	2005 ($'000)	2006 ($'000)	2005 ($'000)
Increase in long-term debt	7,019	7,841	13,514	13,804
Repayment of long-term debt	(644)	(19,887)	(3,607)	(38,202)
Issuance of common shares	33	15,697	128	15,759
Other	—	(210)	—	(210)
Cash flows relating to financing activities	6,408	3,441	10,035	(8,849)

Increases in cash flows from financing activities for the quarter and nine months ended December 31, 2006, mainly reflect drawings against the credit facilities for capital expenditures investments.

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

In the last fiscal year, on November 10, 2005, the Company closed a public offering of 4.5 million common shares priced at $3.75 per share for proceeds of $15.7 million (net of $1.2 million in fees and expenses). The Company applied the net proceeds from the sale of common shares to the reduction of its lines of credit under its credit facilities, but not as a permanent reduction thereof.

SENIOR SECURED SYNDICATED REVOLVING CREDIT FACILITIES

During the quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period whereby the previous revolving operating and term credit facilities were combined into Senior Secured Revolving Credit Facilities of $80 million that will mature in about five years, on October 4, 2011, with no extension. These facilities are secured by all the assets of the Company and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. This agreement was concluded with a syndication of banks comprising National Bank of Canada, which also acted as the administrative agent, The Bank of Nova Scotia, The Toronto Dominion Bank and Laurentian Bank of Canada.

Consequently, at December 31, 2006, the outstanding debt relating to these credit facilities amounting to $49.2 million was included in the Company's long-term debt.

The Company was in compliance with all its restrictive debt covenants at December 31, 2006, and expects to remain so for the next twelve months.

STOCK OPTION PLAN

The Company has a Stock Option Plan whereby options to purchase common shares are issued to directors, officers and key employees. At December 31, 2006, the Company had 1,186,021 outstanding stock options at an average price of $5.49 that will expire over the next seven years (between June 2007 and August 2013).

The aggregate number of shares reserved for issuance under this plan is 2,808,257, of which 691,718 shares had not yet been granted at December 31, 2006. The Company also has a Stock Purchase and Ownership Incentive Plan for management employees and a Stock Appreciation Rights Plan for its non-employee directors. (See Note 6 to the interim consolidated financial statements).

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the material changes to the consolidated balance sheets between March 31, 2006 and December 31, 2006:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(5.8)	See consolidated statements of cash flows
Accounts receivable	(4.5)	In line with the lower sales in the third quarter of this fiscal year when compared to the historically higher fourth quarter sales of the previous fiscal year, ended March 31, 2006
Other receivables	(3.1)	Collection of other receivables related to tooling invoiced to customers
Inventories	18.4	Mainly related to increased business activity for the upcoming quarters
Property, plant and equipment, net	1.1	Due to: • Purchase of capital assets ($14.8 million) Net of: • Amortization ($11.3 million) • Proceed from the sale of the Tampa facilities ($2.3 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.1 million)

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (include a $6.0 million net backlog)	(1.2)	Due to: • Purchase of intangible capital assets ($0.2 million) Net of: • Amortization ($1.4 million) - Represents mainly the amortization on the underlying value of the net backlog acquired as part of the acquisition of Progressive
Goodwill	(0.4)	Due to the variation between actual additional payments made to the sellers in the first quarter of this year in relation to the profitability performance of Progressive and the estimated payments accrued for at the last fiscal year-end ($0.4 million), net of the lower US exchange rate used to convert the net assets of self sustaining US subsidiaries ($0.8 million)
Accounts payable and accrued liabilities	(4.0)	Impact of increased raw material purchases at the end of the fourth quarter of last year and timing of payments
Long-term debt (including current portion)	9.8	Due to: • Net increase in long-term debt ($9.9 million) to finance capital expenditures investments; net of • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.1 million)
Cumulative translation adjustment	(0.1)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	4.4	See consolidated statements of retained earnings

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

	Dec. 31, 2006	March 31, 2006
Working capital ratio	2.04:1	1.76:1
Cash and cash equivalents	$15.0 million	$20.9 million
Long-term debt-to-equity ratio	0.42:1	0.33:1

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $9.1 million as at December 31, 2006 ($11.7 million as at March 31, 2006), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At December 31, 2006, the Company also had purchase commitments totalling $28.5 million ($7.4 million to March 31, 2006) mainly for machinery and equipment. As already stated, these commitments mainly relate to the Longueuil plant modernization of the plating department and production capacity increases at our Kitchener, Ontario and Arlington, Texas, plants.

At December 31, 2006, the Company had entered into forward foreign exchange contracts to sell US$128.8 million at an average exchange rate of 1.2241 (US$146.5 million at an average rate of 1.2617 as at March 31, 2006 and US$138.5 million at an average rate of 1.2840 as at December 31, 2005) for the purpose of foreign exchange risk management related to its export sales. These contracts mature at various dates between January 1, 2007 and December 31, 2009.

CHANGES IN ACCOUNTING POLICIES

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

RISKS AND UNCERTAINTIES

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

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

OUTLOOK

As reported in prior quarters, the Company expects its business to continue to improve through the remainder of this year. With the commercial aerospace and power generation markets both improving and the military aerospace market remaining solid, aerospace and Industrial sales should pursue their upward trend.

The fourth quarter is traditionally Héroux-Devtek's best quarter. Consequently, management considers that the Company is on track to achieve its anticipated 10% annual sales growth and record a profit for the year.

The Landing Gear Division is expected to continue performing well, as it has since the beginning of the year. Good opportunities remain in Aerospace. With the start of deliveries on the JSF contracts, the Company is now beginning to tap into the exciting long-term potential of the JSF program. At the Gas Turbine Components Division, sales are expected to grow as the power generation market improves, while value-added work should contribute positively to gross profit. Finally, while the fluctuating Canada/US exchange rate could still impact upcoming results, management is monitoring the situation carefully, especially in light of recent currency fluctuations.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and the Board of Directors on February 8, 2007. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

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