Management Discussion and Analysis of Financial Position and Operating Results

This management discussion and analysis of financial condition and results of operations (MD&A) comments on the operations, financial condition and cash flows of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") for the three and six months ended September 30, 2004 and 2003. It should be read in conjunction with the Company's MD&As as at March 31 and June 30, 2004, as well as its interim financial statements to September 30, 2004. Héroux-Devtek's financial statements are 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 on Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements. Such statements are subject to risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and 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, 2004.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that these 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 & Defence, and Industrial. The Aerospace & Defence segment comprises:

Aerospace:
- Landing Gear products
- Aerostructure products
- Aircraft Engine Components

Defence:
- Small Arms and accessories

- Other Defence products

The Industrial segment includes:

- Industrial Gas Turbine Components
- Other Industrial products

On April 1, 2004, following the acquisition of Progressive Incorporated (“Progressive”), the Company changed the presentation and discussion of its results to better reflect the activity sectors in which it operates.

Significant developments to September 30, 2004

- In the second quarter, the Company was awarded $22.0 million in new contracts by the United States Air Force (USAF) to produce landing gear components and complete landing gear assemblies for the F-16 aircraft. The F-16 is a multirole fighter aircraft and the workhorse of the USAF fighter fleet. There are more than 2,900 F-16 aircraft on active duty.

- Also in the second quarter, Héroux-Devtek’s Gas Turbine Component Division was awarded a $10.9 million contract to produce components for the USAF F-100 engine.

- In the first quarter, the Company won new military orders for at least $22.0 million in landing gear components for the B1B, F-15, F-16, B-52, E-3, KC-135R and P-3 programs.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended September 30, 2004 rose 14.9% to $61.1 million from $53.2 million last year, mainly due to the acquisition of Progressive. This new business unit generated $15.9 million in the second quarter sales for Héroux-Devtek. Sales were negatively affected during the quarter by a stronger Canadian dollar, which had an impact of $1.4 million or 2.6%, as well as by an $8.3 million reduction in business volume at the Landing Gear Division.

Consolidated sales for the first six months of the year were up 11.3%, totalling $117.4 million compared to $105.5 million last year. Progressive generated sales of $28.6 million for the period, while a stronger Canadian dollar had a $3.7 million negative impact.

The Company's sales by segment were as follows:

	Second quarters ended September 30			Six months ended September 30		
	2004 ($'000)	2003 ($'000)	% Change	2004 ($'000)	2003 ($'000)	% Change
Aerospace & Defence	55,685	47,814	16.5	107,203	94,488	13.5
Industrial	5,381	5,345	0.7	10,231	11,056	(7.5)
Total	**61,066**	**53,159**	**14.9**	**117,434**	**105,544**	**11.3**

Aerospace & Defence Segment

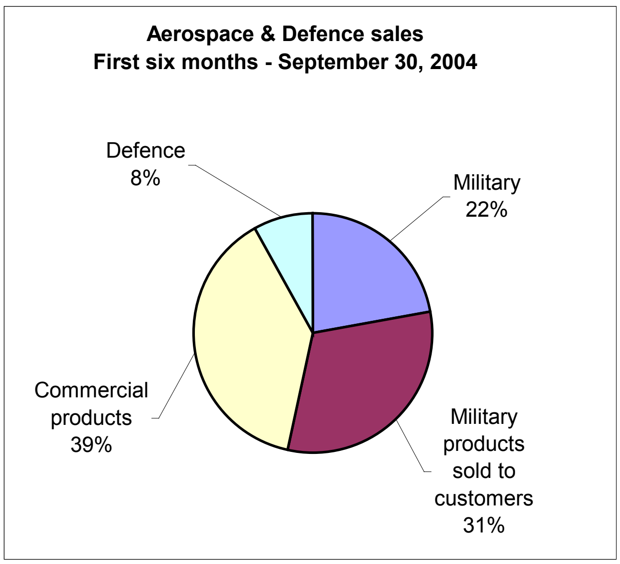
Sales for the Aerospace & Defence segment were as follows:

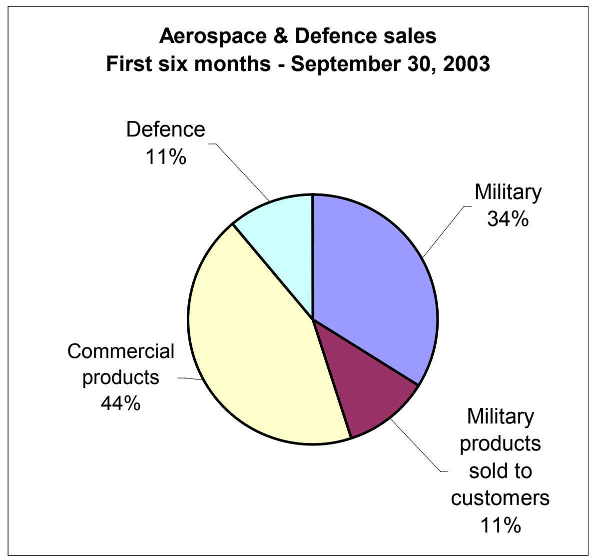
Sector	Second quarters ended September 30			Six months ended September 30		
	2004 ($'000)	2003 ($'000)	% Change	2004 ($'000)	2003 ($'000)	% Change
Landing Gear	24,943	33,253	(25.0)	49,377	64,382	(23.3)
Aerostructure	21,458	4,648	361.7	39,141	10,290	280.4
Aircraft Engine Components	4,792	4,920	(2.6)	9,923	9,373	5.9
Defence	4,492	4,993	(10.0)	8,762	10,443	(16.1)
Total	**55,685**	**47,814**	**16.5**	**107,203**	**94,488**	**13.5**

Sales for the Aerospace & Defence segment were up 16.5% in the quarter to $55.7 million, compared to $47.8 million for the same period last year. The increase in second quarter Aerospace & Defence sales was primarily due to the acquisition of Progressive, which contributed $15.9 million to Aerostructure sales for the period. The Aerostructure Division also made up for some of its late first quarter deliveries, which further boosted sales. Landing Gear sales fell by $6.5 million in the military sector due to manufacturing contract completions on P-3 and KC-135R and $1.8 million in the commercial sector, due to reduced activity in repair and overhaul. Aircraft Engine Component sales were stable prior to conversion from US to Canadian dollars. The decline in Defence sales was attributable to lower demand in Other Defence products, with year-over-year Small Arms product sales holding stable.

Aerospace & Defence sales for the first six months of the year increased 13.5% from $94.5 million to $107.2 million.

The sales shortfalls seen in the first quarter at the Longueuil and Dorval plants were partially recovered in the second quarter. Sales are expected to improve further in the second half of this year given the current backlog.





Industrial Segment

Sales for the Industrial segment were as follows:

Sector	Second quarters ended September 30			Six months ended September 30		
	2004 ($'000)	**2003** ($'000)	**% Change**	**2004** ($'000)	**2003** ($'000)	**% Change**
Industrial Gas Turbine	3,565	4,799	(25.7)	6,621	9,743	(32.0)
Other Industrial	1,816	546	232.6	3,610	1,313	174.9
Total	**5,381**	**5,345**	**0.7**	**10,231**	**11,056**	**(7.5)**

Sales for the Industrial segment rose 0.7% to $5.4 million in the second quarter of this year from $5.3 million last year. Other Industrial sales were up once again in the second quarter. The Company increased sales in this sector with the win last year of a contract to manufacture new parts for a new customer. Meanwhile, Industrial Gas Turbine sales continued to reflect persistent weak demand. Overall, the Gas Turbine Component Division continues to adjust to the introduction of new parts and is actively working to improve its manufacturing and delivery processes for these products.

For the six-month period ended September 30, 2004, Industrial segment sales were $10.2 million, 7.5% lower than sales of $11.1 million in the first half of last year.

Sales by Destination

The Company's sales by destination were as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 (%)	**2003** (%)	**2004** (%)	**2003** (%)
Canada	23	26	23	27
U.S.	70	67	71	65
International	7	7	6	8
Total	**100**	**100**	**100**	**100**

The proportion of US sales is higher this year due to the acquisition of Progressive, which generates all of its sales in the United States.

Gross Profit

Consolidated gross profit as a percentage of sales decreased in the second quarter from 9.9% last year to 5.8%. The Canadian dollar accounted for a decline of 0.5%. Other factors that contributed to the decrease were higher unabsorbed manufacturing overhead costs caused by lower sales at the Landing Gear Division, increased manufacturing costs arising from the introduction of new landing gear parts, and market pricing pressure.

Gross profit for the six-month period ended September 30, 2004 totalled 6.4% of sales compared to 10.5% a year earlier.

Selling and Administrative Expenses

Selling and administrative expenses decreased in the second quarter, as shown below:

	Second quarters ended September 30		Six months ended September 30	
	2004	2003	2004	2003
Selling and administrative expenses ($'000)	4,845	5,649	10,175	11,640
% of sales	7.9%	10.6%	8.7%	11.0%

The main reason for the lower expenses this year is the inclusion of a $0.7 million gain on foreign exchange resulting from the conversion of monetary items denominated in foreign currencies included in current assets and liabilities following the adoption of Accounting Guideline No. 13 on hedging relationships (see Note 2 to the consolidated financial statements). Last year, net monetary items in foreign currencies hedged by forward foreign exchange contracts were translated using the average exchange rate of the contracts prevailing at the end of the period, and the resulting gains or losses were included in the Company's revenues.

A $0.3 million decline in royalties arising from lower military product sales at the Landing Gear Division also contributed to the lower selling and administrative expenses for the quarter.

Operating Loss

Aerospace & Defence Segment

Aerospace & Defence operating income as a percentage of sales was down 1.9% in the second quarter of this year compared to last year. This was mainly due to lower sales and new parts manufacturing challenges at the Landing Gear Division, and pricing pressures resulting from the sluggish aerospace market of recent years. These negative factors were somewhat offset by Progressive's good performance.

For the first six months of the year, operating loss in this segment represented 0.8% of sales, compared to an operating income of 2.5% for the same period last year.

Industrial Segment

Expressed as a percentage of sales, the second quarter operating loss for the Industrial segment was 16.0%, approximately the same as last year. The Gas Turbine

Component Division continues to face operational challenges, with the introduction of new manufactured parts and reduced sales in the Industrial Gas Turbines sector.

The operating loss was nonetheless slightly smaller in the second quarter than in the first quarter. The overall operating loss in this segment for the first six months of the year was 17.8% of sales, down from 26.5% last year.

Financial Expenses

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Interest expense	1,016	873	2,072	1,772
Interest revenue	(39)	(306)	(167)	(642)
Gain on financial derivative instrument - interest rate swap	-	-	(528)	-
Amortization of net deferred loss related to financial derivative instrument	39	-	80	-
Financial expenses	**1,016**	**567**	**1,457**	**1,130**

Second quarter financial expenses rose this year due to the financing of the Progressive acquisition. The Company used $36.4 million of its available credit facilities and $21.6 million of its cash available at March 31, 2004 for the acquisition (see Note 3 to the consolidated financial statements).

In the first quarter, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $528,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004 (see Note 2 to the consolidated financial statements).

Net Loss

For the second quarter of fiscal 2005, the Company posted a net loss of $1.6 million, as shown below:

	Second quarters ended September 30		Six months ended September 30	
	2004	**2003**	**2004**	**2003**
Net loss ($'000)	(1,561)	(886)	(2,877)	(1,704)
Loss per share ($)	(0.06)	(0.04)	(0.11)	(0.07)

Loss per share figures are based on weighted averages of 26,931,202 common shares outstanding for the second quarter of this year and 23,454,111 for last year. The increase is mainly due to the issuance of 3,500,000 common shares for the Progressive acquisition (see Notes 3 and 4 to the consolidated financial statements).

The second quarter net loss for last year increased by $31,000 as it was restated to reflect a change in accounting policy on asset retirement obligations (see Note 2 to the consolidated financial statements).

On October 28, 2004, the date of this MD&A, the Company had 26 936 559 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Internally, the Company generated cash flow from operations and used cash and cash equivalents for its operating activities as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Cash flow from operations	2,212	1,675	4,491	3,571
Net change in non-cash items related to operations	(8,001)	(4,009)	(18,680)	(7,317)
Cash and cash equivalents used for operating activities	**(5,789)**	**(2,334)**	**(14,189)**	**(3,746)**

In the second quarter ended September 30, 2004, the $8.0 million net change in non-cash items related to operations was mainly due to a $3.2 million decrease in customers' advances, and increases of $1.1 million in inventories, $0.7 million in accounts receivable and $0.6 million in prepaid expenses (see under Consolidated Balance Sheets, below, and Note 6 to the consolidated financial statements).

The $18.7 million net change in non-cash items for the first six months of the year consisted primarily of reductions of $7.4 million in customers' advances and $7.9 million in accounts payable and accrued liabilities, and other liabilities as well as a $4.0 million increase in inventories. (see under Consolidated Balance Sheets, below and Note 6 to the Consolidated Financial statements.)

Investing Activities

In the second quarter and first half of the year, the Company's investing activities were as follows:

	Second quarters ended September 30		**Six months ended September 30**	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Net change in temporary investments	4,972	6,229	-	8,461
Purchase of capital assets	(2,427)	(3,162)	(6,793)	(4,761)
Proceeds on disposal of capital assets	-	-	793	74
Business acquisition	(8,141)	-	(71,695)	-
Cash and cash equivalents provided by (used for) investing activities	**(5,596)**	**3,067**	**(77,695)**	**3,774**

During the quarter ended September 30, 2004, Héroux-Devtek paid $8.1 million in relation to the Progressive acquisition, consisting of the $7.8 million tax impact plus the outstanding balance of the transaction cost. At September 30, 2004, the Progressive purchase price accounted for at the date of acquisition had been paid. Additional payments of up to $15.8 million (US$ 12 million) could be required over the next two fiscal years depending on profitability performance.

Second quarter purchases of capital assets included $1.2 million spent at the Laval Landing Gear plant to enlarge the assembly and machining section and add a new landing gear test facility for business aircraft and regional jets. This $3.0 million project is scheduled for completion next quarter.

Capital asset purchases for the first six months of the year included $2.3 million invested at the Landing Gear Division and $3.9 million at the Gas Turbine Components Division, the latter representing essentially the exercise of purchase lease options for equipment under operating leases.

Financing Activities

The Company's second quarter financing activities were as follows:

	Second quarters ended September 30		Six months ended September 30	
	2004 ($'000)	2003 ($'000)	2004 ($'000)	2003 ($'000)
Increase in long-term debt	7,000	-	43,598	108
Repayment of long-term debt	(7,705)	(555)	(16,451)	(2,046)
Repurchase of common shares capital stock	-	(34)	-	(333)
Issuance of common shares	45	-	16,312	-
Other	(80)	(44)	(160)	(236)
Cash and cash equivalents provided by (used for) financing activities	**(740)**	**(633)**	**43,299**	**(2,507)**

Early in the second quarter, the Company repaid $7.0 million on its Canadian Syndicated Evergreen Revolving Term Credit Facility and borrowed the same amount under its Canadian Syndicated Evergreen Revolving Operating Credit Facility.

During the first six months of the year, Héroux-Devtek issued 3,535,000 common shares for a total net cash consideration of $16.3 million (see Notes 3 and 4 to the consolidated financial statements), mainly in relation to the Progressive acquisition. A sum of $36.4 million of the total $43.6 borrowed during the period was also used to finance the acquisition (see Note 3 to the consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and September 30, 2004:

Item	Change ($ million)	Explanation
Cash and temporary investments	(48.9)	See statement of cash flows
Accounts receivable	1.6	Due to the acquisition of Progressive, offset by the impact of a lower business volume in the first six months of the year

<u>Item</u>	Change ($ million)	<u>Explanation</u>
Inventories	22.6	Due to the acquisition of Progressive ($18.6 million), and to an increase in inventories ($4 million) at the Landing Gear Division due to late deliveries. Landing Gear sales are expected to increase in the next quarter
Capital assets	22.0	Due to: • Acquisition of Progressive ($26.5 million) • Purchase of capital assets ($6.8 million) Net of: • Amortization ($8.5 million) • Impact of the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($2.0 million) • Disposal of capital assets ($0.8 million)
Other assets	(1.7)	Due to: • Capitalization of $2.0 million in transaction costs at March 31, 2004 related to the Progressive acquisition • Amortization of deferred financing costs and deferred loss related to financial derivative instrument ($0.2 million) Offset by: • Unamortized portion of the deferred loss ($0.5 million) on the interest rate swap agreement (financial derivative instrument) recorded following the adoption of AcG-13 (see Note 2 to the consolidated financial statements)
Backlog	8.6	Underlying value of the net backlog acquired pursuant to the acquisition of Progressive ($9.6 million), reduced by amortization ($0.6 million) and the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($0.4 million)
Goodwill	20.3	Due to the acquisition of Progressive ($21.2 million), reduced by the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($0.9 million)
Accounts payable and accrued liabilities	(1.8)	Decrease due to a lower volume of activity offset by the impact of the Progressive acquisition

Customers' advances	(7.4)	Represents unearned amounts received by the Logistics & Defence and Landing Gear divisions; these advances are liquidated based on units delivered to customers (see Note 10 to the consolidated financial statements dated March 31, 2004)
Long-term debt (including current portion)	24.7	Due to: • New long-term debt assumed to finance the acquisition of Progressive ($36.4 million) • Increase in long-term debt ($7.2 million), consisting mainly of a $7.0 million draw on the operating line of credit (syndicated loans) Net of: • Repayment of long-term debt ($16.5 million) including $14.0 million repayment of Canadian Syndicated Evergreen Revolving Term Credit Facility • Impact of the use of a lower US exchange rate to convert the net assets of self-sustaining US subsidiaries ($2.4 million)
Capital stock	16.3	Represents the issuance of 3,500,000 common shares to finance the acquisition of Progressive for a total net cash consideration of $16.2 million, and 35,000 common shares for total proceeds of $0.1 million pursuant to the exercise of stock options
Cumulative translation adjustment	(2.8)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(2.9)	See consolidated statement of retained earnings

The Company's long-term debt-to-equity ratio was 0.64:1 on September 30, 2004 compared to 0.49:1 on March 31, 2004. At September 30, 2004, the balance sheet included cash and cash equivalents of $9.7 million compared to $58.6 million at March 31, 2004.

Off- Balance Sheet Arrangements and Commitments

At September 30, 2004, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $119.0 million at an average rate of 1.3758. These contracts relate to export sales and mature over the next five fiscal years.

The Company also had commitments to purchase $6.0 million in new machinery and equipment for the Landing Gear Division.

Employee Stock Purchase Plan

On September 2, 2004, the Company established an employee stock purchase plan for certain key employees. A total of 90,000 of the Company's common shares were reserved for this plan out of those already reserved for the Company's stock option plan. Under the stock purchase plan, each employee may contribute 2% to 10% of their basic salary to acquire treasury shares of the Company. The Company matches the employee's contribution by attributing an amount equal to 1% to 4% of the employee's basic salary to purchase Company's common shares on the stock market. The common shares purchased with the Company's attribution vest over a three-year period (see Note 4 to the consolidated financial statements).

CHANGES IN ACCOUNTING POLICIES

All changes in accounting policy adopted since the last fiscal year-end were previously discussed in the Company's MD&A for the quarter ended June 30, 2004 (see also Note 2 to the consolidated financial statements).

Integration of Progressive

The Company has established a plan to integrate Progressive, the new business unit acquired on April 1, 2004. The plan includes the implementation of a complete computerized business information system, scheduled for completion by the end of the current fiscal year. There are risks and uncertainties related to this integration and implementation that could have a material adverse effect on the financial information reported during the transition period. The Company has taken steps to minimize these risks and uncertainties, including in particular an in-depth review of its financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2004.

- Reliance on large customers
- Operational risk

- 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

Additional Information and Continuous Disclosure

This MD&A was prepared as of October 28, 2004. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.