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, 2007 and September 30, 2007. It also compares the operating results and cash flows for the three- and six-month periods ended September 30, 2007 to those for the same period in the previous year. It should be read in conjunction with the audited consolidated financial statements dated March 31, 2007 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, 2007 and September 30, 2007. 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 results 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, 2007. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive. 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 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;
- aircraft engine components, market which is now being gradually exited by the Company.

The Industrial segment includes:

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

The Company maintained its positive trend and posted positive results for the eight consecutive quarter. This trend can be explained by the favourable market conditions that have prevailed over the last two years and the lean manufacturing initiatives introduced by the Company, as well as the improved performance of the Industrial sector. Again, the stronger Canadian dollar had, and will continue to have, a significant negative impact on Héroux-Devtek's results. However, the Company uses forward foreign exchange contracts to mitigate this risk.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the second quarter ended September 30, 2007 grew by 11.3% to $69.8 million from $62.7 million for the same period last year.

The increase in second quarter sales this year was mainly due to continued improved sales for commercial products, consisting mainly of landing gear products and also aerostructure products both for large aircraft. Growth in sales of business jets landing gear products as well as in sales of military products also explains this increase. 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 $3.4 million or 5.4% compared to last year.

Year-to-date consolidated sales now stand at $148.5 million, $19.5 million or 15.2% higher than the $129.0 million posted after six months last year. The above-mentioned factors, being increased sales of large aircraft, business jets and military products, have also contributed to the year-to-date improvement. These military products sales were somewhat offset by reduced military repair and overhaul work due to sales mix with lower supplied material content. The exit of the Aircraft Engine Components market reduced by $1.5 million the Company's six-month sales compared to the same period last year. Year-to-date, the stronger Canadian dollar reduced sales by $4.9 million or 3.8% compared to last year.

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

Segment	**Quarters ended September 30**				**Six months ended September 30**			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	**%**
Aerospace								
Military								
Military sales to government	**10,969**	12,983	(2,014)	(15.5)	**25,817**	27,667	(1,850)	(6.7)
Military sales to civil customers	**18,830**	14,095	4,735	33.6	**39,065**	30,326	8,739	28.8
Total Military	**29,799**	27,078	2,721	10.0	**64,882**	57,993	6,889	11.9
Total Commercial	**32,272**	29,126	3,146	10.8	**69,319**	58,573	10,746	18.3
Total Aerospace	**62,071**	56,204	5,867	10.4	**134,201**	116,566	17,635	15.1
Total Industrial	**7,687**	6,465	1,222	18.9	**14,333**	12,420	1,913	15.4
Total	**69,758**	62,669	7,089	11.3	**148,534**	128,986	19,548	15.2

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

RESULTS OF OPERATIONS (cont'd)

Aerospace Segment

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

Product	Quarter ended September 30				Six months ended September 30			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	%
Landing Gear	**41,069**	38,549	2,520	6.5	**86,927**	79,250	7,677	9.7
Aerostructure	**20,472**	16,669	3,803	22.8	**46,523**	35,017	11,506	32.9
Aircraft Engine Components	**530**	986	(456)	(46.2)	**751**	2,299	(1,548)	(67.3)
Total	**62,071**	56,204	5,867	10.4	**134,201**	116,566	17,635	15.1

For the second quarter ended September 30, 2007, overall sales for the Aerospace segment were up 10.4% to $62.1 million compared to $56.2 million for the same period last year.

During the second quarter, Landing Gear sales increased by $2.5 million or 6.5% relative to the same period last year. This resulted from continued growth in sales of large commercial aircraft, mainly on the B777, B737 and A330-340 programs and from business jets, essentially from the Learjet 45 program. These were partially offset by reduced military repair and overhaul sales, as explained above.

Second quarter Aerostructure sales were $20.5 million, $3.8 million or 22.8% higher than last year. This reflects the increase in military products sales, namely for the Joint Strike Fighter (JSF) and F 16 programs, and to a lesser degree the schedule recovery of parts for the A330-340 commercial aircraft program.

As previously mentioned, the Company has essentially exited the aircraft engine components market, which explains the $0.5 million drop in sales for this quarter. Residual sales are expected for the remainder of the year..

Year-to-date sales for the Aerospace segment increased 15.1% to $134.2 million. This increase came from both the Landing Gear and Aerostructure divisions for the above mentioned reasons and also from additional military electronic enclosure sales from the Aerostructure division. Lastly, Aircraft Engine Components sales for the year-to-date declined in line with the Company's exit of this market.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended September 30				Six months ended September 30			
	2007	2006	VARIANCE		**2007**	2006	VARIANCE	
	($'000)	($'000)	($'000)	%	**($'000)**	($'000)	($'000)	%
Gas Turbine	**3,921**	3,361	560	16.7	**7,391**	5,811	1,580	27.2
Other Industrial	**3,766**	3,104	662	21.3	**6,942**	6,609	333	5.0
Total	**7,687**	6,465	1,222	18.9	**14,333**	12,420	1,913	15.4

Second quarter sales for the Industrial segment totalled $7.7 million this year, 18.9% higher than last year while year-to-date sales increased 15.4% to $14.3 million when compared to the first six months last year. The positive trend in Industrial Gas Turbine sales which started in the second quarter of fiscal 2007 continued in fiscal 2008, with sales improving by $0.6 million for the second quarter and $1.6 million for the first six months when compared to the same periods last year.

RESULTS OF OPERATIONS (cont'd)

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended September 30		Six months ended September 30	
	2007	2006	**2007**	2006
Canada	**34%**	31%	**32%**	30%
US	**64%**	68%	**66%**	68%
International	**2%**	1%	**2%**	2%
	100%	100%	**100%**	100%

Increased Canadian commercial sales and the exit of the Aircraft Engine market explain both the quarter and year-to-date variances to last year.

Gross Profit

For the quarter ended September 30, 2007, consolidated gross profit as a percentage of sales was 13.5%, up 3.0% from 10.5% last year.

Gross profit was favourably impacted by higher sales volume and improved margins on certain contracts at the Aerostructure division and by the continued turnaround at the Gas Turbine division. These were somewhat partially offset by reduced military repair and overhaul sales at Landing Gear Division, as already explained above. The stronger Canadian dollar had a 0.9% negative impact on the consolidated gross profit margin in the quarter ended September 30, 2007, compared to the same period last year. The Company uses forward foreign exchange contracts to mitigate the risks related to fluctuations in the Canadian currency against the US currency.

For the six months ended September 30, 2007, consolidated gross profit as a percentage of sales stood at 13.5%, 4.2% higher than last year. Besides the higher sales volume and improved margins mentioned above, the development phase of the JSF program which trimmed Aerostructure division gross profit in the first quarter this year was not as significant an impediment to the division margins in the second quarter this year. The stronger Canadian dollar had a 0.3% negative impact on the consolidated gross profit, year-to-date, when compared to the same period last year.

The implementation of changes in accounting policies (see below) reduced the amortization expense in the second quarter of this year by $115,000 ($229,000 for the first six months) and marginally increased the gross profit by 0.1% (0.2% year-to-date).

Selling and Administrative Expenses

Second quarter selling and administrative expenses were as follows:

	Quarters ended September 30		Six months ended September 30	
	2007	2006	**2007**	2006
Selling and administrative expenses ($'000)	**4,229**	4,259	**8,469**	8,177
% of sales	**6.1**	6.8	**5.7**	6.3

Second quarter selling and administrative expenses were at the same level as last year but 0.7% lower as a percentage of sales. Year-to-date, selling and administrative expenses were $0.3 million higher than last year but 0.6% lower as a percentage of sales. These expenses were offset by a $0.7 million gain on currency translation in the second quarter of fiscal 2008 compared to a gain of $0.1 million for the same period last year. Year-to-date expenses were reduced by a $1.3 million gain on currency translation compared to a $0.9 million gain for the corresponding six months last year.

RESULTS OF OPERATIONS (cont'd)

Operating Income (Loss)

Aerospace Segment

Aerospace operating income, for the second quarter ended September 30, 2007, increased to $5.4 million or 8.6% of sales from $3.1 million or 5.4% of sales in the second quarter of last year, essentially reflecting higher sales and improved performanceperformance essentially from the Aerostructure division and improved margins following the exit of the aircraft engine components market at the Gas Turbine division.

Year-to-date, Aerospace operating income stood at $11.8 million or 8.8% of sales, $6.6 million better than the $5.2 million, or 4.5% of sales, reported for the first six months of last year, for the same reasons explained above.

Industrial Segment

The Industrial operating loss of $0.2 million for the second quarter of this year compares to a $0.7 million operating loss for the same period last year, while the year-to-date Industrial operating loss was also $0.2 million compared to a loss of $1.4 million for the first six months of last year. These favourable variances reflect continued operational improvements, increase in margins and an increase in overall Industrial sales compared to last year.

Financial Expenses

Destination	**Quarters ended September 30**		**Six months ended September 30**	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Interest expense	**1,458**	777	**2,666**	1,586
Amortization of deferred financing costs	**30**	68	**76**	137
Standby fees	**51**	47	**109**	95
Accretion expense of asset retirement obligations	**51**	47	**102**	94
Amortization of net deferred loss related to financial derivative instrument	**18**	35	**51**	74
Interest revenue	**(102)**	(94)	**(252)**	(232)
Financial expenses – net	**1,506**	880	**2,752**	1,754

Second quarter financial expenses stood at $1.5 million, $0.6 million higher than last year while the year-to-date financial expenses stood at $2.8 million, $1.0 million higher than last year. These increases can be explained by the higher average long-term debt due to additional working capital and capital expenditure investments required to support the Company's internal sales growth.

The implementation of the changes in accounting policies (see below) increased the financial expenses by $172,000 in the second quarter this year and $363,000 year-to-date.

Income Tax Expense

The Company's effective income tax rate for the six months ended September 30, 2007 was 17.8% compared to its blended Canadian statutory rate of 32.7%. This difference can be mainly explained by the favourable impact of permanent differences ($350,000) and by the recognition of $720,000 (including $300,000 in the first quarter) in income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years. The remainder represents favourable future tax adjustments.

The Company had tax losses carried forward and other temporary differences of $4.5 million at September 30, 2007 ($7.8 million at March 31, 2007) for which no related income tax assets or benefits have yet been recognized in the consolidated financial statements.

RESULTS OF OPERATIONS (cont'd)

Net Income

	Quarters ended September 30		Six months ended September 30	
	2007	2006	**2007**	2006
Net income ($'000)	**3,107**	1,496	**7,258**	2,184
Earnings per share – basic & diluted ($)	**0.10**	0.05	**0.23**	0.07

The Company posted net income of $3.1 million for the second quarter ended September 30, 2007, compared to net income of $1.5 million for the quarter ended September 30, 2006. Year-to-date, net income stood at $7.3 million, $5.1 million higher than last year's net income of $2.2 million. These results reflect the increased sales volume and improved gross profit margins in the Aerostructure and Gas Turbine divisions.

The implementation of the changes in accounting policies (see below) reduced the net income by $36,000 in the second quarter this year and $88,000 for the first six months of fiscal 2008.

Earnings per share figures are based on weighted-averages of 31,622,268 common shares outstanding for the second quarter of this year and 31,509,778 for the same period last year. Year-to-date earnings per share figures are based on weighted averages of 31,587,133 common shares outstanding this year and 31,501,315 for the same period last year. The increase in the number of shares is essentially due to the issuance of 6,430 common shares in the second quarter this year (13,851 common shares year-to-date) pursuant to the Company's stock purchase and ownership incentive plan and the issuance of 83,300 common shares following the exercise of stock options in the first quarter of this year (see Note 5 to the interim consolidated financial statements).

The basic and diluted earnings per share, for all periods covered by this MD&A, were the same since the 'in-the-money' outstanding options (see stock option plan section below) had no material impact on the weighted-average common shares outstanding.

On October 31, 2007, the date of this MD&A, the Company had 31,627,251 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

	Quarters ended September 30		Six months ended September 30	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Cash flows from operations	**8,285**	6,200	**17,223**	11,060
Net change in non-cash items related to operations	**(3,527)**	(9,976)	**(14,642)**	(21,204)
Cash flows relating to operating activities	**4,758**	(3,776)	**2,581**	(10,144)

The second quarter improvement in cash flows from operations of $2.1 million comes mainly from the improvement in net income and, to a lesser degree, from the increase in future income taxes.

The net change of $3.5 million in non-cash items for the second quarter ended September 30, 2007, arose mainly from an increase in inventories of $4.4 million in line with the upcoming increase in business activities, a $2.4 million reduction in accounts payable and accrued liabilities, an increase of $1.9 million in income tax receivable and a $2.1 million negative impact coming from the translation of US denominated non monetary items. These were partially offset by a $4.9 million reduction in other receivables following the collection of development costs for the JSF which were invoiced in the first quarter this year and a $1.5 million reduction in other current assets (see Consolidated Balance Sheet section below).

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

The net change in non-cash items for the second quarter ended September 30, 2006, was mainly caused by a $10.2 million increase in inventories, in line with the rising level of activity, and a $2.2 million reduction in income tax payable. These changes were somewhat offset by a decrease of $1.3 million in accounts receivable and an increase of $3.6 million in accounts payable and accrued liabilities and other liabilities.

The net change in non-cash items for the first six months ended September 30, 2007 of $14.6 million can be mainly explained by a decrease of $17.0 million in accounts payable and accrued liabilities following the payment in the first quarter of this year of capital expenditures outstanding as at March 31, 2007 and payment of raw material received late in the last fiscal year. It also includes a $4.6 million negative impact from the translation of US denominated non-monetary items. These were somewhat offset by a $6.8 million reduction in accounts receivable driven by an improvement in collection and a $3.0 million decrease in inventories (see Consolidated Balance Sheet section below).

The increase in cash flows from operations for the six months ended September 30, 2006, was also attributable to the improvement in net income, partially offset by lower future income taxes. The net change in non-cash items included an increase of $16.7 million in inventories, in line with the activity levels, a reduction of $5.8 million in accounts payable and accrued liabilities and other liabilities and a $2.7 million reduction in income tax payable, offset by a $4.4 million reduction in accounts receivable.

The implementation of the change in accounting policies (see below) had no impact on the cash flows from operations and cash flows relating to operating activities for the second quarter and the first six months ended September 30, 2007.

Investing Activities

The Company's investing activities were as follows:

	Quarters ended September 30		**Six months ended September 30**	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Purchase of property, plant and equipment and finite-life intangible assets	**(10,393)**	(3,878)	**(15,114)**	(5,941)
Proceeds on disposal of property, plant and equipment	**-**	2,171	**-**	2,171
Business acquisition, additional payments	**-**	-	-	(1,577)
Cash flows relating to investing activities	**(10,393)**	(1,707)	**(15,114)**	(5,347)

Purchase of property, plant and equipment and finite-life intangible assets (capital expenditures) totalled $10.4 million in the second quarter of this fiscal year and $15.1 million for the six months ended September 30, 2007. This compares to $3.9 million in the second quarter last year and $5.9 million after six months last fiscal year. In all, capital expenditures of about $37 million are planned for the current fiscal year, including $23 million which are related to the completion of the new manufacturing facility in Arlington, Texas, for the JSF program and for the renovation of the plating facility at the landing gear plant in Longueuil, Quebec.

The $2.2 million proceeds on disposal of property, plant and equipment last year came from the sale of the Company's Tampa, Florida, facility which was closed some years ago while its operations were then transferred to the Cincinnati, Ohio, facility. The $1.6 million business acquisition last year represents the final additional payments made regarding fiscal 2006 profitability performance in relation to the acquisition of Progressive on April 1, 2004.

LIQUIDITY AND CAPITAL RESOURCES (cont'd)

Financing Activities

The Company's financing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2007	2006	**2007**	2006
	($'000)	($'000)	**($'000)**	($'000)
Repayment of long-term debt	**(641)**	(583)	**(4,187)**	(2,963)
Increase in long-term debt	**-**	6,495	**-**	6,495
Issuance of common shares	**56**	66	**529**	95
Cash flows relating to financing activities	**(585)**	5,978	**(3,658)**	3,627

The cash flows relating to financing activities reflects, year-to-date this year, the capital repayment of $4.2 in long-term debt while the Company had drawn $3.5 million (net of $3.0 million capital repayment) on its banks' credit facilities last year. The year-to-date increase in common shares issued resulted from the exercise of 83,300 options at an exercise price of $4.96 per common share for a total of $0.4 million and the issuance of 13,851 common shares under the employee stock purchase and ownership incentive plan for a total of $0.1 million.

The issuance of common shares for the three and six months periods ended September 30, 2006, was for the employee stock purchase and ownership incentive plan (see Note 5 to the interim consolidated financial statements).

Extension of Secured Syndicated Revolving Credit Facilities (Credit Facilities)

Last year, in the third 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 banks' 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, Bank of Nova Scotia, Toronto -Dominion Bank and Laurentian Bank of Canada (see Note 4 to the interim consolidated financial statements).

The Company was in compliance with all its restrictive debt covenants at September 30, 2007, and expects to remain so for the balance of the current fiscal year.

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, 2007, the Company had 1,362,221 outstanding stock options at a weighted-average exercise price of $7.28 that will expire over the next seven years (between October 2007 and August 2014). Included in these outstanding stock options is the granting of 355,000 stock options, in the second quarter ended September 30, 2007, at an exercise price of $9.90. In the second quarter ended September 30, 2006, 325,000 stock options had been granted at an exercise price of $4.79.

An aggregate of 2,808,257 shares are reserved for issuance under this plan, of which 336,718 had not yet been granted at September 30, 2007. 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 5 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, 2007 and September 30, 2007:

Item	Change ($ millions)	Explanation
Cash and cash equivalents	(15.9)	See consolidated statements of cash flows.
Accounts receivable	(6.8)	Increased level of business activity more than offset by improved accounts receivable collection. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts receivable ($2.0 milliona) also explains this reduction.
Inventories	(3,0)	Mainly reflects the invoicing of JSF development costs during the first quarter this year and increased focus on overall inventory levels.
Other current assets	11.4	Essentially reflects the recognition in the Company's balance sheets of financial instruments measured at fair value – see "Changes in accounting policies" below.
Property, plant and equipment, net	1.0	Due to: • Purchase of capital assets ($15.1 million); Net of: • Amortization ($7.6 million); • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($5.8 million). It also reflects the recognition in the Company's balance sheet of financial instruments measured at fair value –see "Changes in accounting policies" below.
Finite-life intangible assets, net	(0.9)	Represents mainly the amortization on the underlying
(includes a $4.8 million net backlog)		value of the net backlog acquired as part of the acquisition of Progressive and the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Other assets	7.7	Essentially reflects the recognition in the Company's sheet of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Goodwill	(2.8)	Due to the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries.
Accounts payable and accrued liabilities	(17.0)	Mainly reflects the impact of the payment of increased raw material purchased at the end of the fourth quarter of last year and, the outstanding payment of capital expenditures, both made in the first quarter of this fiscal year. The impact of the stronger Canadian dollar, since March 31, 2007, on US denominated accounts payable and accrued liabilities ($2.2 million) also explains this reduction.

CONSOLIDATED BALANCE SHEETS (cont'd)

Item	Change ($ millions)	Explanation
Future income taxes (current liabilities)	3.8	Reflects mainly the future income tax impact of the recognition in the Company's balance sheets of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Long-term debt (including current portion)	(13.1)	Due to: • Capital repayment of long-term debt ($4.0 million); and • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($5.8 million). It also reflects the recognition in the Company's balance sheets of financial instruments measured at fair value – see "Changes in accounting policies" below.
Future income taxes (Long-term liabilities)	3.3	Reflects mainly the future income tax impact of the recognition in the Company's balance sheets of the financial instruments measured at fair value – see "Changes in accounting policies" below.
Accumulated other comprehensive loss	4.8	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries and the unrealized net gains, net of taxes, on the fair value of the financial instruments designated as cash flow hedges – see "Changes in accounting policies" below.
Retained earnings	9.0	See consolidated statements of changes in shareholders' equity and Changes in accounting policies, below.

At September 30, 2007 and March 31, 2007, the Company's working capital ratio, cash and cash equivalents and long-term debt-to-equity ratio were as follows:

	September 30, 2007	March 31, 2007
Working capital ratio	2.17:1	1.94:1
Cash and cash equivalents	$4.2 million	$20.1 million
Long-term debt-to-equity ratio	0.32:1	0.41:1

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $11.2 million as at September 30, 2007 ($12.9 million as at March 31, 2007), essentially for machinery and equipment. All these amounts are repayable over the next seven years. At September 30, 2007, the Company also had purchase commitments totalling $11.3 million ($20.2 million to March 31, 2007), mainly for machinery and equipment and construction in progress, for which $1.8 million ($2.0 million to March 31, 2007) deposits on machinery and equipment were made and are included in the Company's other current assets. These commitments mainly relate to the modernization of the Longueuil plant plating department and construction of a new manufacturing facility in Arlington, Texas.

At September 30, 2007, the Company had entered into forward foreign exchange contracts to sell US$109.5 million at an average exchange rate of 1.1752 (US$129.5 million at an average rate of 1.2110 as at March 31, 2007 and US$123.5 million at an average rate of 1.2484 as at September 30, 2006) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between October 2007 and March 2011, with the majority maturing in fiscal 2008 and 2009.

OFF-BALANCE SHEET ITEMS AND COMMITMENTS (cont'd)

On July 11, 2007, in order to limit the effect of interest rate variations over the portion of its long-term debt in US currency, the Company entered into a four-year interest rate swap agreement for an amount of US$15 million that fixes the Libor US rate at 5.53% and that will mature on August 1, 2011.

CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges». The Company adopted these new accounting standards effective April 1, 2007.

A new statement entitled "consolidated statement of changes in shareholders' equity" was added to the Company's interim consolidated financial statements and includes the changes in capital stock, contributed surplus and retained earnings as well as comprehensive income and accumulated other comprehensive income (loss).

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents changes in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI includes unrealized gains and losses, net of taxes, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of taxes, arising from changes in fair value of available-for-sale financial assets and the effective portion of changes in fair value of cash flow hedging instruments.

Section 3855 requires that financial instruments be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855, including embedded derivatives financial instruments that are not closely related to the host contract, are measured at fair value. The Company has selected April 1, 2003, as the date for identification of embedded derivatives. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value, with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses including changes in foreign exchange rates are recognized directly to OCI, except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period.

The Company has made the following classification of its financial instruments:

- Cash and cash equivalents are classified as HFT.
- Amounts receivable are classified as L&R.
- Amounts payable in current liabilities and long-term debt (including current portion) are classified as other than HFT liabilities.

Section 3865 specifies that in a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income.

The Company elected to continue to apply hedge accounting for its forward foreign exchange contracts and for its interest rate swap agreement as cash flow hedges.

CHANGES IN ACCOUNTING POLICIES (cont'd)

The impact of the implementation of these new accounting standards was recognized as an adjustment to the carrying amount of the related financial instruments and recorded in shareholders' equity as at April 1, 2007. This transition adjustment resulted in an increase of $5.6 million recorded to accumulated OCI and, an increase of $1.7 million recorded to retained earnings. The impact of these changes on the Company's consolidated balance sheet accounts at April 1st 2007 can be summarized as follows:

	April 1, 2007 Increase (decrease) ($ million)
Current Assets - Other Current Assets	**5.2**
Long-term assets - Property, plant and equipment, net	**(1.0)**
Long-term Assets - Other Assets	**4.1**
Current Liabilities - Accounts Payable and accrued liabilities	**0.6**
Current Liabilities - Future Income Taxes	**1.5**
Long-term liabilities - Long-term debt	**(3.6)**
Long-term Liabilities - Other Liabilities	**0.4**
Long-term Liabilities - Future Income Taxes	**2.0**
Accumulated other comprehensive income	**5.6**
Retained earnings	**1.7**

The implementation of these new accounting standards reduced the Company's consolidated net income by $36,000 for the second quarter this year and $88,000 for the six months ended September 30, 2007, while it had no impact on cash flows from operations and cash flows relating to operating activities for the same period.

Impact on the Company's consolidated net income for the three- and six-month periods ended September 30, 2007:

	Quarter ended September 30, 2007 ($ '000)	**Six months ended September 30, 2007 ($ '000)**
• Decrease in amortization expense	**115**	**229**
• Increase in financial expenses	**(172)**	**(363)**
	(57)	**(134)**
• Income tax impact	**21**	**46**
• Reduction in consolidated net income	**(36)**	**(88)**

These accounting standards and the impact of these changes on the Company's consolidated financial statements are discussed in Note 2 - Changes in Accounting Policies (see also the new Consolidated Statement of Changes in Shareholders' Equity).

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators Multilateral Instrument 52 109, the Company has filed certificates signed by the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer that, among other things, report on the design of disclosure controls and procedures and the design of internal control over financial reporting.

The President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer have evaluated that there were no changes to the Company's internal controls over financial reporting during the first quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's 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, 2007.

- 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

The order books of large commercial aircraft manufacturers continue to be very strong, a situation conducive to further business opportunities for suppliers such as Héroux-Devtek. The military aerospace market also remains solid. Meanwhile, the power generation industry continues to improve, which should help restore operating profitability in the Industrial segment.

Given the Company's solid backlog, it continues to expect approximately 10% internal sales growth in fiscal 2008 compared to fiscal 2007. In light of the continued strength of the Canadian dollar toward the US currency, Héroux-Devtek must continue to improve or make productivity gains to maintain its competitiveness. The Company's significant capital expenditure investment program that will support the expected internal sales growth along with the additional training programs for the Company's employees should both contribute to improvements in productivity.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and the Board of Directors on October 31, 2007. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.