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 nine-month periods ended December 31, 2004 and 2003. It should be read in conjunction with the Company's MD&As as at March 31, June 30, and September 30, 2004, as well as its interim consolidated financial statements to December 31, 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 rates and interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and U.S. 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

Significant developments to December 31, 2004

- On April 1, 2004, the Company acquired Progressive Incorporated, a Texas-based manufacturer of large structural components in the military sector with annual sales of approximately $50 million. This acquisition increase the Company's market share in the important aerostructure military aerospace sector.
- In the first quarter, the Company won new military orders for $22.0 million in landing gear components for the B1B, F-15, F-16, B-52, E-3, KC-135R and P-3 programs.
- 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 Components Division was awarded a $10.9 million contract to produce components for the USAF F-100 engine.
- In the third quarter, the Company was awarded a new $180.0 million contract by the USAF to supply components over and above its repair and overhaul landing gear contract. For fiscal 2006, deliveries are expected to be $13.0 million for this new contract; the remaining value of the contract is to be delivered over the following eight years.

RESULTS OF OPERATIONS

Consolidated Sales

Consolidated sales for the quarter ended December 31, 2004 rose 39.3% to $63.0 million from $45.2 million last year, mainly due to the acquisition of Progressive. This new business unit generated $12.5 million in third quarter sales for Héroux-Devtek. The Landing Gear Division also contributed to higher consolidated sales for the period, with a $4.5 million increase in business volume over last year. However, third quarter sales were negatively affected by a stronger Canadian dollar compared to the U.S. dollar, which had an impact of $1.9 million or 3.0%.

Consolidated sales for the first nine months of the year were up 19.7%, totalling $180.4 million compared to $150.8 million last year. Progressive generated sales of $41.1 million for the period, while a stronger Canadian dollar, compared to the U.S. dollar, had a $5.6 million negative impact.

The Company's sales by segment were as follows:

	Third quarters ended December 31			Nine months ended December 31		
	2004 ($'000)	**2003 ($'000)**	**% Change**	**2004 ($'000)**	**2003 ($'000)**	**% Change**
Aerospace & Defence	57,916	40,537	42.9%	165,119	135,025	22.3%
Industrial	5,091	4,700	8.3%	15,322	15,756	-2.8%
Total	**63,007**	**45,237**	**39.3%**	**180,441**	**150,781**	**19.7%**

Aerospace & Defence Segment

Sales for the Aerospace & Defence segment were as follows:

Sector	Third quarters ended December 31			Nine months ended December 31		
	2004 ($'000)	**2003 ($'000)**	**% Change**	**2004 ($'000)**	**2003 ($'000)**	**% Change**
Landing Gear	30,777	26,322	16.9%	80,154	90,704	-11.6%
Aerostructure	17,731	4,664	280.2%	56,872	14,954	280.3%
Aircraft Engine Components	2,538	4,718	-46.2%	12,461	14,091	-11.6%
Defence	6,870	4,833	42.1%	15,632	15,276	2.3%
Total	**57,916**	**40,537**	**42.9%**	**165,119**	**135,025**	**22.3%**

Third quarter sales for the Aerospace & Defence segment rose 42.9% to $57.9 million from $40.5 million last year. The increase was primarily due to the acquisition of Progressive, which contributed $12.5 million to third quarter Aerostructure sales. Sales for the Aerostructure sector were also higher because of an improved delivery performance at the Dorval plant for the period.

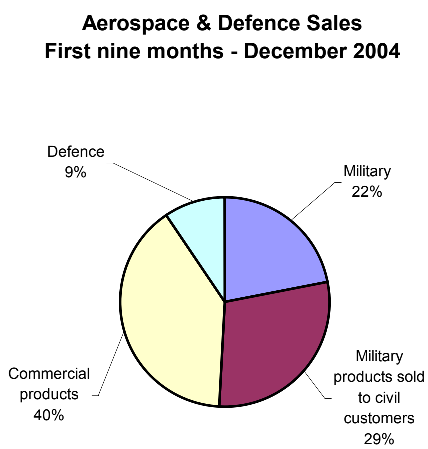
Landing Gear sales for the third quarter rose by $4.5 million, primarily due to the manufacturing of large commercial landing gear parts. Demand for the A380, B777 and A330/340 programs was stronger than last year, reflecting increased activity in this sector.

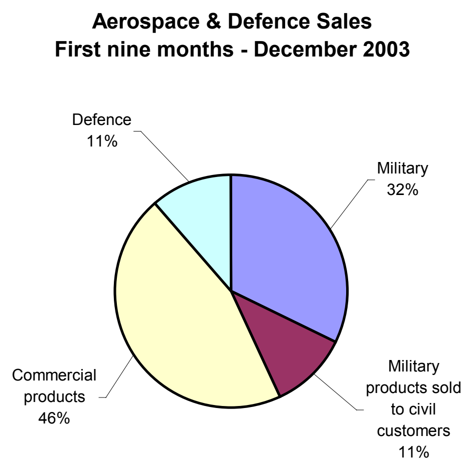
Aircraft Engine Component sales were down from last year, in part due to a $1.2 million parts shipments that could not be received by some customers due to the Christmas shutdown. These parts were shipped in early January. A further $0.2 million decrease was due to the lower U.S. exchange rate used to convert U.S. dollar sales.

Defence product sales increased by 42.1% due to higher demand for small arms spare parts. This had also a favourable impact on the Logistics & Defence Division's gross profit.

Aerospace & Defence sales rose $2.2 million from the second to the third quarter of the year, and are expected to improve still further in the fourth quarter given the current backlog. Overall, for the first nine months of the year, segment sales were 22.3% higher at $165.1 million, up from $135.0 million last year. The increase in Aerostructure sales was mainly attributable to the newly acquired business unit (Progressive), which contributed sales of $41.1 million for the period. Landing Gear sales fell by 11.6%

compared to last year, mainly due to the sales shortfall experienced in the first six months of the year at the Longueuil plant. This sales shortfall was partially recovered during the third quarter as the division caught up on its deliveries.





Industrial Segment

Sales for the Industrial segment were as follows:

Sector	Third quarters ended December 31			Nine months ended December 31		
	2004 ($'000)	**2003** ($'000)	**% Change**	**2004** ($'000)	**2003** ($'000)	**% Change**
Industrial Gas Turbine Components	3,086	3,230	-4.5%	9,707	12,972	-25.2%
Other Industrial	2,005	1,470	36.4%	5,615	2,784	101.7%
Total	**5,091**	**4,700**	**8.3%**	**15,322**	**15,756**	**-2.8%**

Sales for the Industrial segment rose 8.3% to $5.1 million in the third quarter of this year from $4.7 million last year. Other Industrial sales were up once again in the third quarter. The Company increased sales in this sector with the win last year of a contract to manufacture new parts for Caterpillar.

For the nine-month period ended December 31, 2004, Industrial segment sales were $15.3 million, 2.8% lower than sales of $15.8 million for the same period last year. This decrease is attributable to lower demand for Industrial Gas Turbine and to a lower U.S. exchange rate used to convert U.S. dollar sales, and was partially offset by the increase in Other Industrial sales discussed above.

Sales by Destination

The Company's sales by destination were as follows:

	Third quarters ended December 31		**Nine months ended December 31**	
	2004 (%)	**2003** (%)	**2004** (%)	**2003** (%)
Canada	26	27	24	27
U.S.	65	65	69	65
International	9	8	7	8
Total	**100**	**100**	**100**	**100**

Gross Profit

Consolidated gross profit declined in the third quarter to 5.9% of sales from 6.5% last year. Fluctuations in the U.S. exchange rate accounted for a 0.7% decrease in gross profit.

The low gross profit percentage is explained by:

- Higher unabsorbed manufacturing overhead costs resulting from low business volume in the Landing Gear and Gas Turbine Components divisions;
- Market pricing pressure experienced in previous months and pricing concessions granted to customers on some principal contracts; and
- Increased manufacturing costs arising from the introduction of new landing gear and aircraft engine parts.

These factors were somewhat offset by the good performance of Progressive (Aerostructure Division) and the Logistics & Defence Division.

Gross profit for the nine-month period ended December 31, 2004 totalled 6.2% of sales compared to 9.3% a year earlier. Fluctuations in the U.S. exchange rate accounted for a 0.6% decline in gross profit for the period, while an increase in the civil sales content over military sales also had a negative impact.

The Company's gross profit has also been affected by reduced capacity utilization at the Dorval plant. This situation is being addressed by management, and various means of correcting the situation are under evaluation at this time.

Selling and Administrative Expenses

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

	Third quarters ended December 31		Nine months ended December 31	
	2004	**2003**	**2004**	**2003**
Selling and administrative expenses ($'000)	3,587	5,127	13,762	16,767
% of sales	5.7%	11.3%	7.6%	11.1%

The main reason for the lower expenses in the third quarter of this year is the inclusion of a $0.6 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 (ACG-13) on hedging relationships on April 1, 2004 (see Note 2 to the interim 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 forward foreign exchange contracts prevailing at the end of the period, and the resulting gains or losses were included in the Company's revenues. This gain, combined with administrative personnel cuts at the Landing Gear Division, explains the variation in selling and administrative expenses.

For the first nine months of the year, selling and administrative expenses fell by $3.0 million or 3.5% of sales. The cumulative impact of the accounting treatment of foreign exchange resulting from the adoption of ACG-13 amounted to $1.3 million. The remaining decrease in selling and administrative expenses arose from the personnel cuts mentioned above, lower royalty expenses ($0.3 M) due to lower military sales, and a foreign exchange loss of $0.4 M recorded in the first quarter of last year.

Operating Income (Loss)

Aerospace & Defence Segment

Aerospace & Defence operating income as a percentage of sales was 1.8% in the third quarter of this year compared to an operating loss of 3.7% last year. This was mainly due to Progressive's good performance.

For the first nine months of the year, operating income in this segment represented 0.1% of sales compared to 0.6% last year.

Industrial Segment

Expressed as a percentage of sales, the third quarter operating loss for the Industrial segment was 18.1%, compared to 14.1% last year. The Gas Turbine Components Division continues to face operational challenges, with the introduction of new manufactured parts and reduced sales in the Industrial Gas Turbine Components sector.

The overall operating loss in this segment for the first nine months of the year was 17.9% of sales, down from 22.8% last year.

Financial Expenses

	Third quarters ended December 31		**Nine months ended December 31**	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Interest expense	1,240	692	3,312	2,464
Interest revenue	(22)	(236)	(189)	(878)
Gain on financial derivative instrument - interest rate swap	-	-	(528)	-
Amortization of deferred loss related to financial derivative instrument	37	-	117	-
Financial expenses	**1,255**	**456**	**2,712**	**1,586**

Financial expenses for the quarter and the nine-month period ended December 31 rose this year mainly 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 interim 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 interim consolidated financial statements).

Net Loss

For the third quarter of fiscal 2005, the Company posted a net loss of $0.9 million, as shown below:

	Third quarters ended December 31		Nine months ended December 31	
	2004	**2003**	**2004**	**2003**
Net loss ($'000)	(887)	(1,626)	(3,764)	(3,330)
Loss per share ($)	(0.03)	(0.07)	(0.14)	(0.14)

Loss per share figures are based on weighted averages of 26,944,975 common shares outstanding for the third quarter of this year and 23,416,790 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 interim consolidated financial statements).

The net losses for the third quarter and first nine months of last year increased by $31,000 and $93,000 respectively when restated to reflect a change in accounting policy on asset retirement obligations (see Note 2 to the interim consolidated financial statements).

On February 10, 2004, the date of this MD&A, the Company had 26,951,889 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:

	Third quarters ended December 31		Nine months ended December 31	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Cash flow from operations	3,357	1,844	9,295	5,415
Net change in non-cash items related to operations	738	2,248	(19,389)	(5,069)
Cash and cash equivalents provided by (used for) operating activities	**4,095**	**4,092**	**(10,094)**	**346**

The $19.4 million net change in non-cash items for the first nine months of the year consisted primarily of reductions of $9.6 million in customers' advances and $3.8 million in accounts payable and accrued liabilities and other liabilities, as well as a $5.8 million increase in inventories (see under Consolidated Balance Sheets, below and Note 6 to the interim consolidated financial statements.)

Investing Activities

In the third quarter and first nine months of the year, the Company's investing activities were as follows:

	Third quarters ended December 31		Nine months ended December 31	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Net change in temporary investments	-	12,554	-	21,015
Purchase of capital assets	(2,504)	(5,000)	(9,297)	(9,761)
Proceeds on disposal of capital assets	352	108	1,145	182
Business acquisition	-	-	(71,695)	-
Cash and cash equivalents provided by (used for) investing activities	**(2,152)**	**7,662**	**(79,847)**	**11,436**

The third quarter purchase of capital assets included $1.0 million invested at the Laval Landing Gear plant to enlarge the assembly and machining building 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. The remaining $1.5 million was invested in the Landing Gear Division's other plants ($0.9 million) and in the Aerostructure Division ($0.6 million), which primarily involved investments in Progressive.

The purchase of capital assets for the first nine months of the year included $4.2 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 options for equipment under operating leases.

At December 31, 2004, the Progressive purchase price accounted for at the date of acquisition had been paid. Additional payments of up to $15.8 million (U.S.$12.0 million) could be required over the next two fiscal years depending on profitability performance (see Note 3 to the interim consolidated financial statement).

Financing Activities

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

	Third quarters ended December 31		**Nine months ended December 31**	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Increase in long-term debt	6,276	303	49,874	411
Repayment of long-term debt	(6,519)	(600)	(22,970)	(2,646)
Repurchase of common shares	-	(246)	-	(579)
Issuance of common shares	46	-	16,358	-
Other	(290)	(180)	(450)	(416)
Cash and cash equivalents provided by (used for) financing activities	**(487)**	**(723)**	**42,812**	**(3,230)**

During the first nine months of the year, Héroux-Devtek issued 3,546,221 common shares for a total net cash consideration of $16.4 million (see Notes 3 and 4 to the interim consolidated financial statements), mainly in relation to the Progressive acquisition. A sum of $36.4 million of the $49.9 million borrowed during the same period was also used to finance the acquisition of Progressive. The Company also drew $13.3 million on its operating credit facilities and repaid a total of $23.0 million on the term credit facilities (see Note 3 to the interim consolidated financial statements).

During the quarter ended December 31, 2004, the Company extended the renewal date of its Secured Syndicated Evergreen Revolving Credit Facilities (Credit Facilities) from February 19, 2005 to August 30, 2005. However, the anniversary date of the evergreen revolving period remains March 21 of each year and the Credit Facilities mature on March 21, 2006. The annual extension of the Credit Facilities will be made during the second quarter of next fiscal year. At December 31, 2004, the Company had complied with all of the restrictive financial covenants associated with these Credit Facilities. The Company will continue to comply with these restrictive financial covenants as it is expected to see continued improvement through the fourth quarter of the current fiscal year. Should the company fail to comply with its restrictive financial covenants referred to above, it will renegotiate them. Company's management however cannot predict what would be the outcome of the renegotiations.

Consolidated Balance Sheets

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

Item	Change ($ million)	Explanation
Cash and temporary investments	(48.8)	See consolidated statements of cash flows
Inventories	20.0	Due to the acquisition of Progressive ($14.2 million), and to an increase in inventories at the Landing Gear Division. Landing Gear sales are expected to increase in the next quarter.
Capital assets, net	17.8	Due to: • Acquisition of Progressive ($26.5 million) • Purchase of capital assets ($9.3 million) Net of: • Amortization ($12.7 million) • Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($4.1 million) • Disposal of capital assets ($1.2 million)

Item	Change ($ million)	Explanation
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 the deferred loss related to financial derivative instrument ($0.3 million) Offset by: • Unamortized portion of the deferred loss ($0.4 million) on the interest rate swap agreement (financial derivative instrument) recorded following the adoption of ACG-13 (see Note 2 to the interim consolidated financial statements)
Backlog, net	7.9	Underlying value of the net backlog acquired pursuant to the acquisition of Progressive ($9.6 million), reduced by amortization ($1.0 million) and the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($0.7 million)
Goodwill	19.3	Due to the acquisition of Progressive ($21.2 million), reduced by the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($1.9 million)
Accounts payable and accrued liabilities	(2.2)	Due to a lower volume of activity offset by the impact of the Progressive acquisition
Customers' advances	(9.6)	Represents unearned amounts received by customers of 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)	21.7	Due to: • Increase in long-term debt to finance the acquisition of Progressive ($36.4 million) • Increase in long-term debt ($13.5 million), consisting mainly of a $13.3 million draw on the operating credit facilities.

Item	Change ($ million)	Explanation
		Net of: • Repayment of long-term debt ($23.0 million) including $14.0 million repayment of the Canadian term credit facility and $6.0 million repayment of the U.S. term credit facility • Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($5.2 million)
Capital stock	16.4	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 46,221 common shares for total proceeds of $0.2 million pursuant to the exercise of stock options and issuance of common shares pursuant to the employee stock purchase plan.
Cumulative translation adjustment	(5.6)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries
Retained earnings	(3.8)	See consolidated statements of retained earnings

The Company's long-term debt-to-equity ratio was 0.64:1 on December 31, 2004 compared to 0.49:1 on March 31, 2004. At December 31, 2004, the balance sheet included cash and cash equivalents of $9.8 million compared to $58.6 million at March 31, 2004.

Off-Balance Sheet Arrangements and Commitments

At December 31, 2004, the Company had forward foreign exchange contracts with Canadian chartered banks to sell an aggregate of U.S.$121.5 million at an average rate of 1.3559. These contracts relate to export sales and mature over the next five fiscal years.

At December 31, 2004, the Company also had commitments to purchase $6.0 million in new machinery and equipment for the Landing Gear Division over the next 12 months.

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 common shares of the Company on the stock market. The common shares purchased with the Company's attribution vest over a three-year period (see Note 4 to the interim 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 interim consolidated financial statements).

INTEGRATION OF PROGRESSIVE

The Company has established a plan to integrate Progressive, the new business unit acquired on April 1, 2004. As part of this integration plan, the Company included the implementation of Enterprise Resource Planning (ERP) software to better harmonize the newly acquired business unit's practices to the Company's policies and financial reporting structure. This implementation was successfully completed in December 2004, and the new ERP software will be in operation starting in the current quarter. However, risks and uncertainties related to the integration exist and can 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.

SUBSEQUENT EVENT: *Sale of Logistics & Defence Division, Diemaco*

On February 10, 2005, the Company entered into an agreement with Colt Defence LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a world class manufacturer of small arms for military and law enforcement forces. The basic sale price is $16.5 million and the closing of the transaction is expected to occur on or before May 31, 2005 (see Note 10 to the interim consolidated financial statements).

Under CICA Handbook section 3475, "Disposal of Long-Lived Assets and Discontinued Operations", specific criteria must be met in order to classify a component of an entity, such as Diemaco, separately from the Company's continuing operations. At December 31, 2004, the Company's management concluded that these criteria were not met.

The impact of Diemaco's operations to be discontinued on the Company's consolidated net income (loss) and earnings (loss) per share is as follows:

	Third quarters ended December 31		**Nine months ended December 31**	
	2004 ($'000)	**2003 ($'000)**	**2004 ($'000)**	**2003 ($'000)**
Net loss, as reported	(887)	(1,626)	(3,764)	(3,330)
Less: Net income from Logistics & Defence Division, Diemaco	744	102	1,041	611
Net loss, as adjusted	**(1,631)**	**(1,728)**	**(4,805)**	**(3,941)**
Loss per share, as adjusted	**(0.06)**	**(0.07)**	**(0.18)**	**(0.17)**

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 February 10, 2005. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.