Management Discussion and Analysis
of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or "the Company") changed between March 31, 2006 and March 31, 2007. It also compares the operating results and cash flows for the year ended March 31, 2007 to those for the previous year.

This analysis should be read in conjunction with the consolidated financial statements dated March 31, 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 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; availability of commodities and 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 this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it 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 statements, whether as a result of new information, future events or otherwise.

Overview

Héroux-Devtek Inc. and its subsidiaries (the "Company") specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial sectors. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States.

The Company was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Company became public in 1986. In 2000, it acquired Devtek Corporation and the two entities were merged to form Héroux-Devtek Inc., one of the largest second-tier manufacturers in the Canadian aerospace industry.

On April 1, 2004, the Company acquired Progressive Incorporated ("Progressive"), a privately-held Texas-based manufacturer of large structural components for military aircraft, thereby boosting its aerostructure capability and gaining access to the important aerostructure military sector.

Héroux-Devtek serves two main segments: Aerospace and Industrial. The former Aerospace & Defence segment became the Aerospace segment as of March 31, 2005, following the sale of the Company's Logistics and Defence Division ("Diemaco"). The Company supplies both the commercial and military sectors of the Aerospace market with landing gear (including spare parts and repair and overhaul services), airframe structural components including kits, and aircraft engine components. However, as already announced, the Company is gradually exiting the aircraft engine components market. In the commercial sector, the Company is active in the business jet, regional jet and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment, with its largest customer being The General Electric Company (GE). It also sells precision components for other industrial applications, including products for the wind energy market.

The Company's sales by segment are as follows:

	2007	**2006**
Aerospace	91%	91%
Industrial	9%	9%
	100%	100%

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as Lockheed Martin, Bombardier, Goodrich and Boeing, and into the aftermarket, where its main customers are the US Air Force (USAF) and US Navy. In fiscal 2007, sales to these six customers represented approximately 68% of total sales.

The Aerospace segment comprises the Landing Gear and Aerostructure divisions and the Aircraft Engine Components portion of the Gas Turbine Components Division. The Industrial segment comprises large power generation components and other industrial products produced by the Gas Turbine Components Division. The Landing Gear Division designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team. The Aerostructure Division manufactures airframe components ranging in size from small to large, for the commercial and military aerospace markets. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets. As mentioned above, the Gas Turbine Components Division is gradually exiting the aircraft engine components market.

Each division is assigned responsibility for its own market development and operating results in order to foster entrepreneurship and employee involvement. The Company's corporate head office provides support to the divisions and retains responsibility for such areas as global strategic development, financing, legal counsel, human resources, public relations, information technology and the Company's public financial reporting and disclosure requirements.

Business Strategy

Héroux-Devtek's business strategy is to position itself as a key supplier for its customers in the three pillars of its business: landing gear, aerostructure and power generating equipment. For the Company, being a key supplier means providing not only manufactured components but also other services such as design, assembly and program management in order to become a complete service provider and allow customers to focus on their core business. In order to achieve this, the Company aims to develop management and technical expertise so as to add value to products at competitive costs. It also seeks to grow to attain a critical mass in each of its market segments, while maintaining a solid financial position.

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component and services;
- Standard, compatible information systems across the Company;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants;
- Revenue stability through long-term agreements with its customers;
- A balanced sales mix between civil and military aerospace markets and industrial sales; and
- Building and maintaining a culture of entrepreneurship through the participation, dedication and commitment of its employees.

Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the Company aims to:

- Develop value-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small landing gear and large structural assemblies for commercial and military aircraft OEMs; and
- Diversify the customer base for its existing product lines, which generally means finding new OEM customers for its landing gear, airframe structural components and industrial products.

Key Performance Indicators

Héroux-Devtek measures its performance on a company-wide basis through key financial indicators that include sales, gross profit, EBITDA, operating income, working capital, long-term-debt-to-equity ratio, and earnings per share. These items are discussed in the appropriate sections below.

Management also tracks the performance through certain indicators related to operations. These include Return On Net utilized Assets (“RONA”), backlog, value-added as a percentage of sales, percentage of on-time deliveries, non-quality costs, attainment of cost reduction targets, and capacity utilization.

Market Trends

In the aerospace industry, there is a broad trend toward OEMs outsourcing manufacturing activities. OEMs are buying more components from increasingly fewer suppliers. They are tending to buy kits for assembly and large sub-assemblies, and to reduce their manufacturing activities in order to concentrate on design and marketing. OEMs are also sourcing components for their products wherever they can on the global market, in order to benefit from the best cost-quality-delivery parameters. This is expected to be an ongoing trend.

The commercial aerospace market has rebounded successfully over the last two years. In calendar 2006, Boeing and Airbus together delivered 830 large commercial aircraft, an increase of 24% over the 670 units delivered in 2005[1].

In the regional jet market, the trend toward larger (over 70 seats) jets continues. The market for the regional turboprop is also showing a marked increase compared to previous years due to higher oil prices.

Deliveries of business jets were up almost 20% last year, with 885 units delivered in calendar 2006 compared to 750 units in 2005[2]. The most noticeable change in the business jet market is the growth in demand from outside the US market. For the first time ever, calendar 2007 may see over 50% of orders coming from outside North America.

The military market remains solid. The US 2008 military budget remains robust, with an increase to $481 billion from $435 billion[3] in 2007. The US government has renewed its commitment to the Joint Strike Fighter (“JSF”) and other large military programs. In Canada the government is also pursuing the ‘Canada First’ program, awarding a contract to Boeing in February 2007 for the supply of four C-17 aircraft. With other military projects currently underway, Canadian market should see interesting opportunities in the near future.

For the power generation market, the demand for energy continues to be strong and requirement for power plant is increasing. Natural gas power plant[4] should still represent the majority of the new installed equipment in the US while demand for clean energy source such as wind turbine is experiencing one of the fastest growth of the industry.

Wind energy remains one of the fastest growing energy-production markets, with double-digit current market growth worldwide, and similar growth expected at least through 2010.

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[1] Source: Boeing and Airbus Press Releases for 2006 results.

[2] Source: GAMA (General Aircraft Manufacturer Association) – 2006 general statistical data book.

[3] Source: US Department of Defence (DOD) – fiscal 2008 budget.

[4] Source: U.S. Department of Energy (DOE) – annual energy outlook 2007.

Finally, the continued strength of the Canadian dollar has had a significant negative impact on Héroux-Devtek in the past few years, given that a substantial portion of the Company's sales is, and will remain, in US dollars while it reports in Canadian currency.

Major Achievements of Fiscal 2007

- **Extension of credit facilities**
  In the third quarter of fiscal 2007, the Company successfully extended its Banks' Syndicated Credit Facilities (Credit Facilities) for five years, up to October 2011.

- **Financial turnaround**
  The Company posted net profits in the last two quarters of fiscal 2006 and all four quarters of fiscal 2007.

- **Major contracts awarded or renewed in fiscal 2007**
  - Long-term contract from Lockheed Martin Aeronautics Company ("Lockheed Martin") to manufacture structural components for the F-35 Lightning II JSF during the Low Rate Initial Process phase of the program. The Company's total revenues over the first five years (phase I) of the agreement could be up to $135 million. The second phase of the agreement, to last until 2028, could provide the Company with continued business beyond the first five years of the program at a share of approximately 50% of the annual production rate. In preparation for this added business, the Company started work on a new, state-of-the-art manufacturing facility in Arlington, Texas. The first phase of the program represents a $20 million investment in plant and equipment and will span 72,000 square feet essentially dedicated to the JSF contract. Manufacturing operations in the new facility should begin in the second quarter of the current fiscal year.
  - $26.5 million contract with Lockheed Martin for structural components for the JSF development program and F-16 Fighting Falcon program.
  - $8.6 million in contracts essentially with the United States Air Force (USAF) for the production of landing gear components, mainly for the C-130, B-1 and B-52 aircraft.

- **Kitchener plant expansion**

  $12 million expansion of the Kitchener landing gear plant (27,000 square feet), which started in fiscal 2006, to accommodate new work, including the Boeing B-777.

- **Progressive plant expansion**

  The Company finalized the 12,500 square feet extension announced last year to its main plant in Arlington, Texas, to support work on the JSF and other aircraft programs.

- **Major customer supply award**

  The Company was granted the 'Supplier Recognition Award' by Lockheed Martin in recognition of ten years of on-time delivery of landing gear for the C-130J Super Hercules.

Selected Annual Financial Information

The following table presents selected financial information for the past three financial years:

Years ended March 31 **($'000, except per share data)**	**2007**	**2006**	**2005**
Sales	283,286	256,197	232,998
EBITDA	31,050	20,907	14,623
Net income (loss) from continuing operations	8,906	(406)	(4,291)
Net income from discontinued operations	-	8,661	2,162
Net income (loss)	8,906	8,255	(2,129)
Earnings (loss) per share from continuing operations ($) – basic and diluted	0.28	(0.01)	(0.16)
Earnings (loss) per share ($) – basic and diluted	0.28	0.29	(0.08)
Total assets from continuing operations	334,503	309,531	295,197
Long-term debt	67,086	50,637	65,660
Cash and cash equivalents	20,124	20,863	9,550

The Company's EBITDA from continuing operations is calculated as follows:

Years ended March 31 **($'000)**	**2007**	**2006**	**2005**
Net income (loss) from continuing operations	8,906	(406)	(4,291)
Income tax (recovery)	1,685	(425)	(2,043)
Financial expenses	3,681	4,221	4,009
Amortization	16,778	17,517	16,948
EBITDA	31,050	20,907	14,623

The turnaround which started in the third quarter of fiscal 2006 continued into fiscal 2007 with the Landing Gear Division leading the way. The Aerostructure Division was somewhat affected by the development phase of the JSF, which had a negative impact on normal production output. Although still negative, results at the Gas Turbine Division improved in fiscal 2007, particularly in the second half of the year, with improved operational performance and the Company's exit of the aircraft engine components market.

RESULTS OF OPERATIONS

Following the February 2005 announcement of an agreement for the sale of Diemaco, all Diemaco's operations were reclassified as discontinued operations (see Discontinued Operations below and Note 4 to the consolidated financial statements). The Diemaco sales transaction was completed on May 20, 2005, with total proceeds amounting to $19.0 million.

Consolidated Sales

Consolidated sales for the year ended March 31, 2007 rose 10.6% to $283.3 million from $256.2 million last year, due mainly to large commercial and military repair and overhaul landing gear sales, along with an increase in Aerostructure turboprop (commuter) sales and, to a lesser degree, higher industrial Gas Turbine sales. These were somewhat offset by a reduction in certain military manufacturing Landing Gear sales, following the completion of the related sales contracts last year. The negative impact of the stronger Canadian dollar reduced sales by $10.5 million or 4.1% compared to last year.

The Company's sales by segment were as follows:

	2007 ($'000)	**2006 ($'000)**	**% Change**
Aerospace			
Military			
Military sales to government	58,273	54,145	7.6
Military sales to civil customers	63,301	69,294	(8.6)
Total Military	121,574	123,439	(1.5)
Total Commercial	135,750	110,313	23.1
Total Aerospace	257,324	233,752	10.1
Total Industrial	25,962	22,445	15.7
Total	**283,286**	**256,197**	**10.6**

As of March 31, 2007, military Aerospace sales consist of military sales to government and military sales to civil customers, as shown above. The Company used to include military sales to civil customers in its commercial Aerospace sales.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	2007 ($'000)	**2006 ($'000)**	**% Change**
Landing Gear	165,317	143,476	15.2
Aerostructure	87,906	75,129	17.0
Aircraft Engine Components	4,101	15,147	(72.9)
Total	**257,324**	**233,752**	**10.1**

Aerospace sales rose by 10.1% to $257.3 million from $233.8 million last year. The increase was primarily due to higher large commercial landing gear sales, mainly on B777 contract, and to the supply of material on the USAF military repair and overhaul contract that started in late August 2005. It also reflects an increase in Aerostructure turboprop (commuter) and electronic enclosures sales. The decline in Aircraft Engine Component sales reflects the exit of this market and the completion of certain manufacturing landing gear sales contracts last year mentioned above. The Company expects to cease manufacturing aircraft engine components by the end of the first quarter of the current fiscal year.

Industrial Segment

Sales for the Industrial segment were as follows:

	2007 ($'000)	2006 ($'000)	% Change
Gas Turbine	12,551	11,117	12.9
Other Industrial	13,411	11,328	18.4
Total	**25,962**	**22,445**	**15.7**

Industrial sales increased by 15.7% to $26.0 million from $22.4 million last year, driven by the wind energy market, which added $2.4 million to other industrial sales. At the same time, the anticipated increase in Industrial Gas Turbine sales finally started to slowly materialize.

Sales by Destination

With the Company's increase in commercial sales to Canadian customers and the exit of the aircraft engine components market, sales by destination changed as shown below:

	2007 (%)	2006 (%)
Canada	31	27
US	68	71
International	1	2
Total	**100**	**100**

Gross Profit

Consolidated gross profit improved from 7.5% to 11.3% of sales in fiscal 2007 in spite of a 0.4% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency. Gross profit was favourably impacted by better margins on certain contracts, mainly due to greater productivity at the Landing Gear Division and the increase in sales at the division, which also contributed to a better absorption of manufacturing overhead costs. Gross profit was also favourably impacted by higher margins at the Company's Gas Turbine Components Division, which was facing production issues last year. These improvements were partially offset by somewhat lower margins and productivity at the Company's Aerostructure Division due to development work on the JSF contract, in spite of the improved operational performance at the Dorval operations.

Gross profit was also impacted during the fiscal year 2006 by an insurance recovery of $1.8 million, which was partially offset by a $1.0 million provision for non-quality and certain terminated aircraft engine component parts referred to above. The net impact of the two above-mentioned items, which were recorded as a reduction in cost of sales in fiscal year 2006, increased gross profit by $0.8 million or 0.3% of sales.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2007	**2006**
Selling and administrative expenses ($’000)	17,694	15,847
% of sales	6.2%	6.2%

Selling and administrative expenses were flat as a percentage of sales but $1.8 million higher than last year due to a lower gain on currency translation upon conversion of the Company’s net monetary items this year and more business sales activity overall.

Selling and administrative expenses include a gain on currency translation of $100,000 this year compared to $646,000 last year.

Operating Income (Loss)

Consolidated operating income increased from $3.4 million (1.3% of sales) to $14.3 million (5.0% of sales).

Aerospace Segment

Aerospace operating income was $16.2 million or 6.3% of sales this year, compared to $6.2 million or 2.7% of sales last year, mainly reflecting higher sales and the improved performance of the Landing Gear Division.

Industrial Segment

An operating loss of $1.9 million or (7.3)% of sales for the Industrial segment compares to last year’s loss of $2.9 million or (12.7)% of sales, and reflects the slight increase in Industrial segment sales. Although still negative, the reduction in the operating loss is in line with management’s effort to concentrate on value-added industrial contracts and enhanced operating performance at the Gas Turbine Components Division, which started to gradually materialize in the second half of fiscal 2007.

Financial Expenses	**2007 ($'000)**	**2006 ($'000)**
Interest	3,606	3,520
Amortization of deferred financing costs	259	388
Standby fees	188	261
Accretion expense	187	187
Amortization of net deferred loss related to a financial derivative instrument	133	138
Interest revenue	(692)	(273)
Total	**3,681**	**4,221**

The $0.5 million decrease in financial expenses in fiscal 2007 is mainly attributable to the increase in interest revenues from interest earned on income tax receivable due from prior years and collected by March 31, 2007 (see under Income Tax Expense (recovery) and Income Tax Receivable, below).

Discontinued Operations

On May 20, 2005, the Company concluded the sale of Diemaco to Colt Defense LLC. The final total sale price was $19.0 million. All assets and liabilities related to Diemaco were reclassified as discontinued assets and liabilities on the consolidated balance sheets. Diemaco's revenues, expenses and net income are shown under discontinued operations in the consolidated statements of income (loss) and, the impact of Diemaco's operations on the Company's cash and cash equivalents is presented under discontinued operations in the consolidated statements of cash flows (see Note 4 to the consolidated financial statements).

Income Tax Expense (recovery) and Income Tax Receivable

Income Tax Expense (recovery)

Income tax expense for fiscal 2007 amounted to $1.7 million compared to a $0.4 million income tax recovery for the previous year. For fiscal 2007, the Company's effective income tax rate was 15.9% compared to the Company's Canadian blended statutory income tax rate of 32.6%. The income tax expense for fiscal 2007 was favourably impacted mainly by $0.7 million in permanent differences, $1.1 million recognition of certain income tax benefits from previous years, including tax losses carried forward, for which no income tax benefits had been recognized, and $0.1 million attributable to changes in enacted rates.

The Company's Canadian blended statutory income tax rate for fiscal 2006 was 28.6%, due to the mix by jurisdiction as well as the combination of profitable and unprofitable business units. When applied to the consolidated loss before income tax recovery and discontinued operations for the fiscal year 2006, this rate resulted in an income tax recovery of $0.2 million. This income tax recovery was increased by $1.2 million due to favourable permanent differences and by $0.5 million as a result of an adjustment of the relevant net future tax assets in line with a Quebec provincial income tax rate increase from 8.9% to 11.9% over a three-year period, enacted during that year. The main offset to the foregoing was the non-recognition of $0.5 million in certain income tax benefits due to the uncertainty of their realization.

Operating losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which no related future income tax assets have been recognized in the consolidated financial statements, amounted to $7.8 million as at March 31, 2007 and have expiry periods mainly between 3 and 10 years (see Note 17 to the consolidated financial statements).

Income Tax Receivable

A reduction of $3.5 million in income tax receivable for fiscal 2007 reflects the collection, all in the fourth quarter of fiscal 2007, of $6.0 million in income tax receivable due from prior years, net of current income tax receivable.

Just prior to March 31, 2006, Héroux-Devtek Aerostructure Inc., a wholly owned Canadian subsidiary, was wound-up into the Company. This resulted in an increase of approximately $4.2 million in income tax receivable at March 31, 2006, through the availability of certain tax attributes due to the winding-up. Since the materialization of these tax attributes is primarily related to tax depreciation, the ensuing counterpart was mainly reflected in the net increase in long-term future income tax liabilities.

Net Income (Loss)

For fiscal year 2007, the Company posted a net income of $8.9 million compared to a net income of $8.3 million last year. In fiscal 2006, the Company had $8.7 million in net income from discontinued operations following the sale of its Diemaco Division (see Note 4 to the consolidated financial statements).

	2007	**2006**
Net income (loss) from continuing operations ($'000)	8,906	(406)
Net income from discontinued operations ($'000)	-	8,661
Net income ($'000)	8,906	8,255
Earnings (loss) per share from continuing operations – basic and diluted ($)	0.28	(0.01)
Earnings per share – basic and diluted ($)	0.28	0.29

Earnings per share figures are based on weighted averages of 31,511,345 common shares outstanding for fiscal 2007 and 28,727,386 for the previous year. This year’s increase is essentially due to the issuance of 27,418 common shares under the Company’s stock purchase and ownership incentive plan and 12,000 common shares pursuant to the exercise of stock options and, the full impact on this year of the 4.5 million common shares issue, pursuant to the November 2005 offering (see Note 15 to the consolidated financial statements).

On May 31, 2007, the date of this MD&A, the Company had 31,533,122 common shares and 1,090,521 stock options outstanding with a weighted-average years to maturity of 4.1 years.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2007, the Company had cash and cash equivalents of $20.1 million, compared to $20.9 million a year earlier.

Operating Activities

The Company generated cash flows from continuing operations and used cash and cash equivalents for its operating activities as follows:

	2007 ($'000)	**2006 ($'000)**
Cash flows from continuing operations	29,771	20,007
Net change in non-cash items related to operations	(14,351)	(3,130)
Cash flows relating to operating activities	**15,420**	16,877

The $9.8 million increase in cash flows from continuing operations for fiscal 2007 can mainly be explained by the $9.3 million increase in net income. In fiscal 2007, the $14.4 million net change in non-cash items is primarily due to the $20.9 million increase in inventories, which is in line with the current and expected increase in business activity in fiscal 2008, and which include the capitalized development costs for the JSF contract. Other changes in the net change in non-cash items include the $2.9 million increase in accounts receivable in line with the increased fourth quarter sales and the $2.9 million decrease in income tax payable. These were offset by a $3.5 million reduction in income tax receivable following the collection of income tax receivable due from prior years, a $3.3 million decrease in other receivables, and a $5.8 million increase in accounts payable and accrued liabilities and other liabilities. The increase in accounts payable and other liabilities reflects mainly certain capital expenditures made before the March 31, 2007, year-end.

For fiscal 2006, the cash flows from continuing operations of $20.0 million which increased by $8.1 million compared to the prior year; This increase was mainly due to the $3.9 million reduction in the net loss compared to the previous year, a $0.6 million increase in amortization and a $3.0 million net increase in future income taxes, mainly due to the winding-up of a subsidiary into the Company in the last quarter of fiscal 2006. In fiscal 2006, the net change of $3.1 million in non-cash items was mainly caused by an $8.0 million increase in accounts receivable due to higher sales, and a $3.4 million increase in income tax receivable, offset by a $9.7 million increase in accounts payable. The increase in accounts payable reflects higher purchases of raw materials in the last quarter of fiscal 2006, for which progress billings were made and received before the March 31, 2006 year-end. Amounts related to the progress billings are shown as a reduction of the related inventories on the Company's consolidated balance sheets.

Investing Activities

The Company’s investing activities were as follows:

	2007 ($‘000)	2006 ($‘000)
Purchase of property, plant and equipment and finite-life intangible assets	(29,145)	(13,391)
Proceeds on disposal of property, plant and equipment	2,617	305
Business acquisition, additional payments	(1,577)	(3,425)
Proceeds from the sale of Diemaco	-	19,035
Cash flows relating to investing activities	**(28,105)**	**2,524**

The Company’s investing activities used cash and cash equivalents of $28.1 million, having provided $2.5 million the previous year.

Fiscal 2007 saw an increase of $15.8 million in capital spending to $29.1 million, with investments at the Longueuil plant, mainly for the modernization of the plating facility, and in Arlington, Texas, for the expansion for a new manufacturing facility related to the JSF contract (See Notes 9 and 20 to the consolidated financial statements and under Off-balance Sheet Items and Commitments, below).

Proceeds on disposal of property, plant and equipment include a $2.2 million proceed from the sale of the Tampa, Florida, facility in the second quarter of fiscal 2007. This facility was closed some years ago and the Tampa operations transferred to the Company’s operations in Cincinnati, Ohio.

In fiscal 2006, the Company invested $13.4 million in property, plant and equipment, which included investments for its Kitchener plant expansion and the first phase of the modernization of its plating department at the Longueuil plant.

Business acquisition investments represent profitability performance payments in relation to the acquisition of Progressive (see Note 3 to the consolidated financial statements) on April 1, 2004. The $1.6 million is fiscal 2007 represents the last payment for this acquisition.

Capital expenditures for fiscal 2008 are expected to be about $37 million of which $23 million will be related to the completion of the new manufacturing facility in Arlington, Texas and of the modernization of the plating department at the Landing Gear, Longueuil, Quebec, plant.

On May 20, 2005, the Company concluded the sale of Diemaco. The final sale price amounted to $19.0 million (see Note 4 to the consolidated financial statements).

Financing Activities

The Company's financing activities were as follows:

	2007 ($'000)	2006 ($'000)
Increase in long-term debt	16,900	17,590
Repayment of long-term debt	(4,491)	(40,287)
Issuance of common shares	173	15,790
Other	(516)	(210)
Cash flows relating to financing activities	**12,066**	**(7,117)**

The increase in long-term debt mainly reflects drawings against the Credit Facilities for additional working capital requirements (mainly inventories) and for capital expenditures.

On November 10, 2005, the Company closed a public offering of 4.5 million common shares priced at $3.75 per share for net proceeds of $15.7 million (net of $1.2 million in fees and expenses) (see Note 15 to the consolidated financial statements). The Company applied the net proceeds from the sale of common shares to the reduction of its lines of credit under its Credit Facilities but not as a permanent reduction thereof. On a year-to-date basis, net capital repayments on the credit facilities totalled $24.7 million for fiscal year 2006 (see Note 13 to the consolidated financial statements).

In October 2006, The Company successfully concluded the amendment and extension of its Credit Facilities for a five year period whereby the previous Bank's 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 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.

The Company was in compliance with all its restrictive debt covenants at March 31, 2007, and expects to continue to comply with these restrictive financial covenants in fiscal 2008.

Pension Plans

Some of the Company's employees are covered by defined benefit pension plans. The funded status of these plans is as follows:

	2007 ($'000)	2006 ($'000)
Deficit	14,316	14,662
Accrued benefit liabilities (included in other liabilities)	6,462	6,716

The pension plan deficit of $14.3 million at March 31, 2007 includes $8.8 million in pension plan obligations related to unregistered pension plans, primarily for former executives of Devtek Corporation, which was acquired by the Company in June 2000, and whose pension plan deficits do not require funding. Funding occurs as pension benefits are paid to the retired executives.

Capital Stock, Stock Option Plan and Stock Purchase and Ownership Incentive Plan (Stock Purchase Plan)

At March 31, 2007, the Company had 31,528,017 common shares outstanding (31,488,599 in 2006).

During fiscal 2007, the Company issued 39,418 common shares at a weighted average price of $4.39 for a total cash consideration of $173,000, including 12,000 common shares issued pursuant to the exercise of stock options for a total cash consideration of $38,000. The other 27,418 common shares were issued under the Company's stock purchase plan for a total cash consideration of $135,000.

In fiscal 2006, the Company issued 4.53 million common shares at a weighted average price of $3.75 for a total net cash consideration of $15.8 million. This included the 4.5 million common shares issued at a price of $3.75 pursuant to the November 2005 public offering and 34,047 common shares issued under the stock purchase plan.

As of March 31, 2007, 1,090,521 stock options were issued and outstanding with a weighted average years to maturity of 4.1 years and a weighted average exercise price of $5.49 (see Note 15 to the consolidated financial statements).

Changes to the Company's Stock Option Plan

On February 1, 2006, the Human Resources and Corporate Governance Committee recommended to the Board of Directors (the "Board") the approval of certain changes to the Company's stock option plan, which were approved the same day by the Board. The purpose of these changes was to increase the number of common shares that may be issued under the stock option plan from an aggregate of 2,277,118 common shares (of which 300,319 common shares remained available for future grants at March 31, 2006 and 90,000 were reserved for the stock purchase plan) to 3,148,257 common shares (representing about 10% of the common shares outstanding at March 31, 2006, and of which 340,000 are reserved for the stock purchase plan). Consequently, the net aggregate number of common shares available for stock options is 2,808,257, of which 691,718 shares remain available for future grants as at March 31, 2007.

These changes were approved by the Toronto Stock Exchange and then by the Company's shareholders at the August 3, 2006 Annual General Meeting.

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. The year-end and average exchange rates were as follows at March 31, 2007 and 2006 and for the fiscal years then ended:

Canada / US Exchange Rates		2007	2006
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/ US $ equivalent	1.1546	1.1680
	US $ equivalent	0.866	0.856
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/ US $ equivalent	1.1377	1.1982
	US $ equivalent	0.879	0.835

The Company makes use of derivative contracts to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At March 31, 2007, the Company had forward foreign exchange contracts totalling US $129.5 million at an average exchange rate of 1.2110 maturing over the next four fiscal years, the majority of which mature over the next two fiscal years. (See under Off-balance Sheet Items and Commitments, below.)

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2006 and March 31, 2007:

Item	Change ($ Million)	Explanation
Cash and cash equivalents	(0.7)	See consolidated statements of cash flows.
Accounts receivable	2.9	Increase consistent with the higher year-over-year fourth quarter sales.
Income tax receivable	(3.5)	Collection of income tax receivable due from prior years.
Inventories	20.9	Mainly related to increased business volumes in the coming quarters.
Property, plant and equipment, net	10.7	Due to: - Purchase of capital assets ($28.6 million) Net of: - Amortization ($14.8 million) - Net proceeds ($2.6 million) - A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.5 million).

Item	Change ($ Million)	Explanation
Finite-life intangible assets, net	(1.5)	Represents mainly the amortization of the underlying value of the net backlog acquired as part of the acquisition of Progressive.
Accounts payable and accrued liabilities	5.8	Includes $5.3 million in capital expenditures made just before year-end. Overall level of accounts payable and accrued liabilities also reflects the higher activity level and the increase in raw material purchases in the fourth quarter.
Long-term debt (including current portion)	12.1	Mainly due to: - Net increase of $12.4 in long-term debt to mainly finance the additional working capital requirements and the purchase of certain capital expenditures Net of: - A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.3 million).
Cumulative translation adjustment	(0.7)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries.
Retained earnings	8.9	See consolidated statements of retained earnings.

The Company's working capital ratio was 1.94:1 at March 31, 2007 compared to 1.76:1 at March 31, 2006, while the long-term debt-to-equity ratio was 0.42:1 at March 31, 2007 compared to 0.33:1 at March 31, 2006. At March 31, 2007, the balance sheet included cash and cash equivalents of $20.1 million. At March 31, 2006, cash and cash equivalents stood at $20.9 million.

The summary of the Company's contractual obligations, including payments due over the next five years and thereafter, is as follows:

		Payments due by period			
Contractual Obligations ($'000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Loans bearing no interest	15,518	3,542	3,329	4,588	4,059
Capital leases (including interest expenses)	6,267	3,439	2,828	-	-
Operating leases – Machinery and equipment	11,230	2,806	3,839	2,786	1,799
Operating leases - Buildings	1,717	399	766	444	108
Subtotal, contractual obligations	34,732	10,186	10,762	7,818	5,966
Senior Secured Syndicated Revolving Credit Facilities	52,411	-	-	52,411	-
Total contractual obligations	**87,143**	**10,186**	**10,762**	**60,229**	**5,966**

Off-Balance Sheet Items and Commitments

The Company had entered into operating leases amounting to $12.9 million as at March 31, 2007, mainly for machinery and equipment. All these amounts are repayable over the next seven years (see Note 20 to the consolidated financial statements). At March 31, 2007, the Company also had machinery and equipment and construction in progress purchase commitments totalling $20.2 million (see Note 20 to the consolidated financial statements).

At March 31, 2007, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $129.5 million at an average exchange rate of 1.2110. These contracts relate mainly to its export sales, and mature at various dates between April 2007 and December 2010 (see Note 5 to the consolidated financial statements). This compares to US $146.5 million in forward foreign exchange contracts held at March 31, 2006 at an average exchange rate of 1.2617.

Critical Accounting Estimates

- *Design-to-manufacture contracts and major assembly manufacturing contracts*

  The Company's management uses estimates to value inventory and cost of sales related to design-to-manufacture contracts and major assembly manufacturing contracts. In fact, non-recurring costs (development, pre-production and tooling costs) and the excess over production costs (production costs incurred in the early stage of a contract in excess of the average estimated production unit cost for the entire contract) are included in inventory. Recovery of these costs is expected from related contract sales as production costs decline to below the average production unit cost.

Two major assumptions are made when capitalizing non-recurring costs and the excess over production costs in inventory:

- Estimated average production unit cost; and
- Production accounting quantities.

The estimated average production unit cost includes raw materials, direct labour and manufacturing overhead cost, and is based on the learning curve concept. This anticipates a predictable decrease in direct labour costs as tasks and production techniques become more efficient through repetition. To evaluate the average production unit cost, management bases its analysis mainly on historical performance, economic trends, labour agreements and information provided by customers and suppliers. It also takes into consideration inflation rates, foreign exchange rates, labour productivity, employment levels and salaries.

Production accounting quantities for a particular contract are essentially established at the inception of the contract or contract date, and are based on management's assessments of the anticipated demand for the related aircraft or product, taking into account mainly firm order and committed order backlog and options, as well as prevailing market and economic conditions.

Management reviews the major assumptions on a quarterly basis, and a more detailed review is made at fiscal year-end. The effect of any revision to the assumptions is accounted for by way of a cumulative catch-up adjustment in the period or year in which the revision takes place.

A 1% change in the estimated future costs to produce the remaining quantities on all design-to-manufacture contracts and all major assembly manufacturing contracts would have an impact of approximately $0.7 million on the Company's cost of sales, including $0.4 million relating to cumulative catch-up adjustments for prior years.

- *Goodwill*

Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. The Company selected its fourth quarter as its annual testing period for goodwill. A goodwill impairment charge is recorded when the discounted value of the expected future cash flows of the entire related reporting unit is less than its carrying value. Future cash flows are forecast based on management's best estimates of revenues, production costs, manufacturing overhead and other costs. These estimates are made by reviewing existing contracts, expected future orders, current cost structure, anticipated cost variations, labour agreements and general market conditions, and are subject to review and approval by the Company's senior management. Future cash flows are discounted using an estimated weighted average cost of capital rate.

- *Pension plans and other employee post-retirement benefits*

  Certain critical assumptions are used to determine pension plan and other employee post-retirement benefit costs and obligations. In particular, the discount rate and the expected long-term rate of return on plan assets are important assumptions used to measure these costs and obligations. Other assumptions include the rate of increase in employee compensation, as well as demographic factors such as employee retirement ages, mortality rates and turnover. These assumptions are reviewed annually.

  A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $4.2 million, respectively, on the Company's pension plan expense and accrued benefit obligations.

  A lower expected rate of return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $180,000 on the Company's pension plan expense.

- *Income tax*

  The Company accounts for future income tax assets mainly from loss carry-forwards and deductible temporary differences. Company management assesses and reviews the realization of these future income tax assets at least annually, at year-end, to determine whether a valuation allowance is required. Based on that assessment, it determines whether it is more likely than not that all or a portion of the future income tax assets will be realized. Factors taken into account include future income based on internal forecasts, losses in recent years and their expiry dates and a history of loss carry-forwards, as well as reasonable tax planning strategies.

FUTURE 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". Effective April 1, 2007, the Company adopted these new accounting standards.

Comprehensive income

Section 1530 introduces Comprehensive income, which comprises net income and other comprehensive income ("OCI") and represents the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. 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 and net investments in self-sustaining foreign operating hedging instruments.

Financial instruments – recognition and measurement

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 are measured at fair value. 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. Investments in equity instruments classified as AFS that do not have a quoted market price in an active market are measured at cost.

Derivatives, including embedded derivatives that are not closely related to the host contract, are recorded on the balance sheet at fair value. Derivatives qualifying as hedges are accounted for using special hedge accounting rules. Derivatives not qualifying for hedge accounting are part of the HFT category.

Section 3855 permits an entity to designate any financial instrument as HFT on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of HFT set out in Section 3855. Instruments that are classified as HFT by way of this "fair value option" must have reliable fair values. Other significant accounting implications arising on adoption of Section 3855 include the measurement of certain guarantees upon initial recognition at fair value.

Hedges

Section 3865 specifies the conditions for applying hedge accounting and how hedge accounting may be applied for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of net investments in self-sustaining foreign operations. In a fair value hedge relationship, gains or losses from the re-measurement of the derivative hedging item at fair value are recognized to income. Gains or losses on the hedged item attributable to the hedged risk are accounted for as an adjustment to the carrying amount of the hedged item and recognized to income.

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. However, when a hedge of an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized to OCI are reclassified and included in the initial carrying amount of the asset.

In a hedge of a net investment in self-sustaining foreign operations, 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 recognized to income in the same period during which corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recognized to income.

The Company is currently assessing the impact of these recommendations on its consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), the Company has filed certificates signed by the Chief Executive Officer and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal controls over financial reporting. The implementation of MI 52-109 represents a continuous improvement process, which has prompted the Company to ensure that all relevant processes and controls were formalized.

Disclosure controls and procedures

At March 31, 2006 and 2005, Company management proceeded with the first certification on the design of disclosure controls and procedures (at March 31, 2005) and their effectiveness (at March 31, 2006) by its Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures have the general objective of seeking to ensure that information disclosable by the Company in its reports, regulatory statements, filings and other communications is recorded, processed, summarized and reported on a timely basis. This information also includes controls to ensure compliance with Canadian disclosure requirements beyond the Company's consolidated financial statements.

The Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company has been made known to them and has been properly disclosed in the annual regulatory filings.

At March 31, 2007, an evaluation of the effectiveness of the Company's disclosure controls and procedures was also carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Company's disclosure policy and its disclosure committee.

Internal controls over financial reporting

The Company's Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles.

At March 31, 2007, a first evaluation of the design of the Company's internal controls over financial reporting was carried out, as defined in MI 52-109. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the internal controls over financial reporting are designed to provide reasonable assurance that the Company's financial reporting is reliable and that the Company's consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles.

However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 68% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

Availability and Cost of Raw Materials

The main raw materials purchased by the Company are aluminium, steel and titanium. Supply and cost of these materials is somewhat outside the Company's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion, along with cost increases for these materials, could also have a material adverse effect on the Company's operations and financial condition.

In the past two years, as this situation has escalated with the improvement of the global economy and the explosive growth of the Chinese economy in particular, the Company has begun to take steps to mitigate this risk. It now includes clauses in its contracts to share the risk of raw materials availability and cost with its customers. It also negotiates long-term supply agreements with its suppliers of raw materials, and has increased its monitoring of the supply chain to ensure timely deliveries.

Operational Risks

The activities conducted by the Company are subject to operational risks that include competition from other businesses, performance of key suppliers, product performance warranties, regulatory risks, successful integration of new acquisitions, dependence on key personnel and reliance on information systems, all of which could affect the Company's ability to meet its obligations.

General Economic Conditions

Unfavourable economic conditions may adversely affect the Company's business. For example, the large civil aerospace industry has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. In fiscal 2006, the regional jet market was negatively impacted by lower demand. Furthermore, the industrial power generation market collapsed in 2002 and is only now recovering slowly. This could adversely affect the Company's financial condition and results of operation. Although long-term growth will likely eventually resume, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

Although significant increases in military budgets, particularly in the United States, were announced in recent years, these expenses are approved by government on a yearly basis and are subject to the political climate and changing priorities.

Foreign Currency Fluctuations

The Company is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States. In an effort to mitigate those risks, the Company makes use of derivative contracts to hedge this exposure.

Liquidity and Access to Capital Resources

The Company requires continued access to capital markets to support its activities. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow generated from operations. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operation.

Restrictive Debt Covenants

The indentures governing certain of the Company's indebtedness and, in particular, Senior Secured Syndicated Revolving credit facilities, contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- invest in capital expenditures over a certain amount per year; and
- engage in transactions with affiliates.

These restrictions could impair the Company's ability to finance its future operations or its capital needs, or to engage in other business activities that may be in its interest.

Changing Interest Rates

The Company's profitability may be directly affected by the level of and fluctuations in interest rates. The Company considers, when appropriate, using derivatives as an integral part of its asset/liability management program to mitigate or reduce its overall financial risk.

External Business Environment

The Company faces a number of external risk factors, specifically including general economic conditions, government policies and changing priorities or possible spending cuts by governments.

Warranty Casualty Claim Losses

The products manufactured by the Company are complex and sophisticated and may contain defects that are difficult to detect and correct. Errors may be found in the Company's products after they are delivered to the customers. If so, the Company may not be able to correct such errors. The occurrence of errors and failures in the Company's products could result in warranty claims or the loss of customers. Any claims, errors or failures could have an adverse effect on the Company's operating results and business. In addition, due to the nature of the Company's business, the Company may be subject to liability claims involving its products or products for which it provides services. The Company cannot be certain that its insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, there can be no assurance that the Company will be able to obtain insurance coverage at acceptable levels and cost in the future.

Environmental Matters

The Company's activities are subject to environmental laws and regulations associated with risks to human health and the environment. Changes to these laws and regulations could have a significant adverse effect on the Company's operations and financial situation. The Company monitors these risks through environmental management systems and policies.

Collective Bargaining Agreements

The Company is party to some collective bargaining agreements, which are subject to expiration at various times in the future. If the Company is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Company's business.

Skilled Labour

Héroux-Devtek's ability to meet its future goals and objectives depends, in part, on its ability to attract and retain the necessary skilled labour. The skilled labour market in the aerospace industry is expected to continue to be highly competitive in the future. The Company's inability to attract and retain skilled labour, particularly engineers, machinists and programmers, could adversely affect its financial condition and results of operations.

Héroux-Devtek does not anticipate a substantial increase in its manpower requirements over the next few years. The Company is therefore addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2007					
Sales	283,286	66,317	62,669	71,519	82,781
Net income	8,906	688	1,496	2,198	4,524
Earnings per share ($) – basic and diluted	0.28	0.02	0.05	0.07	0.14
For the fiscal year ended March 31, 2006					
Sales	256,197	53,917	62,303	66,853	73,124
Net income (loss) from continuing operations	(406)	(2,432)	(256)	743	1,539
Net income (loss) from discontinued operations	8,661	8,844	-	-	(183)
Net income (loss)	8,255	6,412	(256)	743	1,356
Earnings (loss) per share from continuing operations ($) – basic and diluted	(0.01)	(0.09)	(0.01)	0.03	0.05
Earnings (loss) per share ($) – basic and diluted	0.29	0.24	(0.01)	0.03	0.04

The improvement in the last two quarters of fiscal 2006 continued into fiscal 2007, with all four quarters showing positive results. Last year, net income included $8.7 million in net income from discontinued operations from the sale of the Company's Diemaco Division (see Note 4 to the consolidated financial statements).

Fourth Quarter 2007 Results

Traditionally a strong period, the fourth quarter of fiscal 2007 was yet again strong for the Company, with all three divisions showing improved net results over last year's fourth quarter due to increased sales and performance. More specifically, the Landing Gear Division showed better results in the last quarter of fiscal 2007 from improved sales and operational performance, while the Company's Gas Turbine Division improved its operating performance and reduced its net loss despite lower fourth quarter sales this year due to the reduction in aircraft engine components sales.

In addition, fourth quarter net income for fiscal 2007 increased by $1.1 million due to recognition of certain income tax benefits from previous years, including tax losses carried foreword, for which no income tax benefits had been recognized. Furthermore, cash flows provided by operating activities for the fourth quarter of fiscal 2007 were favourably impacted by the net positive change of $4.5 million in net income tax receivable due to the collection of income tax receivable due from prior years and by the $5.3 million increase in accounts payable and accrued liabilities due to certain capital expenditures made just before year-end, March 31, 2007.

Outlook

With the commercial aerospace and power generation markets both improving and the military aerospace market remaining solid, Héroux-Devtek's Aerospace and Industrial sales should pursue their upward trends. The Company expects to achieve approximately 10% internal sales growth in fiscal 2008, as well as further profitability gains from its lean manufacturing programs.

Major investments of $37 million are planned for fiscal 2008, including substantial investment for the JSF program and the plating facility modernization. The Company also intends to examine acquisition opportunities during the current year.

The collective agreements with employees at the Longueuil and Laval plants (all in Quebec) are scheduled for renewal in fiscal 2008 and early fiscal 2009. The Company reached a three-year collective agreement with the unionized employees at the Dorval plant on May 22, 2007. Overall, the Company enjoys good relations with its employees.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 30, 2007 and by the Board of Directors on May 31, 2007. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.