



## **NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING**

Notice is hereby given that the Annual and Special General Meeting of the Shareholders of Héroux-Devtek Inc. (the "Company") will be held in the Salon "Saisons A" of the OMNI Mont-Royal Hotel, 1050 Sherbrooke Street West, in the City of Montréal, Québec, at the hour of 11:00 a.m., local time, on Thursday, August 3, 2006, for the following purposes:

1. to receive the Consolidated Financial Statements of the Company for the year ended March 31, 2006 and the Auditors' report thereon;
2. to elect Directors;
3. to appoint Auditors and to authorize the Directors to fix their remuneration;
4. to consider and, if deemed appropriate, approve (i) an increase to the number of Common Shares reserved for issuance under the Company's Stock Option Plan and (ii) other modifications;
5. to consider and, if deemed appropriate, approve an increase to the number of Common Shares reserved for issuance under the Company's Stock Purchase and Ownership Incentive Plan; and
6. to transact such other business as may properly be brought before the meeting.

Proxies to be used at the Annual and Special General Meeting must be deposited with the Company c/o Computershare Trust Company of Canada, by mail to the address on the envelope provided herewith, or by personal delivery to 1100 University Street, Suite 1200, Montréal, Québec, Canada H3B 2G7, not later than 4:00 p.m., local time, on Tuesday, August 1, 2006.

Dated at Longueuil, Québec, Canada this 28<sup>th</sup> day of June 2006.

By order of the Board of Directors,

(Signed by)

Jacques Paquin, Corporate Secretary

## **IMPORTANT**

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, please sign the enclosed proxy and return it as soon as possible in the envelope provided.

## MANAGEMENT PROXY CIRCULAR

This Circular is furnished in connection with the solicitation of proxies by the management of Hérroux-Devtek Inc. (hereinafter called the “Company”) for use at the Annual and Special General Meeting of the Shareholders of the Company to be held on August 3, 2006 (hereinafter called the “Meeting”) and at every adjournment thereof. Solicitation will be primarily by mail but proxies may also be solicited by telephone, or personally by directors, officers or employees of the Company. The Company will bear all expenses in connection with the solicitation of proxies.

### Voting by Proxy

Shares represented by properly executed proxies in favour of the persons designated in the enclosed form of proxy will be voted or withheld from voting on any ballot that may be called for and, if the Shareholder specifies a choice in respect of the matters to be voted upon, the shares shall be voted or withheld from voting in accordance with the specification made by the Shareholder. **If no specification is made, such shares will be voted for the election of the Directors specified in this Circular, for the appointment of the Auditors named in this Circular and the fixing of their remuneration by the Directors and in favour of the modifications to the Company’s Stock Option Plan.**

The enclosed proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice relating to the Meeting and other matters which may properly come before the Meeting other than for the election of a Director who would not be named in this Circular. At the date of this Circular, the management of the Company is not aware that any such amendments, variations, or other matters are to be presented for action at the Meeting.

### Principal Holders of Voting Securities

To the knowledge of the Directors and senior officers of the Company, the only persons and companies who beneficially own, directly or indirectly, or exercise control or direction over more than 10% of the Common Shares of the Company are, as at May 30, 2006, the following:

Name	Number of Common Shares	Percentage of Outstanding Common Shares
Gilles Labbé	4,408,500 <sup>(1)</sup>	14.00%
Natcan Investment Management Inc. and Altamira Management Ltd.	6,029,260	19.15%
Howson Tattersall Investment Counsel Limited	5,005,798	15.90%
Capital d’Amérique CDPQ inc.	4,237,183	13.46%

(1) 4,379,000 Common Shares included in this number are held by 2635-6246 Québec inc. and 2945-0228 Québec inc., companies controlled by Mr. Gilles Labbé.

### Appointment of Proxy

The persons named in the enclosed form of proxy are Executive Officers of the Company. **A Shareholder has the right to appoint a person, who need not be a Shareholder of the Company, other than the persons designated in the accompanying form of proxy, to attend and act on his or her behalf at the Meeting. To exercise this right, a Shareholder may either cross out the names printed on the form of proxy and insert such other person’s name in the blank space provided in the accompanying form of proxy or complete another appropriate form of proxy.**

### Revocability of Proxy

A proxy given pursuant to this solicitation may be revoked by an instrument in writing executed by the Shareholder or by the Shareholder’s attorney authorized in writing and transmitted either to c/o Computershare Trust Company of Canada, 1100 University Street, Suite 1200, Montréal, Québec, Canada H3B 2G7, at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof at which the proxy is to be used, or to the Chairman or Secretary of such Meeting on the day of the Meeting or any adjournment thereof, or by any other manner permitted by law. Any proxy given by a Shareholder can also be revoked by the Shareholder if the Shareholder attends the Meeting in person and so requests.

## Voting Rights

As of May 30, 2006, 31,493,546 Common Shares, without nominal or par value, of the Company were outstanding. Holders of Common Shares of record at the close of business on June 22, 2006 will be entitled to one vote for each such share held by them except to the extent that a person has transferred any shares after the record date and the transferee of such shares establishes proper ownership of such Common Shares and demands, not later than 10 days before the Meeting, to be included in the list of Shareholders entitled to vote at the Meeting.

## Election of Directors

The affairs of the Company are managed by a Board of Directors. The members of the Board are elected annually at each Annual Meeting of Shareholders to hold office until the next Annual Meeting unless, prior thereto, he or she resigns, or the office of such Director becomes vacant by death, removal, or other cause. By resolution of the Board adopted on May 31, 2006, the precise number of Directors has been fixed at eight. Therefore, a total of eight nominees are being proposed as Directors for election by the Shareholders at the Meeting. The following table sets out the names of said nominees for election, their present principal occupation, the years in which they became Directors of the Company and the number of Common Shares of the Company owned, directly or indirectly, or controlled or directed by the nominees. **The persons designated on the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below.** Each of the nominees has provided the information as to the shares of the Company he beneficially owns or over which he exercises control or direction, as at May 30, 2006. All nominees have served continuously as director of the Company since their appointment or first election in such capacity.

Name	Principal Occupation	Director Since	Number of Common Shares
Claude Boivin <sup>(1)</sup> Quebec, Canada	Consultant and Member of various Boards of Directors	1994	18,000 <sup>(3)</sup>
John M. Cybulski <sup>(2)</sup> Florida, U.S.A.	Principal, Aeroglobe LLC	2004	110,900
Christian Dubé <sup>(2)</sup> Quebec, Canada	Vice-President and Chief Financial Officer, Cascades Inc.	2004	5,000
Jean-Louis Fontaine <sup>(1)</sup> Quebec, Canada	Vice-Chairman of the Board and Director, Bombardier Inc.	1990	48,000 <sup>(4)</sup>
Helmut Hofmann <sup>(1)</sup> Ontario, Canada	Chairman of the Board Héroux-Devtek Inc.	2000	987,214 <sup>(5)</sup>
Gilles Labbé Quebec, Canada	President and Chief Executive Officer, Héroux-Devtek Inc.	1985	4,408,500 <sup>(6)</sup>
Pierre Marcouiller <sup>(1)</sup> Quebec, Canada	Chairman of the Board and Chief Executive Officer, Camoplast Inc.	1998	8,400
Brian A. Robbins <sup>(2)</sup> Ontario, Canada	President and Chief Executive Officer, Exco Technologies Limited	2000	40,000 <sup>(7)</sup>

(1) Member of the Human Resources and Corporate Governance Committee.

(2) Member of the Audit Committee.

(3) These shares are held by Gestion Marclo Inc., a company controlled by Mr. Claude Boivin.

(4) 4,000 Common Shares included in this number are held by Gestion Jean-Louis Fontaine Inc., a company controlled by Mr. Jean-Louis Fontaine.

(5) 544,293 Common Shares included in this number are held by H. Hofmann Management Inc., a company controlled by Mr. Helmut Hofmann.

(6) 4,379,000 Common Shares included in this number are held by 2635-6246 Québec inc. and 2945-0228 Québec inc., companies controlled by Mr. Gilles Labbé.

(7) These shares are held by 555319 Ontario Limited, a corporation wholly-owned by Mr. Brian A. Robbins.

Reference is made to Item 12 (“The Audit Committee”) of the Company’s Annual Information Form (“AIF”) that contains the information required by section 5.1 and Form 52-110F1 of Multilateral Instrument 52-110. The Company’s AIF is available on SEDAR at [www.sedar.com](http://www.sedar.com) and a copy of same will be provided free of charge, upon request, to any securityholder of the Company. Reference is also made to the heading “Corporate Governance Disclosure” below that contains the information required by subsection 2.1(1) and Form 58-101F1 of National Instrument 58-101.

## **Corporate Governance Disclosure**

The Canadian Securities Administrators (“CSA”) have proposed governance guidelines in National Policy 58-201 - *Corporate Governance Guidelines* (“NP 58-201”) and have adopted National Instrument 58-101 – *Disclosure of Corporate Governance Practices* (“NI 58-101”) that requires disclosure of the Company’s corporate governance practices. The CSA have also enacted Multilateral Instrument 52-110 - *Audit Committees* (“MI 52-110”).

The Board of Directors has reviewed the recommended corporate governance guidelines in NP 58-201 as well as the MI 52-110 and is of the view that the Company complies with all the recommended practices. The following discussion addresses the Company’s position with respect to corporate governance practices, and has been prepared in accordance with NI 58-101 and Form 58-101F1.

### **1. Board of Directors**

- (a) The following directors are “independent” within the meaning of section 1.4 of MI 52-110:

Claude Boivin  
John M. Cybulski  
Christian Dubé  
Jean-Louis Fontaine  
Helmut Hofmann  
Pierre Marcouiller  
Brian A. Robbins

- (b) Gilles Labbé, as President and Chief Executive Officer of the Company, is not “independent” within the meaning of section 1.4 of MI 52-110.
- (c) A majority of the directors of the Company are “independent” within the meaning of section 1.4 of MI 52-110.
- (d) The following table sets forth the name of each director of the Company who is presently a director of another issuer that is a reporting issuer, the name of the other issuer, the market(s) on which the other issuers are listed or traded and the list of any board committees with the other issuer(s) on which the director is a member:

Name of the Director	Other Reporting Issuer		
	Name	Market listed	Board Committee of the other issuer
Claude Boivin	CGI Group Inc.	TSX NYSE	Chair of the Corporate Governance Committee, member of the Human Resources Committee, and Lead Director.
	Groupe Laperrière & Verreault Inc.	TSX	Member of the Audit Committee and of the Corporate Governance and Human Resources Committee.
	Tembec Inc. <sup>(1)</sup>	TSX	Member of the Human Resources Committee.
	Borex Power Income Fund	TSX	Chairman of the Board of Trustees and member of the Audit Committee, of the Governance Committee and of the Environment, Health and Safety Committee.
Jean-Louis Fontaine	Bombardier Inc.	TSX	
Helmut Hofmann	Exco Technologies Limited <sup>(2)</sup>	TSX	Member of the Human Resources, Compensation & Governance Committee.
Pierre Marcouiller	EXFO Electro-Optical Engineering Inc.	TSX Nasdaq	Member of the Audit Committee and member of the Human Resources Committee
Brian A. Robbins	Exco Technologies Limited <sup>(2)</sup>	TSX	
	AirBoss of America Corp.	TSX	Chair of the Audit Committee
	Dofasco Inc.	TSX	Member of the Environment, Health and Safety Committee.

<sup>(1)</sup> No longer a director since January 26, 2006.

<sup>(2)</sup> Interlocking directorships.

- (e) The “independent directors” do not hold regularly scheduled meetings at which members of management are not in attendance, but they have decided on February 1, 2006 to hold *in camera* session without the members of management during each meeting of the Board. While there are no formal structures in place to ensure that the Board of Directors can function independently of management, the Board of Directors of the Company is free to ask one or more members of management to withdraw during certain discussions and the directors of the Company would not hesitate to meet without the presence of the members of management who are also directors, including the President and Chief Executive Officer, if the circumstances were to so require.
- (f) The chairman of the Board, Mr. Helmut Hofmann, is an “independent director” within the meaning of section 1.4 of MI 52-110. As chairman of the board, he manages the business of the Board and ensures that the functions identified in its mandate are being effectively carried out by the Board and its committees. In addition to ensuring the operation of the Board, the Chairman performs the following functions:
1. in consultation with the President and Chief Executive Officer, he prepares the agenda for each meeting of the Board;
  2. he ensures that all directors receive the information required for the proper performance of their duties;

3. he ensures that the appropriate committee structure is in place and makes initial recommendations for appointment to such committees;
  4. in consultation with the Chair of the Human Resources and Corporate Governance Committee, he ensures that an appropriate system is in place to evaluate the performance of the Board as a whole, the Board's committee and individual directors, which may include the use of director questionnaires and interviews of each director on his or her performance, and makes recommendations for changes when appropriate; and
  5. he works with the President and Chief Executive Officer and senior management to monitor progress on strategic planning, policy implementation and succession planning.
- (g) The following table summarizes for each of the directors the number of board and committee meetings they have attended since the beginning of the most recently completed financial year:

Director	Board Meetings <sup>(1)</sup>	Committee Meetings
Claude Boivin	8 of 9	3 of 4
John M. Cybulski	9 of 9	4 of 4
Christian Dubé	8 of 9	4 of 4
Jean-Louis Fontaine	5 of 9	4 of 4
Helmut Hofmann	9 of 9	4 of 4
Gilles Labbé	9 of 9	4 of 4
Pierre Marcouiller	8 of 9	3 of 4
Brian A. Robbins	9 of 9	4 of 4

<sup>(1)</sup> Including two meetings held by telephone conference.

## 2. Board Mandate

### *Role of the Board*

The Board of Directors is elected by the Company's shareholders to supervise, directly and through its committees, the management of the business and affairs of the Company, which are conducted by its officers and employees under the direction of the President and Chief Executive Officer ("CEO").

The primary stewardship responsibility of the Board of the Company is to ensure that the Management conducts the business and affairs of the Company with the main objectives to enhance shareholder value in a manner that recognizes the concerns of other stakeholders in the Company, including its employees, suppliers, customers and the communities in which it operates, to continuously improve the Company's performance and quality of its products and services, and to ensure its continuous growth and development.

### *Duties and Responsibilities of the Board*

The Board meets regularly to review reports by management on the performance of the Company. In addition to the general supervision of Management, the Board performs the following functions:

**strategic planning** – overseeing the strategic planning process within the Company and reviewing, approving and monitoring the Company's strategic plan, including fundamental financial and business strategies and objectives, taking into account, among other things, the opportunities and risks of the business, market and product global trends, and growth potential;

**risk assessment** – identifying and assessing the principal risks of the Company's business and ensuring the implementation of appropriate systems to manage these risks;

**integrity of CEO and other executive officers** – to the extent feasible, satisfying itself as to the integrity of the CEO and other executive officers and satisfying itself that the CEO and other executive officers create a culture of integrity throughout the organization;

**senior management** – overseeing the selection, evaluation and compensation of the CEO and senior management and monitoring succession planning;

**maintaining integrity** – reviewing and monitoring the controls and procedures within the Company to maintain the integrity and accuracy of its financial reporting, internal controls and disclosure controls, and management information systems, and compliance with its Code of Business Conduct;

**expectations** – ensuring that its expectation of Management are understood, that the appropriate matters come before the Board and that the Board is kept informed of shareholder feedback;

**CEO** – reviewing and approving, upon the recommendation of the Human Resources and Corporate Governance Committee, the appointment, compensation, and performance of the CEO and the succession plan for him and senior managers;

**selection of Board nominees** - selecting, upon the recommendation of the Human Resources and Corporate Governance Committee, nominees for election as directors;

**annual review** – conducting, through the Human Resources and Corporate Governance Committee, an annual review of Board and committee practices and mandates;

**compensation of non-management directors** – reviewing and approving, upon the recommendation of the Human Resources and Corporate Governance Committee, the compensation of non-management directors, and ensuring that their compensation adequately reflects the risks and responsibilities, and time commitment involved in being an effective director;

**independent functioning** – ensuring that appropriate structures and procedures are in place so that the Board and its committees can function independently of Management;

**approval of key policies** – reviewing and approving key policy statements developed by Management on issues such as ethics, compliance, communications, environment, health and safety, and public disclosures;

**approval of disclosure documents** – reviewing and approving, upon the recommendation of the Audit Committee, the contents of major disclosure documents, including the annual information form, annual and quarterly management's discussion and analysis, press releases in connection with quarterly and annual financial results and the corresponding financial statements, and the management proxy circular;

**approval of financial activities** - reviewing and approving significant capital expenditures, raising of capital, significant loans and other major financial activities;

**approval of significant operations** - reviewing and approving significant reorganizations, restructuring, acquisitions, and divestitures; and

**corporate governance monitoring** – developing and monitoring, through the Human Resources and Corporate Governance Committee, the system of corporate governance of the Company.

#### *Composition and Procedures*

**Size of Board and selection process** – The Human Resources and Corporate Governance Committee of the Board maintains an overview of the desired size and profile of the Board, the need for recruitment and the expected experience of new candidates. The size of the Board must be sufficient in number to ensure a diversity of skills and perspectives and to provide useful experience to the Board supervising the management of the Company as well as to staff on the various Board committees, while allowing the Board to function efficiently and effectively. The Human Resources and Corporate Governance Committee reviews and recommends to the Board the candidates for nomination as directors. The Board approves the final choice of candidates for nomination and election by the shareholders. Between annual meetings, the Board may appoint directors to serve until the next annual meeting.

**Qualifications** – Directors should have the highest personal and professional ethics and values and be committed to advancing the best interests of the shareholders of the Company. They should possess skills and competencies in areas that are relevant to the Company's activities, solid business experience, good judgment, integrity, financial literacy and the ability to allocate the necessary time and effort to perform Board and committees duties. A majority of the Board shall be composed of independent directors within the meaning of section 1.4 of MI 52-110.

**Chairman of the Board** – The Board shall appoint a Chairman of the Board who should be an independent director. At all times the same person may not occupy the position of Chairman of the Board and of President and Chief Executive Officer.

**Director orientation** – The Chairman of the Board, the CEO and the Chief Financial Officer are responsible for providing an orientation and education program for new directors with a view to ascertaining that all new directors fully understand the role of the Board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and energy that the Company expects from its directors), and the nature and operation of the Company’s business.

**Meetings** – The Board has at least five scheduled meetings a year. Additional meetings may be held when required. The Board is responsible for its agenda. Prior to each Board meeting, the CEO discusses agenda items for the meeting with the Chairman of the Board. Materials for each meeting will be distributed to the directors in advance of the meetings.

The independent directors have at least two meetings a year at which members of management are not in attendance and have decided on February 1, 2006 to hold *in camera* session during each meeting of the Board.

**Committees** – The Board has established two standing committees to assist the Board in discharging its responsibilities: the Audit Committee and the Human Resources and Corporate Governance Committee. Special committees may be established from time to time to assist the Board in connection with specific matters. The chair of each committee reports to the Board following meetings of the committee. The terms of reference of each standing committee are reviewed annually by the Board.

**Evaluation** – The Human Resources and Corporate Governance Committee bears the responsibility to assess the Board’s performance as a whole as well as that of individual directors and performs an annual evaluation of the effectiveness of the Board as a whole, the committees of the Board and the contributions of individual directors.

**Compensation** – The Human Resources and Corporate Governance Committee recommends to the Board the compensation for non-management directors. In reviewing the adequacy and form of compensation, the committee seeks to ensure that the compensation reflects the responsibilities and risks involved in being a director of the Company and aligns the interests of the directors with the best interests of the shareholders.

**Access to independent advisors** – The Board and any committee may at any time retain outside financial, legal or other advisors at the expense of the Company. Except for the Audit Committee, the retention and the terms and conditions of the retention of external advisors shall receive prior approval by the Human Resources and Corporate Governance Committee. Any director may also, subject to the approval of the Chairman of the Board or of the Chair of the Human Resources and Corporate Governance Committee, retain an outside advisor at the expense of the Company.

**Retirement Age** – A director who has attained the age of 75 prior to the annual shareholders’ meeting in any year shall retire from office at such annual meeting.

### 3. Position Descriptions

- (a) The Board has developed a written position description for the chairman of the Board (see paragraph 1 (f) above). The Board has not deemed necessary to develop a written position description for the chair of each board committee; however, the written mandate of each board committee provides that the chair of the committee is appointed by the Board of Directors.
- (b) The Board and the CEO have developed a written position description for the CEO. Pursuant to such position description, the CEO provides leadership of the Company and, subject to approved policies and direction by the Board of Directors, manages the business and affairs of the Company and oversees the execution of its strategic plan. In addition to managing the business and affairs of the Company, the CEO performs the following functions:
  1. **presents** to the Board for approval a strategic plan for the Company including the strategies to achieve that plan, the risks and alternatives to these strategies and specific steps and performance indicators, which will enable the Board to evaluate progress on implementing such strategies;
  2. **proposes** to the Board for approval annual capital and operating plans to implement the Company’s strategies together with key financial and other performance goals for the Company’s activities and reports regularly to the Board on the progress against these goals;
  3. **acts** as the primary spokesperson for the Company to all its stakeholders;



4. **presents** to the Board for approval annually an assessment of the senior management of the Company together with a succession plan that provides for the orderly succession of senior management including the recruitment, training and development required;
5. **recommends** to the Board the appointment or termination of any officer of the Company other than the Chair;
6. **together** with the Company's Chief Financial Officer, establishes and maintains disclosure controls and procedures, and internal controls and procedures for financial reporting appropriate to ensure the accuracy and integrity of the Company's financial reporting and public disclosures; and
7. **ensures** that the Company is in full compliance with applicable laws and regulations and with its own policies.

#### **4. Orientation and Continuing Education**

New directors participate in an initial information session on the Company in the presence of management representatives. In addition, they are furnished with appropriate documentation relating to the commercial activities of the Company and the internal organization of the Company and with a copy of the Board of Directors' Manual. The meetings in which new directors participate (including annual strategic planning sessions) as well as discussions with other directors and with management permit new directors to familiarize themselves rapidly with the operations of the Company.

#### **5. Ethical Business Conduct**

- (a) The Board has adopted on February 10, 2005 a *Code of Conduct* to help the Company's directors, officers and employees take a consistent approach to key integrity issues.

The Board has the responsibility of reviewing and monitoring the controls and procedures within the Company to maintain the integrity and accuracy of its financial reporting, internal controls and disclosure controls, and management information systems, and compliance with its *Code of Conduct*. The Board discharges his responsibility of monitoring compliance with the *Code of Conduct* through the Human Resources and Corporate Governance Committee.

No material change report has been filed within the preceding 12 months that pertains to any conduct of a director or executive officer that constitutes a departure from the Code.

- (b) The Company is not aware that any of its directors, officers, nominees for election as directors, other insiders of the Company or any persons associated with or otherwise related to any of the foregoing has had an interest in any material transaction carried out since the beginning of the Company's most recently completed financial year or in any proposed transaction which has materially affected or is likely to materially affect the Company or any of its subsidiaries. In order to ensure directors exercise independent judgment in considering transactions and agreements in respect of which a director or executive officer has a material interest, should it occur, the Board will ask the director or executive officer interested in the transaction or agreement to withdraw during the discussions pertaining to such transaction or agreement.

#### **6. Nomination of Directors**

- (a) The Human Resources and Corporate Governance Committee is responsible for identifying and recommending potential appointees to the Board. New nominees must have a track record in general business management, special expertise in an area of strategic interest to the Company, the ability to devote the time required, shown support for the Company's mission and strategic objectives, and a willingness to serve.
- (b) The Human Resources and Corporate Governance Committee is responsible for identifying and recommending potential appointees to the Board. The Human Resources and Corporate Governance Committee is composed of the Chairman of the Board of the Company and three outside Directors, all of whom are independent directors.

#### **7. Compensation**

- (a) The Human Resources and Corporate Governance Committee is charged with reviewing on an annual basis the compensation and benefits paid to the Directors in light of market conditions and practice and in light of risks and responsibilities.

- (b) The Human Resources and Corporate Governance Committee is composed of the Chairman of the Board of the Company and three outside Directors, all of whom are independent directors.

## **8. Other Board Committees**

The Board has no standing committees other than the Audit Committee and the Human Resources and Corporate Governance Committee.

## **9. Assessments**

The Human Resources and Corporate Governance Committee is responsible for monitoring the effectiveness of the Board and the performance of the Directors. The process is facilitated by questionnaires sent by the Chair of the Committee to enable individual Directors to provide feedback on the effectiveness of the Board and its Committees. The Committee assesses the operation of the Board and the committees, the adequacy of information given to directors, communication between the Board and management and the strategic direction and processes of the Board and committees. The Committee recommends changes to enhance the performance of the Board based on the survey feedback.

## **Remuneration of Directors**

Directors who are not salaried employees of the Company are paid an annual base retainer of \$10,000 and are paid a fee of \$1,000 for attendance at each meeting of the Board. Directors who are not salaried employees of the Company and who are members of a committee of the Board are paid \$1,000 per meeting for their services as members of such committees. Directors who are not salaried employees of the Company and who act as Chair of a committee of the Board are paid \$500 per meeting for their services, such payment being in addition to any amount to which they are entitled as a member of such committee. Directors also receive reimbursement for reasonable expenses incurred in connection with attending Board and committee meetings.

### *Stock Appreciation Rights Plan (the "SAR Plan")*

The SAR Plan for non-employee directors adopted by the Board of Directors in September 2001 and amended in September 2003 is intended to enhance the Company's ability to attract and retain high quality individuals to serve as members of the Board and participate in the Company's long-term success and to promote a greater alignment of interests between the Company's non-employee directors and its shareholders.

The SAR Plan is administered by the Human Resources and Corporate Governance Committee (the "Committee"). The SAR Plan enables the participants to receive, on the exercise date of a SAR, a cash amount equal to the excess of the market price of a common share on the exercise date of the SAR over the exercise price of the SAR. The exercise price of each SAR granted is determined on the basis of the average closing price of the common shares of the Company traded on the Toronto Stock Exchange, for the five trading days preceding the date of the award of the SAR. On August 4, 2005, the Board granted, upon the recommendation of the Committee, 2,500 SARs to each non-employee director of the Company then in office at an exercise price of \$3.84. The SARs thus granted have a term of seven years and may be exercised at a rate of 20% per annum during the five years following the first anniversary date of the award.

At March 31, 2006, on a cumulative basis, 60,000 SAR were still outstanding at a weighted-average granted value of \$5.56 (45,000 SAR at a weighted-average granted value of \$6.13 at March 31, 2005), which expire at various dates between fiscal years 2009 and 2013.

## **Executive Compensation**

The total amount of the remuneration paid to the executive officers by the Company and its subsidiaries in exchange of the services rendered during the year ended March 31, 2006 is \$1,967,275.

The following table sets forth, to the extent required by applicable securities legislation, all annual and long-term compensation for services in all capacities to the Company for the three most recent completed fiscal years in respect of the Chief Executive Officer and the Company's four most highly compensated executive officers (the "Named Executives").

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	All other Compensation
		Salary	Bonus <sup>(1)</sup>	Other Annual Compensation <sup>(2)</sup>	Securities Under Options Granted	
		(\$)	(\$)	(\$)	(#)	
Gilles Labbé President and Chief Executive Officer	2005/06	350,000	210,000	-	-	-
	2004/05	350,000	75,000	-	67,000	-
	2003/04	338,000	-	-	49,037	-
Réal Bélanger Executive Vice-president and Chief Financial Officer	2005/06	245,500	135,000	-	37,000	30,000
	2004/05	241,000	60,000	-	36,000	-
	2003/04	234,000	-	-	40,653	-
Martin Brassard <sup>(3)</sup> Vice-President, General Manager, Landing Gear Division	2005/06	188,125	100,000	-	50,000	-
Richard Rosenjack <sup>(4)</sup> Vice-President, General Manager Aerostructure Division	2005/06	156,808 US	86,000 US	-	25,000	50,000 US
Michael Meshay <sup>(5)</sup> Vice-President, General Manager Gas Turbine Components Division	2005/06	132,307 US	-	-	25,000	-

(1) Represents bonus amounts earned in the corresponding fiscal year.

(2) The value of perquisites for each Named Executive is indicated when such value is equal to or exceeds \$50,000 or 10 percent of the total annual salary and bonus.

(3) Mr. Martin Brassard has taken up his duties on May 15, 2005. Prior to such date, Mr. Brassard was Vice-President, Control and Information Technology of the Company and he was not part of the Named Executives.

(4) Mr. Richard Rosenjack has taken up his duties on July 25, 2005.

(5) Mr. Michael Meshay has taken up his duties on July 26, 2005.

### Stock Option Plan

Under the Company's Stock Option Plan (the "Plan") established in 1986, as amended in 1988, 1990, 1996, 1998, 1999, 2000, 2002, 2003 and 2006, the Board of Directors may designate officers and full-time key employees of the Company or its business units or subsidiaries as eligible employees under the Plan, and may grant to such eligible employees options to purchase Common Shares of the Company.

The purpose of the Plan is to provide an additional incentive for the Company's officers and key employees to promote the interests of the Company to the best of their ability.

The total number of shares which may be issued under the Plan shall not exceed in the aggregate 2,187,118 Common Shares (representing approximately 6.95% of the Common Shares outstanding as at June 28, 2006) and the total number of shares in respect of which options may be granted to any one person under the Plan may not exceed five percent (5%) of the total number of Common Shares outstanding at each stock option award date. If the modifications to the Plan outlined under the heading "Modifications to the Company's Stock Option Plan" below are approved by the shareholders, the total number of shares which may be issued under the Plan will be increased to 2,808,257 Common Shares (representing approximately 8.92% of the Common Shares outstanding as at June 28, 2006).

The Plan also provides for certain restrictions regarding the number of shares and the number of options which may be issued and granted to Insiders, as defined below. Such restrictions may be summarized as follows: (i) the number of Common Shares reserved for issuance pursuant to options granted to Insiders, as this term is defined in the *Securities Act* (Québec), and to associates of insiders (the "Insiders"), shall not exceed ten percent (10%) of the total number of Common Shares outstanding at each stock option award date; (ii) the number of Common Shares issued

to Insiders pursuant to the Plan, within a one-year period, shall not exceed ten percent (10%) of the total number of Common Shares outstanding at each date of such issue of Common Shares; (iii) the number of Common Shares issued to an Insider pursuant to the Plan, within a one-year period, shall not exceed five percent (5%) of the total number of Common Shares outstanding at each date of such issue of Common Shares; (iv) the aggregate number of Common Shares issued or which could be issued under the Plan to any one beneficiary shall not exceed 20% of the aggregate number of Common Shares issuable under the Plan, as amended from time to time; (v) the total number of additional Common Shares which could be issued under the Plan shall not exceed 200,000 Common Shares per year; and (vi) the options granted to Insiders pursuant to the Plan shall not be re-priced at a reduced exercise price.

If the modifications to the Plan outlined under the heading "Modifications to the Company's Stock Option Plan" below are approved by the shareholders, certain of the above-noted restrictions will be modified as follows: (i) the number of Common Shares issuable to Insiders under the Plan and under all security based compensation arrangements of the Company shall not exceed an aggregate of ten percent (10%) of the total number of Common Shares outstanding at each stock option award date, (ii) the number of Common Shares issued to Insiders pursuant to the Plan and all security based compensation arrangements of the Company, within a one-year period, shall not exceed an aggregate of ten percent (10%) of the total number of Common Shares outstanding at each date of such issue of Common Shares and (iii) annually, the number of Common Shares that may be issued pursuant to options granted to the President and Chief Executive Officer of the Company shall not exceed one third of the Common Shares that may be issued pursuant to all the options granted during the year under the Plan. Furthermore, the restriction pursuant to which the total number of additional Common Shares which could be issued under the Plan shall not exceed 200,000 Common Shares per year will be repealed.

The options are awarded by means of a stock option agreement entered into in this regard with each beneficiary. Options generally may be exercised after the first anniversary of the date of grant until the seventh anniversary of the date of grant, subject to a vesting schedule upon each anniversary at a rate set forth in the agreement, provided that the average closing price of the Common Shares on the TSX, for 20 consecutive trading days, exceeds or equals the conditional share price set forth in the agreement, as determined by the Board of Directors on the recommendation of the Human Resources and Corporate Governance Committee at the time of the grant of the options.

The exercise price per share of an option will not be less than the average closing price of a regular board lot of Common Shares of the Company traded on the TSX for the five trading days preceding the granting of the option.

No financial assistance is provided by the Company to the beneficiaries for the exercise of options granted under the Plan.

In the event that a beneficiary's employment with the Company or any subsidiary is terminated for any reason other than death or retirement (a "termination of employment"), any or all of the vested options held by such beneficiary which have not been previously exercised may be exercised, at any time during a maximum period of 90 days following the date of termination of employment, or such other extended period as may be determined at the discretion of the Board of Directors of the Company, other than a voluntary termination of employment (but in no event after the expiry date), provided, however, that, notwithstanding any other term or condition of the Plan, in the event the employment of a beneficiary is terminated for cause, the vested options held by such beneficiary which have not been previously exercised will only be exercisable on the next business day following the date of personal delivery of a written notice to the beneficiary confirming (i) such termination for cause and (ii) the requirement to exercise such vested options.

In the event of the death of a beneficiary, his vested options may be exercised by the beneficiary's legal personal representative(s) at any time after the date of the beneficiary's death up to and including (but not after) a date which is 180 days following the date of the beneficiary's death (but in no event after the expiry date), as to any or all of such beneficiary's vested options which had not previously been exercised.

Upon the retirement of a beneficiary, any or all of the vested options held by such beneficiary which have not been previously exercised may be exercised at any time during a maximum period of 180 days following the date of his retirement (but in no event after the expiry date).

Save as aforesaid, options awarded under the Plan may not be transferred or assigned to anyone whomsoever and may not pass to the heirs, successors or assigns of a beneficiary.

In the event that the Company proposes to amalgamate, merge or consolidate with any other company (other than a wholly-owned subsidiary), or in the event of a change of control, as such term is defined in the Plan, the Company shall, upon notice thereof to each beneficiary holding options under the Plan, permit the exercise of all such options, within the 6-month period following the date of such notice, for all options (whether or not such options had previously vested), provided however, the conditional share price has been met at the time of the change of control and, upon the expiration of such 6-month period, all rights of the beneficiaries to such options or to exercise same (to the extent not theretofore exercised) shall *ipso facto* terminate and cease to have further force or effect whatsoever.

If an offer to purchase all of the outstanding Common Shares of the Company is made, all options that are not vested shall, from the date of the offer, be fully vested notwithstanding any provision to the contrary in any stock option agreement, provided, however, the conditional share price has been met at the time the offer is made.

Subject to options already awarded and to the approval of the Toronto Stock Exchange, the Board of Directors of the Company may amend the Plan at any time without the approval of the shareholders. However, notwithstanding the foregoing, the TSX may require security holder approval for some types of amendments that are considered as fundamental changes to the Plan. Reference is made to the proposed modifications to the Plan outlined under the heading "Modifications to the Company's Stock Option Plan" below.

The Board of Directors may also, by resolution, in the event the employment of a beneficiary is terminated without a valid cause or upon the retirement of a beneficiary at normal retirement age or in the event that a non-employee director ceases to act as a director of the Company other than by reason of death, removal or disqualification by law, advance the date on which any option may be exercised in the manner to be set forth in such resolution, provided that the Board shall not, in the event of any such advancement, be under any obligation to advance the date on which any option may be exercised by any other beneficiary.

Options are granted under the Plan by the Board based on recommendations made by the Human Resources and Corporate Governance Committee. All option awards are for Common Shares. During the fiscal year ended March 31, 2006, the Company granted options toward 200,000 Common Shares.

**OPTIONS GRANTED TO NAMED EXECUTIVES DURING  
THE FISCAL YEAR ENDED MARCH 31, 2006**

Name	Common Shares under Options granted	% of total options granted to employees in fiscal year	Exercise price	Trading value of securities on the date of grant	Expiration date
	(#)		(\$Can/title)	(\$Can/title)	
Réal Bélanger	37,000	18.5%	3.84	3.84	August 3, 2012
Martin Brassard	50,000	25.0%	4.28	4.28	May 25, 2012
Michael Meshay	25,000	12.5%	3.84	3.84	August 3, 2012
Richard Rosenjack	25,000	12.5%	3.84	3.84	August 3, 2012

**AGGREGATE OPTIONS EXERCISED BY NAMED EXECUTIVES DURING THE FISCAL YEAR ENDED MARCH 31, 2006 AND NON REALIZED PROFITS ON UNEXERCISED OPTIONS AT THE END OF THE FISCAL YEAR**

Name	Securities acquired on exercise	Aggregate value realized	Unexercised options at FY-End		Value of unexercised in-the-money options at FY-End <sup>(1)</sup>	
			Exercisable	Unexercisable	Exercisable	Unexercisable
	(#)	(\$)	(#)	(#)	(\$)	(\$)
Gilles Labbé	-	-	45,346	130,691	-	-
Réal Bélanger	-	-	37,551	126,102	120	29,410
Martin Brassard	-	-	13,784	82,569	-	17,500
Michael Meshay	-	-	-	25,000	-	19,750
Richard Rosenjack	-	-	-	25,000	-	19,750

(1) On March 31, 2006 closing price was \$4.63 (HRX-T).

**OPTIONS EXERCISED DURING FISCAL YEAR ENDED MARCH 31, 2006 BY EXECUTIVE OFFICERS AND KEY EMPLOYEES OF THE COMPANY**

No options were exercised during the fiscal year ended March 31, 2006 by the executive officers (including the Named Executives) and key employees of the Company.

**OPTIONS GRANTED DURING FISCAL YEAR ENDED MARCH 31, 2006 TO EXECUTIVE OFFICERS <sup>(1)</sup> AND KEY EMPLOYEES OF THE COMPANY**

Date of grant	Number of options	Exercise price (\$)	Expiry date
August 4, 2005	135,000	3.84	August 3, 2012
May 26, 2005	65,000	4.28	May 25, 2012
<b>Total</b>	<b>200,000</b>		

(1) Executive Officers include the "Named Executives"

The following options, for a total of 873,021 Common Shares (representing approximately 2.8% of the Common Shares outstanding as at June 28, 2006), were granted in previous years to executive officers and key employees of the Company and its business units and were outstanding as at March 31, 2006:

Date of grant	Number of options	Exercise price (\$)	Expiry date
June 12, 2000	83,300	4.96	June 11, 2007
September 7, 2000	50,000	5.85	September 6, 2007
June 6, 2001	87,500	9.65	June 5, 2008
June 5, 2002	90,000	9.77	June 4, 2009
February 18, 2003	10,000	4.60	February 17, 2010
April 1, 2003	20,000	3.15	March 31, 2010
September 3, 2003	132,221	4.96	September 2, 2010
September 2, 2004	200,000	5.00	September 1, 2011
August 4, 2005	135,000	3.84	August 3, 2012
May 26, 2005	65,000	4.28	May 25, 2012
<b>Total</b>	<b>873,021</b>		

During the fiscal year ended March 31, 2006, a total of 135,800 options were cancelled. The aggregate number of shares reserved for issuance under the Plan is 2,187,118 of which 300,079 remain available for future grants. If the modifications to the Plan outlined under the heading "Modifications to the Company's Stock Option Plan" below are approved by the shareholders, the total number of shares which may be issued under the Plan will be increased to 2,808,257 Common Shares of which 921,218 will remain available for future grants.

**Stock Purchase and Ownership Incentive Plan**

On September 2, 2004, the Board of Directors of the Company approved an employee stock purchase plan (the "Purchase Plan") to induce key employees to hold, on a permanent basis, Common Shares of the Company.

On February 1, 2006, the Board of Directors of the Company approved some minor modifications to the Purchase Plan. The purpose of these modifications was to allow a participant to enter into the Purchase Plan as soon as he has completed six months of continuous employment with the Company or a subsidiary or forthwith upon his classification in salary grades I to VII following a promotion, without having to wait until the beginning of the next calendar year as formerly required by the Purchase Plan. These modifications were approved by the TSX on March 9, 2006 and have come into effect retroactively on January 1, 2006. Security holder approval was not obtained for these modifications of a minor nature.

Under the Purchase Plan, eligible employees can subscribe monthly, by salary deductions, up to 10 % of their base salary, a number of Common Shares issued by the Company corresponding to their monthly contribution.

Eligibility for the Purchase Plan extends to all Management Employees (*i.e.* all the regular employees who hold a permanent management position within the Company that is classified in salary grades I to VIII according to the job classification established by the Company or of equivalent level in a subsidiary of the Company) designated by the Company or by the Human Resources and Corporate Governance Committee (the "Committee"), who have no less than six (6) months of continuous service, except when that condition is otherwise waived by the Committee. The Board of Directors or the Committee may from time to time designate any other employee of the Company or one of its subsidiaries as eligible for the Purchase Plan.

Membership in the Purchase Plan is optional and is valid for one Purchase Plan year at a time, namely for the period beginning January 1 and ending December 31 of each calendar year. An eligible Management Employee shall become a participating employee only if he joins the Purchase Plan by completing the Enrolment Form and if he subscribes with respect to said Purchase Plan year, for a number of shares whose aggregate subscription price shall equal between 2% and 10% of the employee's annual salary as at the date of his enrolment, without exceeding 10% of said annual salary.

The subscription price of the issued Common Shares represents 90 % of the average closing price of the Company's Common Share on the Toronto Stock Exchange (TSX) over the five trading days preceding the Common Share subscription. Also, the Company matches 50 % of the employee's contribution by attributing to the employee, on a monthly basis, additional Common Shares acquired on the TSX at market price. However, the Company's matching attribution cannot exceed 4 % of the employee's annual base salary. Common Shares attributed to the employee, as well as the subscribed Common Shares, will be earned and released over a three-year period beginning on July 1, 2005.

Except for the Company's matching attribution, no financial assistance is provided by the Company to the participating employees for the subscription or purchase of Common Shares under the Purchase Plan.

Computershare Trust Company of Canada, as successor to National Bank Trust Inc. (the "Trustee"), as trustee, is in charge of the administration of the Purchase Plan, including market purchases and subscriptions to the Company's Common Shares for and on behalf of the participating employees.

The Board of Directors has full and complete responsibility for the Purchase Plan, which includes, without restriction, the power to adopt, amend, suspend or terminate the Purchase Plan, as it deems necessary or desirable, provided that such acts do not retroactively affect the rights of the participating employees under the Purchase Plan and that the approval of the regulators and the self-regulatory organizations, if necessary, is obtained. The Purchase Plan does not require that an amendment thereto be approved by the shareholders of the Company. However, notwithstanding the foregoing, the TSX may require security holder approval for some types of amendments that are considered as fundamental changes to the Purchase Plan.

The Board of Directors has mandated the Committee to manage and administer the Purchase Plan, with full and complete authority to interpret and adopt rules and by-laws and any other provisions necessary or desirable for the administration of the Purchase Plan.

When a participating employee voluntarily terminates his employment with the Company or when his employment is terminated due to his dismissal (with or without cause), the said participating employee thereby loses his right to all the shares attributed not yet vested. Moreover, all the Common Shares subscribed by the participating employee, regardless of whether or not they are unrestricted at the date of termination of his employment, shall become unrestricted automatically. The participating employee may then ask the Trustee to provide him with a certificate issued for all the Common Shares subscribed plus all the Common Shares attributed that are vested in the participating employee; he may also ask the Trustee to sell all or part of the aforesaid Common Shares at the market price. In all cases, all Common Shares attributed that are not yet vested shall be sold by the Trustee on the market with payment of the proceeds of disposition to the Company.

In the event that a participating employee retires (*de facto*, but after age 55), dies or becomes totally and permanently disabled (qualifying for the Company's long-term disability plan), he or his beneficiary, as the case may be, may ask the Trustee to provide him with a certificate issued for all the Common Shares subscribed, regardless of whether or not they are unrestricted, plus all the Common Shares attributed to him, regardless of whether or not they previously became vested. In the event of a change of control of the Company, as such expression is defined in the Purchase Plan, the participating employees shall have the same rights.

The rights and privileges conferred on a participating employee under the provisions of the Purchase Plan are non-transferable.

The aggregate number of shares reserved for issuance under the Purchase Plan shall not exceed 90,000 Common Shares (representing approximately 0.29% of the Common Shares outstanding as at June 28, 2006) and has been initially taken out from the number of Common Shares that was already reserved for the Company's stock option plan. If the modification to the Purchase Plan outlined under the heading "Modification to the Company's Stock Purchase and Ownership Incentive Plan" below is approved by the shareholders, the aggregate number of shares reserved for issuance under the Purchase Plan will be increased to 340,000 Common Shares (representing approximately 1.08% of the Common Shares outstanding as at June 28, 2006). In addition, the Board, at its meeting held on May 31, 2006, has modified the Purchase Plan to provide that (i) the number of Common Shares issuable to Insiders under the Purchase Plan and under all security based compensation arrangements of the Company shall not exceed an aggregate of ten percent (10%) of the total number of Common Shares outstanding at each monthly subscription and (ii) the number of Common Shares issued to Insiders pursuant to the Plan and all security based compensation arrangements of the Company, within a one-year period, shall not exceed an aggregate of ten percent (10%) of the total number of Common Shares outstanding at each date of such issue of Common Shares.

During the fiscal year ended March 31, 2006, 34,047 Common Shares were issued and 15,424 Common Shares were attributed to the participating employees.

## Pension Plan

### *Defined Benefit Pension Plan*

The Company provides the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer with a contributory defined benefit pension plan. The contribution of each employee payable under this pension plan represents 5% of the annual base salary subject to the maximum limit under the income tax regulations. The benefits payable under this defined benefit pension plan are based on a percentage of the final Average Base Salary of the employee multiplied by his credited years of service. Pension benefits in excess of the amount that can be funded through the registered pension plan under the Income Tax Act are provided by an unregistered supplementary pension plan payable directly by the Company.

<b>Named Executive</b>	<b>% of Final Average Base Salary<sup>(1)</sup></b>	<b>Credited years of service</b>	<b>Maximum Defined Pension Benefits</b>
Gilles Labbé	2.000	24 years (from 1982)	-
Réal Bélanger	2.965	13 years (from 1993)	60% of Final Average Base Salary

(1) Final Average Base Salary is based on the three (3) consecutive years within the 10 years of continuous employment before retirement or termination of employment, where base salaries were the highest.

The retirement benefits pursuant to the pension plan are payable from normal retirement date for life (with 60% continuance to the spouse); early retirement at age 55 or later is permitted subject to a 3% reduction per year if retirement occurs prior to attainment of age 60, completion of 30 years of service or the date the sum of the employee's age and years of service totals 80.

Benefits are payable upon death or termination of employment. Accrued pension benefits payable from normal retirement date as at March 31, 2006 are estimated at \$168,000 per annum for Mr. Gilles Labbé and at \$95,206 per annum for Mr. Réal Bélanger.

### *Defined Contribution Pension Plan*

The Company also offers to the other Named Executive employees and other key employees a defined contribution pension plan. The contributions payable under this pension plan, equally made by the employee and by the Company, each represents 5% of the annual base salary of the employee, subject to the maximum deductible amount under the income tax regulations.

## Other Employment – Related Agreements

### *Gilles Labbé, Réal Bélanger, Patrice Gauvin, Martin Brassard, Gabriel Duval and Jean-François Boursier*

In October 2003, August 2004 and September 2005, the Company entered into standard employment agreements with Mr. Gilles Labbé, President and Chief Executive Officer, Mr. Réal Bélanger, Executive Vice-President and Chief Financial Officer, Mr. Patrice Gauvin, Vice-President, Organizational and Business Development, and Mr. Martin Brassard, Vice-President and General Manager, Landing Gear Division, Mr. Gabriel Duval, Vice-President, Corporate Affairs and Mr. Jean-François Boursier, Corporate Controller (collectively the "Executive Officers" and individually an "Executive Officer") in order to define the terms and conditions of termination of employment of said individuals in the



event of a change in control of the Company, as defined in such agreement. These agreements were entered into in order to ensure such senior executives would continue to adequately see to the best long-term interests of the Company.

Hence, for a period of two years following a change in control of the Company, the agreements provide that, if the purchaser terminates the employment of the Executive Officer (otherwise than for cause, or in the event of the disability or death of the Executive Officer) or if the Executive Officer terminates his or her employment for "any reason" in the 6 months following change in control or if the Executive Officer terminates his or her employment for a "sufficient reason" having to do with the terms and conditions of his employment (such as (i) a meaningful change in the position or reporting relationship of the Executive Officer or (ii) another change described in the agreements) in the 24 months from the change in control, the Executive Officer will be entitled to the payment of a severance package following termination of his or her employment. The severance package is primarily composed of the following elements, depending on the position held by the Executive Officer:

- (i) a lump sum amount equal to the base salary of the Executive Officer at time of termination, for a period of 18 or 24 months, plus one or two months for each full year of service, up to maximum period of 24, 30 or 36 months; and
- (ii) a lump sum amount equal to the target bonus applicable to the position of the Executive Officer for the period set out in (i) above; and
- (iii) the continuation of employee benefits (ceasing upon re-employment) and the continuation of the accrual of pension benefits for the period set out in (i) above; perks are maintained for 90 days; and
- (iv) all stock options previously granted vest immediately and may be exercised up to 6 months following termination of employment.

Moreover, the Executive Officers undertake to not solicit the Company's customers or employees for a period equal to the maximum severance period (24, 30 or 36 months) and to not enter into competition with the Company for a period equal to the minimum severance period (18 or 24 months).

The agreements also determine, in exchange for undertakings on the part of the Executive Officers that they would not solicit the Company's customers or employees and that they would not compete with the Company, the terms and conditions of payment of a similar severance package in the context of cessation of employment in circumstances other than those provided for in the event of a change in control of the Company, stipulating that

- (i) the lump sum mentioned in (i) above is, for a period of 12 or 18 months, up to maximum period of 18, 24 or 30 months;
- (ii) the lump sum mentioned in (ii) above is limited to the bonus that otherwise would have been payable for the fiscal year in which cessation of employment occurs, but prorated, provided the Executive Officer has completed at least six months of employment in said year;
- (iii) the continuation of employee benefits as set forth in (iii) above, but without continuation of the accrual of pension benefits; and
- (iv) only the options already vested may be exercised in the 6 month period following cessation of employment.

#### *Helmut Hofmann*

Helmut Hofmann entered into a 10-year service agreement, negotiated entirely at arm's length, with Devtek inc. ("Devtek"). Pursuant to this agreement, Mr. Hofmann agreed to act as Chairman of the Board and Chief Executive Officer of Devtek until December 31, 2006. In the context of the combining of the operations of the Company with those of Devtek, in the year 2000, the Company agreed to honour this agreement. However, in order to align Mr. Hofmann's annual compensation at Devtek with the compensation policies in force at the Company, it has been agreed to adjust Mr. Hofmann's compensation, while ensuring that such adjustment would not result in a financial loss to Mr. Hofmann. As a result, Mr. Hofmann has received an amount equal to the value of the difference between the amount to which he was entitled under his agreement with Devtek and his new annual compensation set at \$75,000 per annum. If re-elected as a director, Mr. Hofmann will serve as non executive Chairman of the Company for the ensuing year, subject to Mr. Hofmann holding at least 800,000 Common Shares of the Company.

## Report of the Human Resources and Corporate Governance Committee

The Human Resources and Corporate Governance Committee (the “Compensation Committee”) is composed of the following four Directors: Claude Boivin (Chair), Jean-Louis Fontaine, Pierre Marcouiller<sup>(1)</sup> and Helmut Hofmann. Gilles Labbé, as President and Chief Executive Officer, attended the Compensation Committee meetings. However, Mr. Labbé did not participate in the discussions pertaining to the determination of his own remuneration or in matters of corporate governance. All the members of the Compensation Committee are independent within the meaning of NI 58-101.

The Compensation Committee has the responsibility to establish a compensation policy for the executive officers which is consistent with the Company's business plan, strategies and objectives. This Committee has, namely, the responsibility to analyse for the Board of Directors all questions relating to human resources planning, compensation for executive officers and other employees, short and long-term incentive programmes, employee benefits programmes, and recommends the appointment of executive officers. In such context, the Compensation Committee relies on the following principles and criteria to determine the compensation paid to executive officers:

- offer total compensation capable of attracting and retaining top level executive officers required to ensure the Company's short and long term goals and success;
- motivate the executive officers in achieving and exceeding the goals of the Company and of its shareholders;
- provide executive officers with total compensation that stands at the first quartile of the market comparators when the Company achieves or exceeds its profitability and shareholder value creation goals.

### Components of the Executive Total Compensation

The Executive Total Compensation Program consists of the sum of

- base salary;
- annual incentive (bonus) compensation;
- long term incentive compensation;
- benefits and pension; and
- perquisites.

Each of these elements, together with the Company philosophy with respect to same, is hereinafter detailed, except for benefits (which consist in a median value package of flexible life, medical, dental and disability insurance) and perks (which mainly consist of Company cars).

#### *Base Salary*

The Company's base salary policy is to pay base salaries for executive officers that are between the 50<sup>th</sup> percentile (median) and 55<sup>th</sup> percentile of the comparators' marketplace. All executive positions are evaluated and classified with a salary grade. For each salary grade, a salary scale set between a minimum of 80% and a maximum of 120% of the market's 50<sup>th</sup> to 55<sup>th</sup> percentile is developed. Salaries paid aim at the mid-point of this salary scale but reflect the individual's performance, tenure in the job, etc.

#### *Annual Incentive Compensation*

The Company offers executive officers and key employees of the Company and of its Divisions or business units the possibility to earn an annual bonus provided the Company achieves or exceeds its division/business unit financial objectives and provided the executive achieves specific personal objectives. The annual bonus for the divisional or business unit executives rests on two financial objectives set against the previous year results, namely RONA and operating income; the annual bonus for corporate executives rests on budgeted net income and earnings per share.

The target bonuses for executive officers vary between 35% and 70% of base salary depending on the position occupied, with maximum bonuses not to exceed 120% of base salary for a given fiscal year.

#### *Long-term Incentive Compensation*

The establishing of a balance between short and long-term compensation is essential for the Company's performance. For this reason, the Company has adopted a Stock Option Plan in 1986 (amended in 1988, 1990, 1996, 1998, 1999, 2000, 2002, 2003 and 2006) allowing the grant of options to officers and certain key employees of the Company and its business units. Reference is made to the description of such plan under the heading “Stock Option Plan” above.

In general, the Board of Directors determines the number of options granted annually by multiplying the base salary of the employee by a multiple varying between 50% and 100%, established according to the level of responsibility and authority of such executive officer. The options are granted at market value at time of grant and may be exercised over seven years. Options granted vest upon each anniversary at a rate set forth in the stock option agreement provided that the average closing price of the Common Shares on the TSX, for 20 consecutive trading days, exceeds or equals the conditional share price set forth in the agreement at the time of the grant of the options. Rights are given to exercise the vested options within a 90 day or 180 day period following termination of employment, death or retirement.

On September 2, 2004, the Board of Directors of the Company has also approved an employee stock purchase plan to induce key employees to hold, on a permanent basis, Common Shares of the Company. Reference is made to the description of such plan under the heading "Stock Purchase and Ownership Incentive Plan" above.

### President and CEO's compensation

The President and CEO's total compensation is established in accordance with the same principles and methodology described hereinabove for other executive officers; an annual review and evaluation of the President and CEO's performance is conducted as part of the setting of total compensation for a given fiscal year. For 2005-2006, the President and CEO's base salary remained unchanged.

As regards annual incentive (bonus) compensation, the President and CEO's target bonus is set at 70% of base salary with a maximum bonus of 120% of base salary.

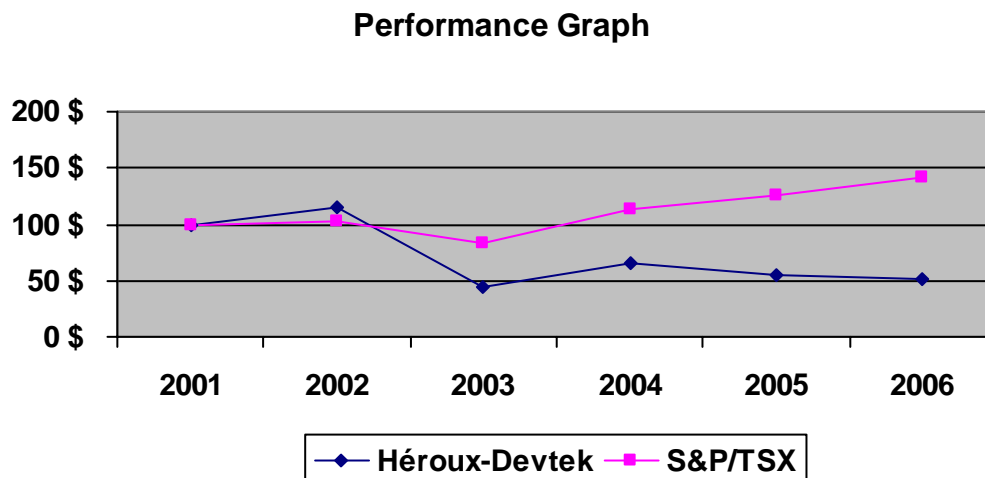
The Compensation Committee, whose members are listed below, has approved the publication of this report and its inclusion in this Circular:

Claude Boivin, President  
 Jean-Louis Fontaine  
 Helmut Hofmann  
 Pierre Marcouiller<sup>(1)</sup>

<sup>(1)</sup> Mr. Pierre Marcouiller has been appointed as a member of the Committee on August 4, 2005. Prior to such date, he was member of the Audit Committee.

### Performance Graph

The following graph compares the total cumulative shareholder return for \$100 invested in the Company's Common Shares on March 31, 2001 with the cumulative total return of the Toronto Stock Exchange's S&P/TSX Composite Index (formerly TSE-300 Index) for the five most recently completed fiscal years.



	2001	2002	2003	2004	2005	2006
Héroux-Devtek	100.00	114.38	43.79	64.97	54.90	52.03
S&P/TSX	100.00	103.20	83.38	112.85	126.35	141.53

### **Transaction with interested parties**

The Company is not aware that any of its directors, officers, nominees for election as directors, other insiders of the Company or any persons associated with or otherwise related to any of the foregoing has had an interest in any material transaction carried out since the beginning of the Company's most recently completed financial year or in any proposed transaction which has materially affected or is likely to materially affect the Company or any of its subsidiaries.

### **Indebtedness of Directors, Executive Officers and Senior Officers**

None of the Company's directors, executive officers or senior officers or persons who held such position during the most recently completed financial year or any nominees proposed as a director nor any person associated with any of the foregoing is indebted to the Company.

### **Liability Insurance**

The Company takes out liability insurance for the benefit of its directors and officers to cover them against certain liabilities contracted by them in such capacity. For the most recently completed financial year, this insurance provided for a coverage limit of \$20,000,000 per each loss and policy year. For the twelve-month period ended March 31, 2006, the premium paid by the Company amounted to \$136,750. When the Company is authorized or required to indemnify an insured, a deductible of \$100,000 applies.

### **Appointment and remuneration of Auditors**

At the Meeting, the shareholders will be called upon to appoint auditors to hold office until the next annual meeting of shareholders and to authorize the directors to establish the remuneration of the auditors appointed.

**Unless instructions are given to abstain from voting with regard to the appointment of auditors, the persons named in the enclosed form of proxy intend to vote FOR the appointment of Ernst & Young LLP, Chartered Accountants, as Auditors of the Company, at a compensation for their services to be determined by the Board of Directors.**

### **Modifications to the Company's Stock Option Plan**

On May 30, 2006, the Human Resources and Corporate Governance Committee has recommended to the Board the approval of certain modifications to the Company's Stock Option Plan (the "Plan") to which reference is made hereinbefore under the heading "Stock Option Plan", which modifications were approved the next day by the Board.

The purpose of these modifications is (i) to increase the number of Common Shares which may be issued under the Plan from 2,187,118 Common Shares (representing approximately 6.95% of the Common Shares outstanding as at June 28, 2006) to 2,808,257 Common Shares (representing approximately 8.92% of the Common Shares outstanding as at June 28, 2006), (ii) to change certain restrictions with respect to the number of Common Shares reserved for issuance pursuant to options granted to insiders under the Plan and (iii) to repeal the restriction providing that the total number of Common Shares which could be issued under the Plan shall not exceed 200,000 Common Shares per year.

Pursuant to the proposed changes to certain restrictions with respect to the number of Common Shares issuable to insiders under the Plan, the Plan would provide, if the modifications are approved by the shareholders of the Company, that (a) the number of Common Shares issuable to insiders, at any time, under all security based

compensation arrangements, cannot exceed 10% of issued and outstanding Common Shares, (b) the number of common shares issued to insiders, within any one year period, under all security based compensation arrangements, cannot exceed 10% of issued and outstanding Common Shares and (c) that the number of Common Shares that may be issued annually pursuant to options granted to the President and Chief Executive Officer of the Company shall not exceed one third of the Common Shares that may be issued pursuant to all the options granted during the year under the Plan.

If the increase to the number of Common Shares which may be issued under the Plan is approved, 2,808,257 Common Shares will be reserved for issuance under the Plan.

The aforementioned modifications to the Plan have been submitted to the approval of the TSX and are also subject to their approval by the shareholders of the Company, which approval must be given by a majority of the votes cast by the shareholders of the Company at a duly called meeting. The full text of the resolution that will be submitted at the meeting for that purpose is set out in Schedule "A" attached hereto. **The persons named in the enclosed form of proxy intend to vote IN FAVOUR OF the adoption of such resolution approving the modifications to the Plan.**

### **Modification to the Company's Stock Purchase and Ownership Incentive Plan**

On May 30, 2006, the Human Resources and Corporate Governance Committee has recommended to the Board that the number of Common Shares which may be issued under the Stock Purchase and Ownership Incentive Plan (the "Purchase Plan") to which reference is made hereinbefore under the heading "Stock Purchase and Ownership Incentive Plan" be increased by 250,000 Common Shares (representing approximately 0.79% of the Common Shares outstanding as at June 28, 2006). Such recommendation was approved the next day by the Board.

If such increase to the number of Common Shares which may be issued under the Purchase Plan is approved, 340,000 Common Shares (representing approximately 1.08% of the Common Shares outstanding as at June 28, 2006) will be reserved for issuance under the Purchase Plan.

The aforementioned modification to the Plan has been submitted to the approval of the TSX and is also subject to its approval by the shareholders of the Company, which approval must be given by a majority of the votes cast by the shareholders of the Company at a duly called meeting. The full text of the resolution that will be submitted at the meeting for that purpose is set out in Schedule "B" attached hereto. **The persons named in the enclosed form of proxy intend to vote IN FAVOUR OF the adoption of such resolution approving the increase to the number of Common Shares which may be issued under the Purchase Plan.**

### **Additional Information**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com). Securityholders may contact the Company at the following address to request copies of the Company's consolidated financial statements and MD&A: Corporate Secretary, Héroux-Devtek Inc., Suite 658, East Tower, Complexe Saint-Charles, 1111 Saint-Charles Street W., Longueuil, Quebec, Canada, J4K 5G4. These documents are also available on the Company's Web site at [www.herouxdevtek.com](http://www.herouxdevtek.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). Financial information is provided in the Company's comparative consolidated financial statements and MD&A for its most recently completed financial year.

### **Approval**

The contents and the sending of this Circular have been approved by the Directors of the Company.

Longueuil, Québec  
June 28, 2006

(Signed by)  
Jacques Paquin  
Corporate Secretary

**SCHEDULE "A"**

**Resolution approving the modifications to the Company's Stock Option Plan**

MODIFICATIONS TO HÉROUX-DEVTEK INC.'S STOCK OPTION PLAN

It is hereby resolved:

That the modifications to the Company's Stock Option Plan whereby:

1. the number of Common Shares which may be issued under the Stock Option Plan is increased from 2,187,118 Common Shares (representing approximately 6.95% of the Common Shares outstanding as at June 28, 2006) to 2,808,257 Common Shares (representing approximately 8.92% of the Common Shares outstanding as at June 28, 2006);
2. certain restrictions with respect to the number of Common Shares issuable to insiders under the Stock Option Plan are modified as follows:
  - (a) the number of Common Shares issuable to insiders, at any time, under all security based compensation arrangements, cannot exceed 10% of issued and outstanding Common Shares;
  - (b) the number of Common Shares issued to insiders, within any one year period, under all security based compensation arrangements, cannot exceed 10% of issued and outstanding Common Shares; and
  - (c) annually, the number of Common Shares that may be issued pursuant to options granted to the President and Chief Executive Officer of the Company shall not exceed one third of the Common Shares that may be issued pursuant to all the options granted during the year under the Plan;
3. the restriction providing that the total number of Common Shares which could be issued under the Stock Option Plan shall not exceed 200,000 Common Shares per year is repealed;

be and the same are hereby approved.

**SCHEDULE "B"**

**Resolution approving a modification to the Company's Stock Purchase and Ownership Incentive Plan**

**MODIFICATION TO HÉROUX-DEVTEK INC.'S STOCK PURCHASE AND OWNERSHIP INCENTIVE PLAN**

It is hereby resolved:

That the modification to the Company's Stock Purchase and Ownership Incentive Plan whereby the number of Common Shares which may be issued thereunder is increased from 90,000 Common Shares (representing approximately 0.29% of the Common Shares outstanding as at June 28, 2006) to 340,000 Common Shares (representing approximately 1.08% of the Common Shares outstanding as at June 28, 2006) be and the same is hereby approved.