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, 2010 and June 30, 2010. It also compares the operating results and cash flows for the first quarter ended June 30, 2010 to those for the same period in the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2010 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2010. 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 worldwide general economic conditions and in particular, 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 rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international 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 and its subsidiaries specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial

segments. As such, a significant portion of the Company's sales are made to a limited number of customers mainly located in the United States and Canada.

Héroux-Devtek serves two segments: Aerospace and Industrial. The Company supplies both the commercial and military sectors of the Aerospace segment with landing gear products (including spare parts and repair and overhaul services) and airframe structural components (including kits). In the commercial sector, the Company is active in the business jet, regional aircraft, helicopter 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. It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry markets.

The Aerospace segment comprises the Landing Gear and Aerostructure product lines. The Industrial segment comprises large power generation components and other industrial products produced by the Industrial product line (formerly referred to as Gas Turbine Components product line). The Landing Gear product line designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team and serves both the Commercial and Industrial sectors. The Aerostructure product line manufactures airframe components ranging in size from small to large, for the commercial and military aerospace sectors. The Industrial product line manufactures large components for power generation, including the wind energy sector, and other industrial markets.

For the first quarter ended June 30, 2010, the markets served by the Company remained soft and consolidated sales, excluding the acquisition, concluded on April 28, 2010 (see below), were somewhat lower than at the same period last year, exclusive of the currency impact. Although major OEM backlogs remain strong, and announcements continue at a good pace, the Company does not see any major increase to its top line in fiscal 2011 when compared with fiscal 2010, again excluding the acquisition made in April 2010.

RESULTS OF OPERATIONS

Acquisition of the assets of Eagle Tool Machine Co and of its subsidiary

On April 28, 2010, the Company announced that it had concluded the acquisition, through a U.S. subsidiary of substantially all the net assets of U.S. based Eagle Tool & Machine Co ("Eagle") and of its subsidiary All Tool Inc ("E2" products), two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million based on their December 31, 2009, fiscal year-end (see note 3 to the interim financial statements).

The preliminary allocation of the total purchase price of the net assets acquired, along with the source of funds, can be broken down as follows:

Net assets acquired ($'000)		Source of funds ($'000)	
Working capital	$ 16,797	Credit Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

The identifiable intangible assets related to the business acquisition, which amounted to $1.4 million was attributed to the backlog. The backlog value was determined, using a discounted cash flow method. The excess of the purchase price over the fair value of the net tangible assets acquired and the acquired backlog amounted to $5.8 million. The promissory note, repayable to the seller over 40 months starting on April 30, 2010, bears a fixed interest rate of 5% and is guaranteed by the Company.

The underlying value of the backlog which relates to specific sales contracts is amortized on a pro rata basis over the life of the related sales contracts and units delivered.

The Company drew, from its US Credit Facility, $16.7 million (US$16.5 million) in the first quarter of fiscal 2011 to finance this transaction.

Throughout this MD&A, Management has explained the consolidated first quarter results which include the results of Eagle and E2. For all significant elements explained, Management has singled-out the acquisition impact on first quarter results to help readers understand the year-over-year change excluding the acquisition transaction. Please also keep in mind that all first quarter results for Eagle and E2 are for the period following the acquisition which is April 28, 2010, to June 30, 2010, which is not a full quarter.

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. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate assets and liabilities.

1$ Canadian / US$ equivalent	2010	2009
Average rate to June 30	1.0276	1.1672
Closing rate to June 30 and March 31, 2010	1.0646	1.0158

The value of the Canadian dollar, for the quarter ended June 30, 2010, was stronger than for the same period a year ago which adds pressure to the US denominated sales and results of the Company. Currency fluctuation impact on the Company's sales, gross profit and specific balance sheet elements can be found later in this MD&A.

The Company makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At June 30, 2010, the Company had US$149.9 million of forward foreign exchange contracts at a weighted-average of 1.1388 compared to US$165.5 million at 1.1440 at June 30, 2009. At March 31, 2010, the Company had forward foreign exchange contracts totalling US$150.0 million at a weighted-average exchange rate of 1.1436. These contracts will be maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

At June 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$10.3 million at a weighted-average rate of 1.2386 maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

Consolidated Sales

As stated previously, the general economic climate, although a bit more favourable, is still not improving the Company's sales volume. Total sales for the three months ended June 30, 2010 stood at $82.5 million, up slightly from $82.2 million for the same period last year. Excluding the $7.1 million sales coming from the Eagle and E2 acquisition, consolidated sales were actually $6.7 million or 8.2% lower than for the first quarter last year, mostly coming from the negative US/CAD currency impact.

The Company's sales by segment were as follows:

Segment	Quarters ended June 30			
	2010	2009	Variance	
	($'000)	($'000)	($'000)	%
Aerospace	76,042	75,183	859	1.1
Industrial	6,499	6,977	(478)	(6.9)
Total	**82,541**	**82,160**	**381**	**0.5**

All of Eagle and E2 $7.1 million sales are in the Aerospace segment which means that excluding the acquisition, Aerospace sales actually declined $6.2 million or 8.3% from last year. The impact of the Canadian dollar, against the US currency, reduced sales by $5.0 million or 6.0% compared to last year.

Aerospace Segment

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

Product	Quarters ended June 30			
	2010	2009	Variance	
	($'000)	($'000)	($'000)	%
Landing Gear	54,274	48,118	6,156	12.8
Aerostructure	21,694	26,742	(5,048)	(18.9)
Other aerospace products	74	323	(249)	(77.1)
Total Aerospace	**76,042**	**75,183**	**859**	1.1

Landing Gear sales increased 12.8% when compared with last year but were actually lower by 1.9% when excluding the Eagle and E2 acquisition. New business on the A-320, B-787 and Fokker programs along with higher military repair and overhaul work was more than offset by the negative impact from the foreign currency together with reduced B-777 and CL415 program sales.

Aerostructure sales decreased 18.9% to $21.7 million for the three months ended June 30, 2010, when compared to the same period last year, due to reduced F-16, including mainly after-market sales, and F-22 sales and, reduced Joint Strike Fighter ("JSF") sales mostly driven by altered scheduling. The stronger Canadian dollar also had a significant negative impact on this product line's US denominated sales when comparing quarter over quarter. These negative variances were somewhat counterbalanced by increased F-18 sales as well as increased civil business jet (Challenger 605 and 850) and regional jet/turboprops (Dash 8) sales.

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

Sector	Quarters ended June 30 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Military *(1)*	46,369	47,886	(1,517)	(3.2)
Commercial	29,673	27,297	2,376	8.7
Total Aerospace	**76,042**	**75,183**	**859**	**1.1**

(1) Includes military sales to civil customers and government.

When excluding the Eagle and E2 acquisition, military sales were 17.1% lower than last year while Commercial sales were 7.1% higher than last year. As mentioned above, new business on the A-320, B-787 and Fokker programs along with improved regional/turboprops and business jet sales boosted Commercial volumes while the military sector was somewhat impacted by the timing of the JSF program and lower F-16 and F-22 program sales.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended June 30 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Gas Turbine	3,159	3,963	(804)	(20.3)
Other Industrial	3,340	3,014	326	10.8
Total	**6,499**	**6,977**	**(478)**	**(6.9)**

Industrial sales, although not as severely impacted as in the previous fiscal year, are still showing a 6.9% negative variance, quarter over quarter. The Gas Turbine sector is still struggling with sluggish power generation demand. On the other hand, the mining industry boosted demand on the Heavy Equipment side, raising Other Industrial sales by 10.8% over the first quarter last year.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended June 30	
	2010	**2009**
Canada	30%	29%
US	66%	69%
International	4%	2%
	100%	**100%**

The sales by destination mix is somewhat similar to last year and includes the impact of the shipments to a new European customer (Stork – Fokker program) and the reduced US military sales already mentioned.

Gross Profit

The lower volumes already explained and the continued strengthening of the Canadian dollar negatively impacted the Company's gross profit margin for the quarter ended June 30, 2010. Besides the natural hedging from the purchase of raw materials in US dollars, the Company mitigates the currency impact by the use of forward foreign exchange contracts.

Consolidated gross profit declined from 16.2% to 14.1% of sales for the three months ended June 30, 2010, when compared to the corresponding period last year. The net currency impact only had a 0.1% negative impact on the consolidated gross profit.

When excluding the impact of the Eagle and E2 acquisition, gross profit as a percentage of sales was basically the same. The Aerostructure product line suffered from the lower production volumes and the related increase of the underabsorption of manufacturing overhead costs. On the other hand, the Industrial product line managed to show a marginally improved gross profit percentage in spite of lower volumes.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended June 30	
	2010	**2009**
Selling and administrative expenses ($'000)	**6,024**	**5,868**
% of sales	**7.3**	**7.1**

Selling and administrative expenses of $6.0 million were $0.2 million higher than last year, and 0.2% higher as a percentage of sales. The selling and administrative expenses include a loss on currency translation on net monetary assets of $0.1 million compared to a $0.3 million loss last year.

Operating Income

Consolidated operating income decreased from $7.5 million or 9.1% of sales last year to $5.6 million or 6.8% of sales this year.

Aerospace Segment

Aerospace operating income was $4.9 million or 6.5% of sales this year, compared to $6.7 million or 8.9% of sales last year. Excluding the acquisition, the Aerospace segment operating income would have been $4.5 million or 6.5% of sales for the quarter ended June 30, 2010. The Aerospace segment gross profit reduction already explained and the slightly higher selling and administrative expenses explain most of this negative variance.

Industrial Segment

Operating income slightly decreased to $0.7 million or 10.4% of sales this year from $0.8 million or 11.4% of sales last year, in line with the 6.8% sales decrease in this segment.

Financial Expenses

Financial expenses for the quarter stood at $1.1 million while it stood at $1.2 million for the three months ended June 30, 2009. The decrease in financial expenses this year reflects the lower Canadian dollar when compared to its US counterpart last year somewhat offset by the increased drawing from the Company's Credit Facilities earlier this quarter to finance the Eagle and E2 acquisition.

Restructuring charges

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity of its Québec-based facilities. Consequently, the Company's Rivière-des-Prairies, Québec, facility will close in September 2010 and its production transferred to the Company's other facilities in the Greater Montreal area. The Company will record restructuring charges throughout fiscal 2011 representing approximately $1.1 million ($0.8 million net of income tax) related to these initiatives. In the quarter ended June 30, 2010, the Company recorded restructuring charges of $0.4 million ($0.3 million net of tax).

Income Tax Expense

The Company had an income tax expense of $1.0 million for the quarter ended June 30, 2010, compared to an expense of $1.8 million last year.

The Company's effective income tax rate for the three months ended June 30, 2010 was 23.1% compared to its Canadian blended statutory rate of 28.4%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.2 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million) somewhat offset by the negative impact of a higher US income tax rate for the Company's US subsidiaries ($0.1 million).

For the quarter ended June 30, 2009, the Company's effective income tax rate was 27.8% compared to its Canadian blended statutory rate of 30.8%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from future income tax adjustments due to changes in the Canadian income tax rate ($0.2 million) and permanent differences ($0.1 million), and the negative impact of a higher US income tax rate for the Company's US subsidiaries ($0.1 million).

Net Income

For the first quarter of fiscal 2011, the Company posted net income of $3.2 million compared to net income of $4.5 million last year, essentially reflecting the decrease in operating income from the Company's Aerospace segment and the restructuring charges, as explained above.

	Quarters ended June 30	
	2010	**2009**
Net income ($'000)	**3,183**	**4,542**
Earnings per share – basic ($)	**0.11**	**0.15**
Earnings per share – diluted ($)	**0.10**	**0.15**

Basic earnings per share figures are based on weighted-averages of 30,236,562 common shares outstanding for the first quarter ended June 30, 2010, and 30,945,533 for the same period last year while the diluted earnings per share figures are based on weighted-averages of 30,450,460 for this quarter and 30,966,701 for last year. The reduction in the average number of shares is mainly attributable to the normal course issuer bids (NCIB) launched by the Company in November 2008 and November 2009. For the second NCIB, the Company has redeemed a total of 639,400 shares at an average price of $5.71 for a total cash outlay of $3.6 million. During the quarter ended June 30, 2010, the Company also issued 17,185 common shares under its stock purchase plan while 35,000 shares were issued following the exercise of stock options.

On August 4, 2010, the date of this MD&A, the Company had 29,954,287 common shares and 1,492,221 stock options outstanding with a weighted-average of 4.0 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial situation and is well positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities (Credit Facilities) through a syndicate of four Canadian Banks and their US affiliates or branches. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To June 30, 2010, only $63.3 million had been drawn against these Credit Facilities, including US $16.5 million in April 2010 to finance the acquisition described earlier. These Credit Facilities will mature in October 2011. Considering the Company's cash and cash equivalent position, its available Credit facilities and level of expected capital investments, Company Management does not expect any liquidity risk in the foreseeable future. At June 30, 2010, the Company had cash and cash equivalents of $28.7 million, compared to $46.6 million as at March 31, 2010, of which $17.9 million ($32.4 million as at March 31, 2010) had been invested in short-term deposits. It is worth mentioning that the Company also utilized approximately $12 million of its cash to finance the Eagle and E2 acquisition.

Operating Activities

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

	Quarters ended June 30	
	2010 ($'000)	**2009 ($'000)**
Cash flows from operations	10,267	11,830
Net change in non-cash working capital items related to operations	(8,600)	(25,443)
Cash flows relating to operating activities	**1,667**	**(13,613)**

The $1.6 million decrease in cash flows from operations for the first quarter ended June 30, 2010, can mainly be explained by the $1.4 million decrease in net income.

The net change in non-cash working capital items can be summarized as follows:

	Quarters ended June 30	
	2010 ($'000)	2009 ($'000)
Accounts payable, accrued liabilities and other liabilities, in line with the reduced business activity and the reduction in the number of days in payable	(8,542)	(16,678)
Accounts receivable – Improvement in collection and lower business activity, mainly is 2009	475	6,316
Effect of exchange rate on working capital items, for the US subsidiaries	1,702	(2,361)
Inventory increase, due to certain Aerospace program deceleration and push-outs	(1,019)	(7,307)
Payment of income taxes, for 2009	219	(2,855)
All others	(1,435)	(2,558)
	(8,600)	**(25,443)**

Investing Activities

The Company's investing activities were as follows:

	Quarters ended June 30	
	2010 ($'000)	2009 ($'000)
Additions to property, plant and equipment	(3,195)	(4,229)
Net increase in finite-life intangible assets	(2,150)	(545)
Proceeds on disposal of property, plant and equipment	25	2
Business acquisition	(28,813)	-
Cash flows relating to investing activities	**(34,133)**	**(4,772)**

Additions to property, plant and equipment totalled $3.2 million ($4.2 million in last year's first quarter) and related mostly to normal maintenance projects and to the JSF building extension at the Company's Arlington, Texas plant.

The net increase in finite intangible assets of $2.2 million ($0.5 million last year) represents mainly the increase in capitalized development costs for Aerospace segment long-tem contracts.

Finally, as already discussed, the Company invested $28.8 million in the first quarter of fiscal 2011 to acquire substantially all the net assets of Eagle and E2.

Capital expenditures for fiscal 2011 are expected to be about $25 million including normal maintenance projects and the extension of the facility dedicated for the JSF program. This amount excludes any capital investment that could be required following the acquisition, concluded on April 28, 2010, of Eagle and E2, which are estimated at about $3 million.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended June 30	
	2010 ($'000)	**2009 ($'000)**
Increase in long-term debt	17,566	-
Repayment of long-term debt	(1,620)	(1,834)
Repurchase of common shares	(3,168)	(1,837)
Issuance of common shares	229	80
Cash flows relating to financing activities	**13,007**	**(3,591)**

The increase in long-term debt comes mostly from drawing of US$16.5 million from the Company's Credit Facilities to finance the acquisition made earlier in the first quarter.

The repayment of long-term debt of $1.6 million ($1.8 million last year) is for capital leases and governmental authorities' loans, those being essentially for the financing of capital expenditures.

During the first quarter ended June 30, 2010, the Company issued 17,185 common shares ($86,662) under its stock purchase and ownership incentive plan while it repurchased 546,000 ($3.2 million) common shares under the normal course issuer bid, launched in November 2009 ("NCIB" - see Normal Course Issuer Bid below and Note 12 to the interim consolidated financial statements). The Company also issued 35,000 common shares ($142,000) following the exercise of stock options.

During the quarter ended June 30, 2009, the Company redeemed 407,000 common shares under the normal course issuer bid launched in November 2008 at an average price of $4.51.

At June 30, 2010, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants throughout fiscal 2011.

Normal Course Issuer Bid

On November 25, 2009, the Company launched a new NCIB, with the approval of the Toronto Stock Exchange (TSX). Under the terms of the NCIB, the Company may acquire up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding common shares of the Company as of November 19, 2009. The repurchase of common shares commenced on November 25, 2009, and will end on November 24, 2010.

All common shares purchased by the Company through the NCIB are made on the open market through the facilities of the TSX or other Canadian marketplaces in accordance with the policies of the TSX, and are surrendered by the Company to its transfer agent for cancellation.

To June 30, 2010, the Company had repurchased 639,400 common shares at an average net price of $5.71 per share for a total of $3.6 million (See Note 12 to the interim consolidated financial statements).

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

At June 30, 2010, the Company had 29,991,660 common shares outstanding (30,485,475 as at March 31, 2010).

During the three months ended June 30, 2010, the Company issued 17,185 common shares at a weighted-average price of $5.04 for a total cash consideration of $86,662, under the Company's stock purchase plan. The Company also issued 35,000 common shares pursuant to the exercise of stock options. These shares were issued at an average price of $4.06 for a total cash consideration of $142,000.

During the first quarter ended June 30, 2009, the Company issued 20,380 common shares at a weighted-average price of $3.93 for a total cash consideration of $80,158, all under the Company's stock purchase plan.

During the first quarter ended June 30, 2010, 35,000 stock options were exercised (none last year) while 28,000 stock options were cancelled (75,000 last year).

At June 30, 2010, 1,492,221 stock options were issued and outstanding with a weighted-average of 4.0 years to maturity and a weighted-average exercise price of $5.85 (see Note 12 to the interim consolidated financial statements).

Consolidated Balance Sheets

The following table itemizes and explains the significant changes in the consolidated balance sheets between June 30, 2010 and March 31, 2010:

Item	Change ($ million)	Explanation
Cash and cash equivalents	(17.8)	See consolidated statements of cash flows. As already mentioned, the Company utilized $12 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	4.9	Increase comes from the inclusion in the consolidated figures of the acquisition made earlier in the first quarter ($5.4 million) and the impact of the weakening of the Canadian dollar since March 31, 2010, on US-denominated accounts receivable ($1.7 million).
Inventories	19.1	This increase includes the impact from the acquisition ($18.1 million) and from the weaker Canadian dollar on the Company's US self-sustaining subsidiaries ($1.7 million).
Derivative financial instruments (short-term assets)	(1.5)	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	9.0	Due to: • Acquisition of Eagle and E2 ($8.5 million); • Purchases of capital assets ($3.2 million); • A higher US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($2.7 million). Net of: • Amortization expense ($5.4 million).
Finite-life intangible assets, net (includes a $4.9 million net backlog)	3.3	Mainly due to: • An increase in finite-life intangible assets ($2.0 million), representing the increase in capitalized development costs for Aerospace long-term contracts; • Purchase of computer software ($0.1 million); • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); • The higher US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.2 million); Net of: - Amortization expense on the underlying value of the backlog ($0.2 million). - Amortization of the other finite-life intangible assets ($0.2 million).
Goodwill	7.0	Includes $5.8 million of goodwill associated to the acquisition made earlier in the first quarter of fiscal 2011. It

Item	Change ($ million)	Explanation
		also represents the higher US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining US subsidiaries.
Derivative financial instruments (long-term assets)	(4.9)	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	1.4	Includes $7.4 million coming from the Eagle and E2 acquisition and the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which increased accounts payable and accrued liabilities by $1.0 million. These increases were almost entirely offset by the lower payables, in line with the lower level of activities and inventory purchases.
Long-term debt (including current portion)	22.6	Due to: • Drawing of US$16.5 million against the Company's US Credit facility to finance the Eagle and E2 acquisition ($17.6 million); • New promissory note, following the acquisition, repayable to the seller ($3.7 million); • Interest accretion on governmental authorities loans ($0.3 million); • A higher US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($2.6 million); Net of: • Capital repayment of long-term debt ($1.6 million).
Capital stock	(1.5)	Represents the common shares issued under the Company's stock purchase and ownership plan and following the exercise of stock options ($0.2 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($1.7 million).
Retained earnings	1.8	See consolidated statements of changes in shareholders' equity.

At June 30, 2010 and March 31, 2010, the Company's working capital ratio, cash and cash equivalents, long-term debt-to-equity ratio and net debt-to-equity ratio(1) were as follows:

	June 30, 2010	March 31, 2010
Working capital ratio	2.72:1	2.66:1
Cash and cash equivalents	$28.7 million	$46.6 million
Long-term debt-to-equity ratio	0.45:1	0.35:1
Net debt-to-equity ratio(1)	0.35:1	0.16:1

(1) Defined as total long-term debt, including the current portion, less cash and cash equivalents, over shareholders' equity.

Government assistance

For the first quarter of fiscal 2011, the Company recorded as a reduction of cost of sales an amount of $0.6 million ($1.3 million in the first quarter of fiscal 2010), and as a reduction of the related capital expenditures or development costs an amount of $0.4 million ($0.2 million in fiscal 2010) for government assistance.

This government assistance includes mainly the investment tax credits and the discounted portion of the governmental authorities' loans.

Derivatives, Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $8.7 million as at June 30, 2010, mainly for machinery and equipment. All these amounts are repayable over the next seven years. At June 30, 2010, the Company also had building, machinery and equipment and purchase commitments totalling $6.7 million.

At June 30, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$149.9 million at a weighted-average exchange rate of 1.1388. These contracts relate mainly to its export sales, and mature at various dates between July 2010 and March 2015 (US$150.0 million at a weighted-average rate of 1.1436 at March 31, 2010, and US$165.3 million at a weighted-average rate of 1.1440 at June 30, 2009).

At June 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$10.3 million at a weighted-average rate of 1.2386 ($US11.3 million at a weighted-average rate of 1.2396 at both March 31, 2010 and June 30, 2009) maturing over the next four fiscal years, the majority of which over the next two fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

In July 2007 and March 2009, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company entered into a four-year interest-rate swap agreement and a two-year interest-rate swap agreement for an amount of US$15 million and US$10 million, respectively, that fix the Libor U.S. rate at 5.53% and 1.75%, respectively. Both interest-rate swap agreements mature on August 1, 2011.

Impact of Financial and Economic Situation

In light of the financial and economic situation the Company experienced through fiscal 2010, the Company is carefully monitoring its strategy and risk management. Although results remain positive, this economic situation prompted Management to adopt a more conservative approach in its daily decisions, an approach which is being maintained in fiscal 2011.

For the twelve months ended March 31, 2010, and to a lesser extent for the first quarter of this current fiscal year, the Company's results were impacted by certain decelerations of production schedules and push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in industrial markets. While the Company's backlog remains strong, especially considering the $125 million backlog acquired with the Company's recent acquisition, the prevailing business environment, and deferrals or cancellations of additional purchase orders, could have an adverse impact on upcoming results. The Company is striving to maintain a well-balanced portfolio between commercial and military Aerospace segment sales, which should help reduce the risks associated with any potential slowdown. OEM recent announcements should help the Aerospace segment commercial market while the military side of the Company's business remains solid. Furthermore, the value of the Canadian dollar, when compared to the US currency, will put additional pressure on upcoming results. As already mentioned, and as highlighted in the Outlook section, Management maintains its focus on operational efficiencies, cost reduction initiatives and forward foreign exchange contracts strategy to mitigate the negative currency fluctuations.

From a financial standpoint, the Company has a healthy balance sheet and is presently in compliance with all of its financial covenants and expects to be so for the next twelve months. Capital expenditure requirements are closely monitored by Management. The Company does not expect to have any liquidity issues, considering that the banks' Credit Facilities are extended by a syndicate of four Canadian banks, with high-grade credit ratings, and that the major customers of the Company are worldwide leaders in their respective fields. These Credit Facilities will mature in October 2011.

In light of the above, the Company maintains its near-term outlook (see Outlook section below) and does not foresee any short-term elements that could jeopardize the going concern of its operations. That being said, and understanding that the Company does not have all the visibility it usually has in its markets, it will remain prudent and will continue to closely monitor the situation.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standard Board ("AcSB") confirmed that Canadian GAAP for publicly accountable entities will be converged with IFRS effective in calendar year 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosures.

First reporting under IFRS is required for the Company's interim and annual financial statements beginning on April 1, 2011. The Company has developed a changeover plan to convert its Consolidated Financial Statements to IFRS, as described in its fiscal year 2010 Annual Report.

There have been no significant changes to our IFRS changeover plan and our project is progressing according to plan. There has been no significant modification in key differences in accounting treatment and potential key impacts as assessed in our Annual Report for fiscal year 2010. We will provide updates as further progress is achieved and conclusions are reached.

FUTURE CHANGES IN ACCOUNTING POLICIES.

International Financial Reporting Standards (IFRS) – See section above.

INTERNAL CONTROLS AND PROCEDURES

The purpose of internal controls over financial reporting is to provide reasonable assurance as to the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with Canadian GAAP.

No changes that were made to our internal controls over financial reporting during the quarter ended June 30, 2010, have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments with a variety of risk factors and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. Such risks and uncertainties include, but are not limited to, those mentioned below, which are more fully described in the Company's MD&A for the year ended March 31, 2010.

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of terrorist activity
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants

- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

Outlook

Conditions have improved in the commercial aerospace market, but the recovery remains fragile and existing orders can still be deferred or cancelled. In the large commercial aircraft market, Boeing and Airbus have announced production rate increases for calendar 2011 and 2012 on certain programs and new orders have increased since the beginning of calendar 2010. Meanwhile, the business jet market appears to have bottomed out and the industry is seeing positive signs, such as fewer aircraft for sale and increased hours flown.

The military aerospace market remains solid. The ramp-up of the JSF program is progressing, although it has been announced that this ramp-up will occur at a slightly more moderate pace over the near term. While proposed funding was increased for the US Department of Defense 2011 fiscal year budget, subsequent budget funding may be reduced as the US administration must address its overall deficit. In Canada, the Government's recent decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

The power generation industry appears to have bottomed out, but is not expected to experience any significant recovery before calendar 2011. In the wind energy market, low power demand and price have slowed down the rate of new installations since the beginning of calendar 2010, but the market still holds considerable potential over the mid-term.

Capital expenditures for fiscal 2011 are expected to be about $25 million including normal maintenance projects and the extension of the facility, and purchase of equipment, dedicated for the JSF program in Texas. This amount excludes any capital investments that could be required in regards to the acquisition concluded on April 28, 2010, of Eagle and E2, estimated at approximately $3 million.

As at June 30, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $545 million and remains well diversified. The backlog from the acquisition of Eagle and E2, is now included in the Company's backlog. Despite this solid backlog and strong customer relationships, the Company must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

The integration of Eagle and E2 remains a main priority in fiscal 2011. Excluding the contribution of the newly-acquired operations, Héroux-Devtek is anticipating sales to remain relatively stable in comparison with the previous year, assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts. The Company expects an accretion to earnings per share of up to 10% in the first year. Finally, it is important to remember that the second quarter has traditionally been a somewhat slower period owing to

seasonal factors, such as plant shutdowns and summer vacations. Therefore, the Company anticipates a stronger second half for fiscal 2011 with sales being 15% to 20% higher when compared with the first half of the year, given the acquisition.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on August 4, 2010. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.