ANNUAL REPORT 2004 | 2005

a brighter horizon

HÉROUX DEVTEK

Héroux-Devtek at a glance

LANDING GEAR

Employees: **750**
Sales: **$116.9 M**

Longueuil
Design, manufacture and repair of components and complete landing gear for military and commercial aircraft.

Laval
Manufacture and repair and overhaul of small components for landing gear and hydraulic flight control actuators.

Manufacture of critical parts such as helicopter rotors.

Kitchener
Manufacture of large landing gear components for commercial and military aircraft and replacement parts for out of production aircraft.

MAIN CUSTOMERS

Civilian
Bell Helicopter, Boeing, Bombardier, Goodrich, Lockheed Martin, Messier-Dowty, Northrop Grumman, Vought

Military
Department of National Defence of Canada, US Air Force, US Navy

AEROSTRUCTURE

Employees: **300**
Sales: **$75.9 M**

Héroux-Devtek Aerostructure Inc.
(Dorval)
Manufacture of medium and large-sized aircraft structural components.

Progressive Incorporated
(Arlington, Texas)
Manufacture of complex military aircraft structural components.

Les Industries C.A.T.
(Montreal)
Manufacture of small-sized aircraft structural components.

Magtron *(Toronto)*
Manufacture and assembly electronic enclosures, heat exchangers and other high precision components for the aerospace and defence sectors.

MAIN CUSTOMERS

Civilian
Boeing, Bombardier, Lockheed Martin, Northrop Grumman

Military
US Air Force

GAS TURBINE COMPONENTS

Employees: **140**
Sales: **$40.2 M**

Cincinnati
Manufacture of precision components for the aerospace and industrial sectors.

Manufacture of large scale components for gas turbines used in the production of electricity.

Manufacture of aircraft engine components.

MAIN CUSTOMERS

Civilian
Boeing, GE Aircraft Engines, Lockheed Martin, GE Power Systems, Caterpillar

Military
US Air Force, US Navy

financial highlights

Years ended March 31 (In thousands of dollars, except per share data)

	2005	2004 (Restated[1])	2003 (Restated[1])	2002 (Restated[1])	2001 (Restated[1])
Sales	**$ 232,998**	$ 192,678	$ 237,724	$ 287,408	$ 235,505
Gross profit	**$ 13,421**	$ 14,448	$ 27,276	$ 50,842	$ 43,068
Gross profit (%)	**5.8 %**	7.5 %	11.5 %	17.7 %	18.3 %
EBITDA	**$ 14,623**	$ 9,249	$ 22,635	$ 39,930	$ 34,824
EBITDA (%)	**6.3 %**	4.8 %	9.5 %	13.9 %	14.8 %
Net income (loss) from continuing operations	**$ (4,291)**	$ (3,972)	$ (1,855)	$ 15,513	$ 13,075
Net income (loss) from continuing operations (%)	**(1.8)%**	(2.1)%	(0.8)%	5.4 %	5.6 %
Earnings (loss) Per Share-Basic from continuing operations	**(0.16)**	(0.17)	(0.08)	0.64	0.61
Earnings (loss) Per Share-Diluted from continuing operations	**(0.16)**	(0.17)	(0.08)	0.64	0.60
Net income (loss)	**$ (2,129)**	$ (2,335)	$ (483)	$ 16,860	$ 13,967
Net income (loss) (%)	**(0.9)%**	(1.2)%	(0.2)%	5.9 %	5.9 %
Earnings (loss) Per Share-Basic	**$ (0.08)**	$ (0.10)	$ (0.02)	$ 0.70	$ 0.65
Earnings (loss) Per Share-Diluted	**$ (0.08)**	$ (0.10)	$ (0.02)	$ 0.69	$ 0.65
As at March 31					
Total assets	**$ 312,130**	$ 282,958	$ 289,067	$ 300,428	$ 271,426
Working capital	**$ 47,068**	$ 73,861	$ 82,326	$ 85,427	$ 53,621
Long-term debt to equity	**0.51**	0.49	0.51	0.45	0.39
Book value per common share	**$ 4.81**	$ 5.15	$ 5.32	$ 5.39	$ 4.46
Cash flow from operations	**$ 11,934**	$ 8,386	$ 14,057	$ 30,015	$ 20,045
Average number of shares outstanding ('000)	**26,932.7**	23,437.9	24,212.90	24,063.0	21,543.0
Shares outsdanding at year-end ('000)	**26,954.6**	23,401.6	23,544.70	24,443.9	23,291.7
Fully diluted shares (used for diluted EPS) ('000)	**26,932.7**	23,437.9	24,212.90	24,345.5	21,614.0

[1] Due to the change in accounting policy on asset retirement obligations and the sale of the Logistics and Defence Division, Diemaco.

message to shareholders

LANDING GEAR

The $180 million United States Air Force (USAF) long-term contract signed in December 2004 illustrates Héroux-Devtek's growth potential. Previously, contracts have been limited to the repair and overhaul of landing gear for USAF aircraft. This latest award will allow the Company source the components, traditionally done by the customer. This is intended to shorten delivery times and save costs for the USAF. This precedent provides similar opportunities with other Héroux-Devtek customers.

New test facilities for landing gear at the Laval plant.

GILLES LABBÉ

HELMUT HOFMANN

Fiscal 2004-2005 presented its set of challenges and disappointments. The strength of the Canadian dollar and a surge in raw material prices were major factors that affected many corporations and, in fact, impeded Héroux-Devtek's efforts to achieve profitability. Delivery was an issue at some facilities for a portion of the year, forcing them into a catch-up mode. While not totally resolved by year-end, improvement was made. The Company also made progress in positioning itself to benefit from the recovery in its primary markets of aerospace and power generation as it directs all energies to a return to profitability.

While markets remained soft overall during the past twelve months, signs of improvement were evident as the year progressed. US air traffic through calendar 2004 was up 8.1% and 15.5% internationally, returning to pre 9/11 levels. While this has yet to impact major airlines, the business jet market has seen increased deliveries and further growth is anticipated. Throughout the year past, the Company focused on strengthening its core competencies of aerospace and industrial products by further honing and streamlining operations in order to fully maximize the opportunities we see in our markets in the years ahead.

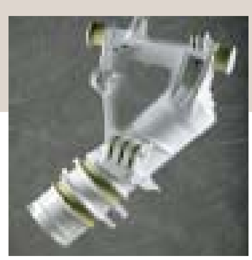
Focusing on core competencies

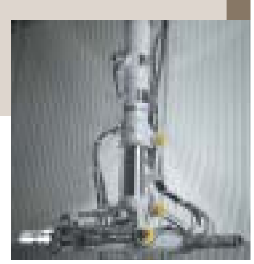
The purchase of Progressive, announced at the beginning of this past fiscal year was essential to this strategy. While Héroux-Devtek is well known for its landing gear capabilities, this acquisition bolstered the existing smaller aerostructure division and brought important enhanced access to the military aerospace OEM market.

During the year, Héroux-Devtek also added to its landing gear capabilities, investing $3 million to accommodate test facilities at its plant in Laval, Québec. These improvements have enabled the Company to offer its customers a fully integrated service, from initial design to finished product and complete maintenance support.

The sale of Héroux-Devtek's Logistics & Defence Division (Diemaco) permits the Company to further sharpen its focus. Diemaco is a small arms manufacturer originally acquired in 2000 as part of the merger with Devtek. While the division had prospered under Héroux-Devtek, it was non core to the Company's key business segments.

Combined with the centralization of the gas turbine as well as the aerostructure operations in fiscal 2003-2004, these developments have reinforced Héroux-Devtek's three core areas of expertise: landing gear, aerostructure and gas turbine components. In each of these areas, the Company is now well-positioned to partner with its customers to meet renewed market demand and to offer additional products and services. It appears that the bottom of the industry cycle has been reached and that a turnaround is underway. While this recovery will be gradual, it should extend over several years.





A perfect example was the third quarter award of a $180 million United States Air Force (USAF) long-term, landing gear contract. This takes our service offering to a new level as the USAF has, for the first time, asked Héroux-Devtek to source the required components in an effort to speed the production process and help them reduce operating costs. Clearly, this is an indication of the added confidence the USAF has in Héroux-Devtek.

2004-2005 Results

Primarily due to the addition of Progressive, sales strengthened through fiscal 2004-2005. Overall, sales were up 21% to $233 million, with fourth quarter sales up 22.4% over fiscal 2003-2004. Following the sale of Diemaco announced in the last quarter of fiscal 2005, the Company's results include those of Diemaco as discontinued operations. Although the Company closed the year with a net loss of $4.3 million compared to a net loss of $4 million the previous year, we were able to realize a net profit of $514,000 in the fourth quarter, compared to a net loss for the same period the year before of $31,000. All numbers indicated are results from continuing operations.

Overall, sales were up 21% to $233 million, with fourth quarter sales up 22.4% over fiscal 2003-2004.

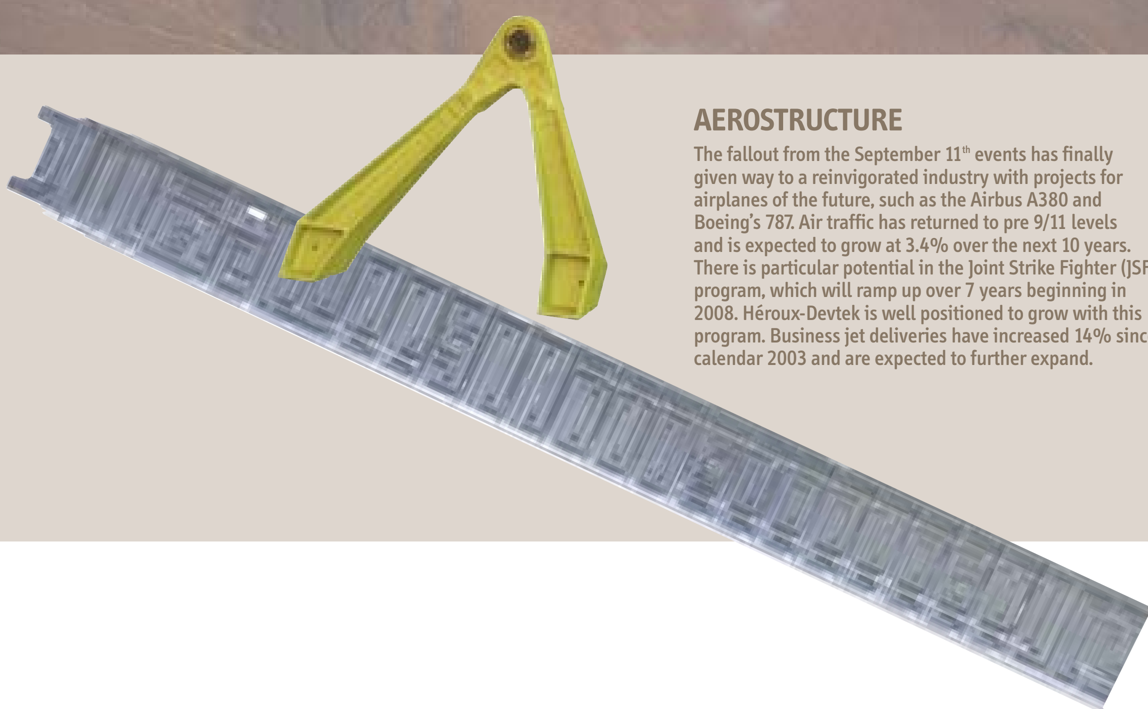
The Canadian dollar exchange rate alone had a negative impact of $10.2 million on sales for the year. Meanwhile, the world appetite for raw materials has driven prices up worldwide. This situation has also significantly lengthened, in some instances doubled, material delivery lead times, which in turn pushes out Héroux-Devtek's product deliveries and delays its revenue bookings.

This being said, a major factor impeding profitability has been capacity utilization, which must be sufficient to offset the high fixed costs inherent in the aerospace industry. This will be achieved with the anticipated ramp up of business activity. Other factors that will contribute to improved profitability are the completion of low-margin contracts negotiated during the tough business period, as well as productivity improvements through the on-going deployment of lean manufacturing initiatives throughout all of our operations.

Corporate Governance

In its ongoing commitment to stay at the forefront of corporate governance standards, Héroux-Devtek has implemented a Code of Business Conduct that establishes a high standard for ethical behaviour throughout all levels of the Héroux-Devtek organization. In addition a Whistle Blower Policy has been instituted to encourage and enable employees to raise any serious concerns within the Company without fear of any reprisals or discrimination. For additional corporate governance initiatives please refer to page 25 in the Management Discussion & Analysis section.

Héroux-Devtek is providing various components and assemblies for the Joint Strike Fighter (JSF) program.



AEROSTRUCTURE

The fallout from the September 11th events has finally given way to a reinvigorated industry with projects for airplanes of the future, such as the Airbus A380 and Boeing's 787. Air traffic has returned to pre 9/11 levels and is expected to grow at 3.4% over the next 10 years. There is particular potential in the Joint Strike Fighter (JSF) program, which will ramp up over 7 years beginning in 2008. Héroux-Devtek is well positioned to grow with this program. Business jet deliveries have increased 14% since calendar 2003 and are expected to further expand.

GAS TURBINE

Héroux-Devtek is set to benefit from a comeback in the gas turbine market. We envisage improvement in this market commencing during the current year, but even more so in 2006-2007. Manufacturing operations have been centralized and very little additional capital investment is required to ramp up production. GE Power is forecasting increased deliveries this year.

Industrial large gas turbine components for power generation.

Outlook

At the close of fiscal 2004-2005, the outlook for Héroux-Devtek had improved from a year earlier. The Company is better focused and most significantly, the fallout from the September 11th events has finally given way to a reinvigorated industry with projects for airplanes of the future, such as the Airbus A380, Boeing's 787 and the Joint Strike Fighter (JSF) program. Backlog is improving and consists of better profit margin business than current production. The military market will continue to provide an important source of revenue, the civil aviation market has embarked on a three-to-four-year upswing, and the power generation market appears set to turn up in calendar 2006.

In light of all this, management is prudently optimistic about the year ahead. In the near term, profits may continue to elude us, but we expect a return to profitability as business conditions improve and as we effectively execute our business plan, which includes improvements in productivity.

Late in the year unionized employees at the landing gear plant in Longueuil voted in favour of renewing their collective agreement through May 2008. This renewal completes the negotiation process at all sites and provides important labour relations stability for the next few years.

In the medium term, we see particular potential in the JSF program, which is expected to gradually ramp up in calendar 2008 over a 7 year period. Héroux-Devtek is well positioned to grow with this program.

Nevertheless, certain challenges remain for the years ahead. The Canadian dollar is expected to remain relatively high. Long delivery lead times for raw materials will almost certainly impact product shipments and extend contract cycle times. Additionally, the Company must deliver the lower margin contracts booked during the market downturn. The current year will be one of transition, ensuring that Héroux-Devtek is set to benefit from the expected brighter horizon.

Acknowledgements

We continue to rely heavily on the talent of both our management team and the dedication and cooperation of our employees as together we build a premier North American aerospace supplier. And we count on you, our shareholders, to recognize Héroux-Devtek's potential. As ever, we are grateful for your continued support.

On behalf of the Board of Directors,

Gilles Labbé
President and
Chief Executive Officer

Helmut Hofmann
Chairman of the Board

Straight Talk from Gilles Labbé

President and Chief Executive Officer

Q: How would you describe Héroux-Devtek today versus a year ago?

A: Internally, Héroux-Devtek is better positioned to benefit from the upturn in the markets for business jets and 125+ seat aircraft. We have made progress in resolving certain manufacturing issues in our plants, thus improving deliveries to our customers. These are areas we will continue to improve.

Overall, we are also at a better stage of the industry cycle. Last year we were facing a market that we hoped had bottomed out, while today we are looking at a market that has started an upward trend.

Q: What has been keeping the Company from returning to profitability?

A: We have four major issues that have made it difficult to make money over the past two years: a stronger Canadian dollar, a raw material supply demand imbalance that is driving up prices, underused capacity in our plants and impact of lower margin contracts.

- The strong Canadian dollar is forcing us to improve productivity more than ever, which means we have to maximize efficiencies to improve our plant operations. This is a major focus for us.
- We have to manage raw material price increases. Over the last year we have seen steel, titanium and aluminium prices rise sharply due to the world appetite for these commodities, which has created a sellers' market. Lead times in some cases have doubled for these materials, which affects product deliveries and delays revenue bookings. Productivity improvements should help mitigate some of these cost increases.
- We are in an industry that has very high fixed costs and we must achieve a certain volume to absorb these costs. As the market improves we expect our capacity utilization to rise and in turn, aid profitability.
- A number of lower margin contracts were booked during the market downturn. These are currently being completed and the new orders in backlog have, overall, better margins which should have a positive impact in the coming years.

Q: What are the greatest challenges facing Héroux-Devtek?

A: We need to counteract the stronger Canadian dollar and higher raw material prices with an on-going deployment of lean manufacturing initiatives throughout our operations. We have made progress and will continue to seek further improvements.

Q: Is Héroux-Devtek a big enough industry player?

A: No. We need to pursue growth. Our current focus is a return to profitability and, as such, we are concentrating on internal growth. While this is the single most important priority, we remain open to strategic acquisitions. We feel the industry will continue to consolidate, and we want to play a role in that. In the short-term, however, our focus will be to grow with our existing customers, moving up to a higher level of involvement with them.

Q: The new USAF $180 million contract is an important endorsement of Héroux-Devtek. How do you intend to leverage this relationship?

A: The USAF contract we signed in December 2004 illustrates well the type of growth I just referred to. The US Air Force is a longstanding customer of Héroux-Devtek. Until now, we have always repaired and overhauled landing gear for USAF aircraft. This latest contract will see us now source the components, something traditionally done by the customer. This is intended to shorten delivery times and save costs for the USAF. We are looking to evolve in this direction with our other customers as well.

Q: Looking at Progressive one year after the acquisition, are you pleased with its contribution to the Company?

A: We are very pleased. Progressive is on track and is going to open up some excellent opportunities, mainly on the Joint Strike Fighter (JSF) program. Progressive has a very good relationship with Lockheed Martin, the JSF prime contractor, and in the military market in general.

Progressive is also pursuing the same strategy as our other divisions, looking at developing more teaming arrangements with its customers and moving into assemblies, including kitting, to provide added value.

Q: The JSF program is one of a number of major aerospace projects ramping up, along with the Airbus A380 and the Boeing 787. How do you see Héroux-Devtek benefiting from this activity?

A: The A380 and 787 are the airplanes of the future and are a response to the industry's projected further upturn. Once they get going, their production will consume tremendous industry capacity. Héroux-Devtek is well positioned to participate in all these programs including the JSF program which will gradually ramp up in calendar 2008 over a 7 year period. We have been selected by Lockheed Martin to supply JSF components. We have to make decisions this year about how we are going to meet the anticipated demands of the program.

Q: Why should someone invest in Héroux-Devtek?

A: It is expected that the aerospace industry will see significant growth over the next several years, and Héroux-Devtek is a good vehicle to benefit from this. The acquisition of Progressive further allows us to participate in the coming industry growth. We are working to offset the impact of the stronger Canadian dollar and higher raw material prices so as to improve profit margins. Once our capacity utilization rises with the anticipated increase in business activity, we will certainly profit from our efforts.

We are also set to benefit from a comeback in the gas turbine market. We are looking for some improvement in this market in 2005-2006, but more so in 2006-2007. We have centralized our manufacturing operations and very little additional capital investment is required to ramp up production.

It is worth noting that Héroux-Devtek generates good cash flow, even in difficult times. Our annual amortization charge runs at about $17 million, which gives us good flexibility for investments. We also still have assets for sale from the consolidation of our gas turbine components division.

With the industry now at the bottom of the cycle and Héroux-Devtek's shares trading below book value, we feel this makes for a compelling investment.

Q: What can we look forward to in the next two to three years?

A: Considerable progress has been made to establish Héroux-Devtek as a key supplier to several world-class customers. This is clearly being recognized by some of the largest industry players. As our markets continue to improve, we are positioned to share in the benefits.

Q: What are your key objectives for the current year?

A: In a word: profitability. This year will be a transitional period as we continue to prepare for the market recovery, focusing on just-on-time delivery, quality, and getting our plants into shape for the coming volume.

Rather than concentrating strictly on sales, we must further improve the operational side of our business, investing strategically in our plants to prepare for ramp-up over the next three years.

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, 2004 and March 31, 2005. It also compares the operating results and cash flows for the 12-month period ended March 31, 2005 to those for the same period the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2005. Héroux-Devtek's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including management's assessment of future plans and operations, certain statements in this MD&A are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Company's actual performance to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and U.S. standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A.

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.

OVERVIEW

Héroux-Devtek designs, develops, manufactures and repairs systems and components for the aerospace and industrial sectors. Its primary products are landing gear, aircraft structural components and components for aircraft and industrial gas turbines.

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

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

Héroux-Devtek serves two main segments: Aerospace and Industrial. The former Aerospace & Defense segment became the Aerospace segment as of March 31, 2005, following the sale of Diemaco, which formed the Company's Logistics and Defense Division. This Division is shown as discontinued operations. The Company supplies both the commercial and military sectors of the Aerospace segment with landing gear (including spare parts and repair and overhaul services), airframe structural components including kits, and aircraft engine components. In the commercial sector, the Company is active in the business jet, regional jet and large commercial jet markets. On the military side, the Company provides also parts and services for major military aircraft in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for electricity-generating gas turbines, with its largest customer being The General Electric Company (GE). It also sells precision components for other industrial applications.

The Company's sales by segment are as follows:

	2005	2004
Aerospace	91 %	89 %
Industrial	9 %	11 %
	100 %	100 %

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Lockheed Martin, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force (USAF) and U.S. Navy. In fiscal 2005, sales to these customers represented approximately 65% of total sales.

Héroux-Devtek is structured around two segments: Aerospace and Industrial. The Aerospace segment is comprised of the Landing Gear and Aerostructure Divisions and of the Aircraft Engine Components of the Gas Turbine Components Division. The Industrial segment is comprised of the large components for the power generation and other industrial products. The Landing Gear Division designs, manufactures, repairs and overhauls landing gears and has built a strong, well-recognized design engineering team. The Aerostructure Division manufactures airframe components ranging in size from small to large, for the commercial and military aerospace markets. The Gas Turbine Components Division manufactures aircraft engine components and large components for the power generation and other industrial markets.

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

BUSINESS STRATEGY

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

In practice, this translates into:

- A focused factory approach, with each plant specializing in a specific type of component.
- Standard, compatible information systems across the Company.
- Migration of technical and managerial know-how between divisions.
- A lean manufacturing approach in all its plants.
- Revenue stability through long-term agreements with its customers.

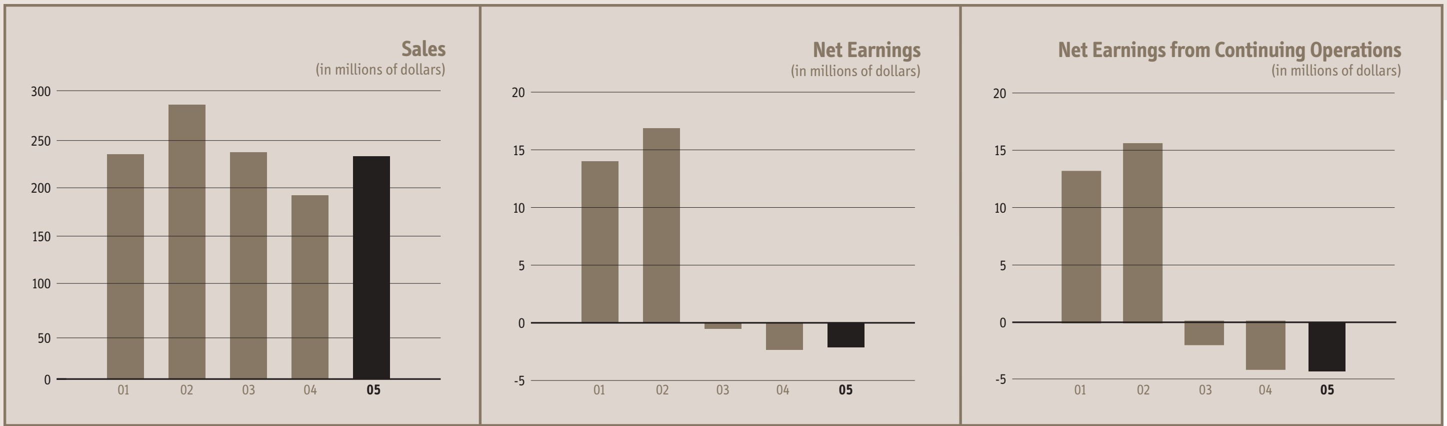
Héroux-Devtek seeks growth externally through acquisitions that can be easily integrated into its existing operations or that bring complementary technology, leading to greater added value. Internally, the Company aims to:

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

KEY PERFORMANCE INDICATORS

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

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



MARKET TRENDS

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

Within these broader trends, the commercial aerospace market has been in a downturn since 2001. Calendar year 2004 showed the first signs of a turnaround, with a slight increase in deliveries for large aircraft. The two manufacturers of large commercial aircraft, Airbus and Boeing, together delivered 605 units in 2004, up from 586 units in 2003. For calendar 2005, both manufacturers expect to further increase their deliveries. Suppliers such as Héroux-Devtek should begin to see the impact of this upturn in the coming years.

In the regional aircraft market, deliveries began to slowdown in calendar 2004, particularly in the 50 seat and fewer category. The trend towards larger, 70+ passenger regional jets continued. There remain virtually only two players in the regional jet market: Embraer and Bombardier.

Corporate jet deliveries showed significant improvement in calendar 2004, growing by 14% to 591 aircraft compared to 518 in calendar 2003. The growth in this market is expected to continue.

The military market remains solid. The U.S. Department of Defense is still planning to increase its budget by US $102 billion for the period from 2005 to 2011[1]. Significant growth is expected to come from emerging programs for next generation aircraft, such as the Joint Strike Fighter ("JSF"). There is also continued interest in unmanned aircraft vehicles ("UAV"), and more specifically in unmanned combat aircraft vehicles ("UCAV") as replacements for fighter aircraft. Finally, the U.S. military is still contemplating replacing its aging fleet of tanker aircraft.

Overall, a return to growth in the aerospace market should gradually absorb the excess capacity of second-tier manufacturers such as Héroux-Devtek and contribute to their improved performance.

On the industrial side, the downturn in the power generation market is believed to have ended in 2004, with total deliveries estimated at 550 machines, equivalent to the 2003 level. Deliveries for 2005 are expected to grow to 580 units.

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

MAJOR ACHIEVEMENTS OF FISCAL 2005

- Acquisition of Progressive

  Fiscal 2005 began with the announcement of the completion of the Progressive Incorporated acquisition on April 1, 2004 (see note 3 to the consolidated financial statements).

- $22 million in new USAF and US Navy orders

  On May 11, 2004, the Company was awarded a minimum of $22 million in new orders from the US Air Force and the US Navy to manufacture landing gear components for the B1B, F-15, F-16, E-3, KC-135R and P-3 programs. Deliveries will be ongoing through 2008.

- Expansion of Laval facility

  On June 1, 2004, the Company announced a $3 million investment to expand its Laval landing gear plant. The expansion included an enlargement of the assembly and machining section of the existing factory as well as the addition of new landing gear test facilities for business aircraft and regional jets. This expansion has been completed and the test facilities are in use.

[1] Reference: U.S. Department of Defense – Merrill Lynch Aerospace & Defense

- $10.9 million contract for Gas Turbine Components Division

  On July 7, 2004, the Company's Gas Turbine Components Division was awarded a $10.9 million contract by the US Air Force to manufacture components for the F100 engine. Final delivery of all units is planned for February 2006, with $7.0 million to be shipped in fiscal 2006.

- USAF F-16 landing gear contract

  On September 29, 2004, the US Air Force awarded the Company two contracts to manufacture landing gear components and complete landing gear assemblies for the F-16 multirole fighter aircraft. The total value of the contracts is $22.0 million, with $7.0 million to be delivered in fiscal 2006. Deliveries are to be completed by fiscal 2008. The F-16 is the workhorse of the USAF fighter fleet. There are more than 2,900 aircraft in active duty.

- $180.0 million contract with USAF

  On December 22, 2004, the Company announced an award by the US Air Force of a long-term contract valued at $180.0 million to supply components required for the repair and overhaul of landing gear on C-130, KC-135 and E-3 aircraft. For fiscal 2006, deliveries are expected to be $13.0 million, with the remaining value of the contract to be delivered over the following eight years.

- Divesture of Diemaco, Logistic & Defence Division

  On February 10, 2005, the Company announced the execution of an agreement for the sale of its Logistic & Defence Division, which consists of Diemaco. The sale price was established at $18.2 million, subject to certain final adjustments. Although the Company believes that Diemaco prospered under its ownership, it does not consider small arms manufacturing to be part of its core business. The transaction closed on May 20, 2005.

SELECTED ANNUAL FINANCIAL INFORMATION

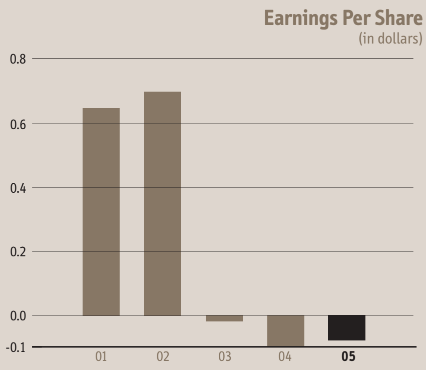
The following table presents selected financial information for the past three financial years:

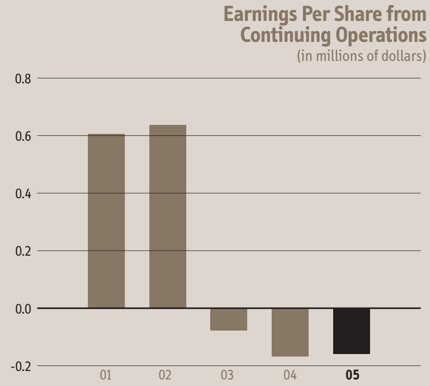
Years ended March 31 ($'000, except per share data)	2005	2004 (Restated[1])	2003 (Restated[1])
Sales	**232,998**	192,678	237,724
Restructuring charges and goodwill impairment, net of income tax recovery	**–**	(694)	(6,467)
EBITDA	**14,623**	9,249	22,635
Net loss from continuing operations	**(4,291)**	(3,972)	(1,855)
Net loss	**(2,129)**	(2,335)	(483)
Loss per share from continuing operations ($) – basic and diluted	**(0.16)**	(0.17)	(0.08)
Loss per share ($) – basic and diluted	**(0.08)**	(0.10)	(0.02)
Total assets from continuing operations	**295,197**	262,948	269,254
Long-term debt	**65,660**	59,464	63,650
Cash and cash equivalents, and temporary investments	**9,550**	53,599	49,060

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

Years ended March 31 ($'000)	2005	2004 (Restated[1])	2003 (Restated[1])
Net loss from continuing operations	**(4,291)**	(3,972)	(1,855)
Income tax recovery	**(2,043)**	(3,041)	(1,458)
Restructuring charges and goodwill impairment	**–**	1,052	9,177
Financial expenses	**4,009**	1,920	2,039
Amortization	**16,948**	13,290	14,732
EBITDA	**14,623**	9,249	22,635

[1] Due to the change in accounting policy on asset retirement obligations and the sale of the Logistics and Defence Division, Diemaco – see Notes 2 and 4 to the consolidated financial statements.





Sales and profitability declined from fiscal 2003 to fiscal 2004 as large commercial aerospace sales slowed and business volume for the Landing Gear Division dropped following the completion of certain military manufacturing contracts. The reduction in Industrial Gas Turbine sales also contributed to lower sales and profit for 2004, as did the stronger Canadian dollar. The restructuring charges recorded in fiscal 2003 were related to the closing of the Company's Tampa facilities and the integration of the Tampa business into the Cincinnati operations.

Due mainly to the acquisition of Progressive in April 2004, sales and EBITDA rose in fiscal 2005. The good performance of Progressive was partially offset by further reductions in sales and profitability at the Landing Gear Division arising from reduced business activity and an unfavourable sales mix. The Company's fiscal 2005 results were also negatively affected by continued marginal capacity utilization at its plants, mainly attributable to sluggish business activity in its key markets. The sustained strength of the Canadian dollar, sharp raw materials price increases and lengthening raw materials delivery times also had a significant impact on the Company's results for fiscal 2005.

RESULTS OF OPERATIONS

Following the February 2005 announcement of an agreement for the sale of its Logistics & Defence Division (Diemaco), all Diemaco's operations were reclassified as discontinued operations (see Discontinued Operations below and note 4 to the consolidated financial statements). The Diemaco sales transaction was completed on May 20, 2005.

CONSOLIDATED SALES

Consolidated sales for the year ended March 31, 2005 rose 20.9% to $233.0 million from $192.7 million last year, essentially due to the acquisition of Progressive. This new business unit generated $51.4 million in sales for Héroux-Devtek. However, sales were negatively affected by the strength of the Canadian dollar relative to the U.S. dollar, which reduced sales figures by $10.2 million or 4.4%.

The Company's sales by segment were as follows:

	2005 ($'000)	2004 (Restated) ($'000)	% Change
Aerospace	**211,689**	170,635	24.1
Industrial	**21,309**	22,043	(3.3)
Total	**232,998**	192,678	20.9

Aerospace Segment

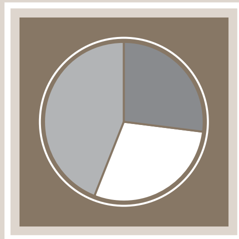
Sales for the Aerospace segment were as follows:

	2005 ($'000)	2004 (Restated) ($'000)	% Change
Landing Gear	**116,864**	127,356	(8.2)
Aerostructure	**75,913**	22,983	230.3
Aircraft Engine Components	**18,912**	20,296	(6.8)
Total	**211,689**	170,635	24.1

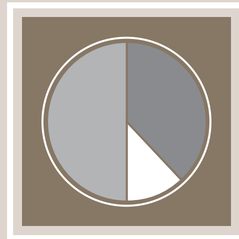
Aerospace sales rose by 24.1% to $211.7 million from $170.6 million last year. The increase was primarily due to the acquisition of Progressive, which contributed $51.4 million to Aerostructure sales. Aerostructure sales were also higher because of an improved delivery performance at the Dorval plant in the last six months of fiscal 2005.

Aerospace Sales

2005	
Commercial products	44 %
Military products sold to civil customers	29 %
Military products	27 %



2005



2004

2004	
Commercial products	50 %
Military products sold to civil customers	12 %
Military products	38 %

Landing Gear sales fell by $10.5 million, of which $4.1 million was due to a lower exchange rate. Military landing gear sales were also down from the previous year, mainly due to the completion of P-3 and KC-135R manufacturing contracts, which accounted for a sales decrease of $14.7 million. However, this decrease in the military landing gear sector was partially offset by stronger demand for the A380 and B777 programs, which generated $5.9 million in new sales.

The decline in Aircraft Engine Component sales from last year was mainly due to a lower exchange rate, which accounted for a decrease of $1.1 million.

Industrial Segment

Sales for the Industrial segment were as follows:

	2005 ($'000)	2004 ($'000)	% Change
Industrial Gas Turbine Components	**13,206**	17,095	(22.7)
Other Industrial	**8,103**	4,948	63.8
Total	**21,309**	22,043	(3.3)

Industrial sales declined by 3.3% to $21.3 million from $22.0 million last year, with the impact of the lower currency exchange rate amounting to a decrease of $1.3 million. Other Industrial sales were up for the year due to a contract to manufacture new parts for Caterpillar. This increase was offset by reduced demand for Industrial Gas Turbine parts sold to GE Power.

Sales by Destination

The acquisition of Progressive at the beginning of fiscal 2005 strengthened the Company's U.S. sales, as virtually all of Progressive's sales are in the United States. Consequently, from fiscal 2004 to fiscal 2005, the Company's sales by destination changed as shown below:

	2005 (%)	2004 (Restated) (%)
Canada	**24**	28
U.S.	**74**	70
International	**2**	2
Total	**100**	100

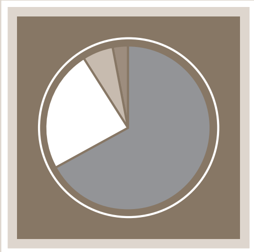
GROSS PROFIT

Consolidated gross profit declined to 5.8% of sales from 7.5% in fiscal 2004. Fluctuations in the U.S. exchange rate accounted for a 1.0% decrease in gross profit.

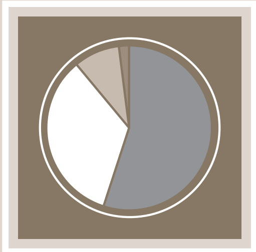
The low gross profit figure for the year is due to a number of factors. Earlier market pricing pressure and price concessions granted to customers on some principal contracts continued to impact the Company's results in fiscal 2005. In addition, manufacturing costs rose due to the introduction of new landing gear components and sub-assemblies. Gross profit was also negatively impacted by an unfavourable sales mix, particularly at the Landing Gear and Gas Turbine Components divisions, where sales for the military and industrial sectors were lower than last year. Finally, the transfer of the Tampa gas turbine operations to Cincinnati following the closure of the Tampa facility in fiscal 2004 was more difficult than anticipated, and resulted in unforeseen manufacturing inefficiencies, particularly for aircraft engine parts.

Breakdown of Sales by Sector

Aerospace		**91 %**
Civil		67 %
Military		24 %
Industrial		9 %
Gas Turbine Components		6 %
Other Industrial		3 %



2005



2004

Aerospace		**89 %**
Civil		55 %
Military		34 %
Industrial		11 %
Gas Turbine Components		9 %
Other Industrial		2 %

The Company's gross profit continues to be negatively affected by low capacity utilization at the Dorval plant. This situation is being addressed by management, with corrective measures still being evaluated.

The negative impact of the factors cited above was somewhat offset by Progressive's good performance at the Aerostructure Division.

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses decreased from fiscal 2004 to fiscal 2005, as shown below:

	2005	2004 (Restated)
Selling and administrative expenses ($'000)	**15,746**	18,489
% of sales	**6.8 %**	9.6 %

The main reason for the lower expenses in fiscal 2005 is the inclusion of a $0.9 million gain on foreign exchange from the conversion of monetary items denominated in foreign currencies included in current assets and liabilities following the adoption of Accounting Guideline No. 13 (AcG-13) on hedging relationships on April 1, 2004 (see Note 2 to the consolidated financial statements). Previously, net monetary items in foreign currencies hedged by forward foreign exchange contracts were translated using the average exchange rate of the forward foreign exchange contracts prevailing at the end of the period, and the resulting gains or losses were included in the Company's revenues. In fiscal 2004, selling and administrative expenses included a foreign exchange currency loss of $0.4 million.

Also contributing to the decrease in fiscal 2005 selling and administrative expenses were lower commission and royalty expenses related to certain military products. These contracts were completed during the year.

OPERATING INCOME (LOSS)

Aerospace Segment

Aerospace operating income as a percentage of sales was 0.5% compared to 0.1% last year. The improvement was mainly due to Progressive's good performance, which was somewhat offset by the lower landing gear profitability level explained earlier.

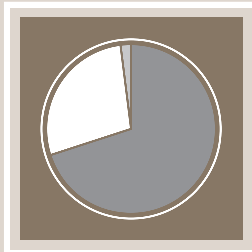
Industrial Segment

Expressed as a percentage of sales, the operating loss for the Industrial segment was 15.5%, compared to 19.4% last year. The Gas Turbine Components Division continued to face operational challenges in fiscal 2005, with the introduction of new manufactured parts and reduced sales in the Industrial Gas Turbine Components sector. However, sales for that sector are expected to increase this year, which should allow the division to further reduce its operating loss.

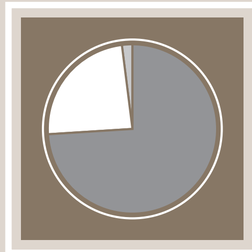
FINANCIAL EXPENSES	2005 ($'000)	2004 ($'000) (Restated)
Interest expense and other related expenses	**4,600**	3,054
Interest revenue	**(211)**	(1,134)
Gain on financial derivative instrument – interest rate swap	**(528)**	–
Amortization of net deferred loss related to financial derivative instrument	**148**	–
Financial expenses	**4,009**	1,920

Geographic Sales Breakdown

Canada 24 %
United States 74 %
International 2 %



2005



2004

Canada 28 %
United States 70 %
International 2 %

Financial expenses rose this year, mainly due to the financing of the Progressive acquisition. The Company used $36.4 million from its available credit facilities and $18.7 million from its cash available at March 31, 2004 for the acquisition (see Note 3 to the consolidated financial statements).

During the fiscal year 2005, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $528,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004 (see Note 2 to the consolidated financial statements).

DISCONTINUED OPERATIONS

On May 20, 2005, the Company concluded the sale of its Logistics & Defence Division (Diemaco) to Colt Defense LLC. The sale price of $18.2 million is subject to certain final adjustments. All assets and liabilities related to Diemaco were reclassified as discontinued assets and liabilities in the balance sheets. Diemaco's revenues, expenses and net income are shown under discontinued operations in the statements of income (loss), and the impact of Diemaco's operations on the Company's cash and cash equivalents is presented under discontinued operations in the statements of cash flows (see Note 4 to the consolidated financial statements).

The bulk of the net proceeds from the sale of Diemaco was used to repay $15.0 million on the Company's Secured Syndicated Revolving Credit Facilities.

NET LOSS

For fiscal year 2005, the Company posted a net loss of $2.1 million, as shown below:

	2005	2004 (Restated)
Net loss from continuing operations ($'000)	**(4,291)**	(3,972)
Net income from discontinued operations ($'000)	**2,162**	1,637
Net loss ($'000)	**(2,129)**	(2,335)
Loss per share from continuing operations ($)	**(0.16)**	(0.17)
Loss per share ($)	**(0.08)**	(0.10)

Loss per share figures are based on weighted averages of 26,932,650 common shares outstanding for fiscal 2005 and 23,437,928 for the previous year. The year-over-year increase is mainly due to the issuance of 3,500,000 common shares to finance the Progressive acquisition (see Notes 3 and 17 to the consolidated financial statements).

The net loss from continuing operations for the years ended March 31, 2005 and 2004 increased by $132,000 and $123,000 respectively when restated to reflect a change in accounting policy on asset retirement obligations (see Note 2 to the consolidated financial statements).

On May 26, 2005, the date of this MD&A, the Company had 26,960,482 common shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, the Company had cash and cash equivalents amounting to $9.6 million, compared to $53.6 million a year earlier.

OPERATING ACTIVITIES

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

	2005 ($'000)	2004 (Restated) ($'000)
Cash flows from continuing operations	**11,934**	8,386
Net change in non-cash items related to operations	**(17,908)**	11,526
Cash and cash equivalents provided by (used for) operating activities	**(5,974)**	19,912

The $3.5 million increase in cash flows from continuing operations for fiscal 2005 was mainly due to the good performance of Progressive. The cash flow generated by Progressive was somewhat offset by reduced cash flows from continuing operations for the Landing Gear Division compared to last year.

The net change in non-cash items reduced cash flows from continuing operations by $17.9 million in fiscal 2005. The main reasons for this were the following: accounts receivable increased by $4.1 million due to higher fourth quarter sales ($66.4 million in 2005 compared to $45.2 million in 2004). Other receivables rose by $3.3 million, reflecting mainly tooling costs invoiced to customers. Inventories also grew by $3.6 million, primarily on the strength of higher business volume at the Landing Gear Division at fiscal year-end 2005. Other current assets were up $2.3 million because of deposits for the purchase of machinery and equipment included in this item. Finally, customer advances at the Landing Gear Division declined by $5.0 million during the course of fiscal 2005. All these net uses of cash flows were somewhat offset by a $2.8 million increase in accounts payable and accrued liabilities at March 31, 2005.

INVESTING ACTIVITIES

The Company's investing activities were as follows:

	2005 ($'000)	2004 (Restated) ($'000)
Net change in temporary investments	**–**	45,191
Purchase of property, plant and equipment	**(13,370)**	(13,624)
Proceeds on disposal of property, plant and equipment	**1,388**	1,496
Business acquisition, net of cash acquired	**(67,349)**	–
Cash and cash equivalents provided by (used for) investing activities	**(79,331)**	33,063

The Company's investing activities used cash and cash equivalents of $79.3 million, having provided $33.1 million last year.

On April 1, 2004, the Company concluded the acquisition of Progressive for a total adjusted purchase price of $71.3 million, representing a net cash outlay of $67.3 million. Additional payments of up to $7.3 million (US $6.0 million) related to profitability performance could still be made or provided for in fiscal 2006. If so, the amount would be added to the total purchase price. (See Note 3 to the consolidated financial statements.)

During the fiscal year 2005, the Company invested $13.4 million in property, plant and equipment, including $3.3 million invested at the Laval plant to expand the assembly and machining section and add a new landing gear test facilities for business and regional jet landing gear. A further $3.9 million was invested at the Gas Turbine Components Division, representing essentially the exercise of purchase options for equipment under operating lease.

FINANCING ACTIVITIES

The Company's financing activities were as follows:

	2005 ($'000)	2004 ($'000)
Increase in long-term debt	**51,488**	1,101
Repayment of long-term debt	**(24,335)**	(3,060)
Repurchase of common shares	**–**	(579)
Issuance of common shares	**16,386**	–
Other	**(530)**	(502)
Cash and cash equivalents provided by (used for) financing activities	**43,009**	(3,040)

In fiscal 2005, in order to finance the acquisition of Progressive, the Company used $36.4 million from its Secured Syndicated Revolving Credit Facilities and issued 3.5 million common shares for proceeds of $16.2 million.

The Company also drew an additional $15.1 million and repaid a total of $20.6 million on its credit facilities. The Company changed the renewal date of its credit facilities from February 19, 2005 to August 30, 2005. The annual extension of the credit facilities will consequently be made during the current fiscal year (2006). However, the anniversary date remains March 21 of each year, and the facilities mature on March 21, 2006.

At March 31, 2005, the Company was in compliance with all its restrictive debt covenants. However, based on the expected results of operations and cash flow levels for the first three quarters of the current fiscal year, the Company renegotiated less restrictive financial covenants on its credit facilities for these quarters, and reduced its total credit limit on these facilities from $100.0 million to $90.0 million. This was partly accomplished following the sale of Diemaco, as $15.0 million in proceeds from the sale was applied toward the Company's credit facilities. The Company expects to continue to comply with its restrictive financial covenants in fiscal 2006. However, should the Company fail to comply with these covenants, it will attempt to renegotiate them, although the Company cannot predict what would be the outcome of these renegotiations. (See Note 15 to the consolidated financial statements.)

PENSION PLANS

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

	2005 ($'000)	2004 ($'000)
Deficit	**(14,285)**	(12,576)
Accrued liabilities	**(6,949)**	(6,836)

The pension plan deficit of $14.3 million at March 31, 2005 includes $9.2 million in pension plan obligations related to unregistered pension plans, primarily for ex-executives of the Company, that do not require funding of the deficit. Funding occurs as pension benefits are paid to the retired executives.

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2004 and March 31, 2005:

Item	Change ($ Million)	Explanation
Cash and cash equivalents	(44.0)	See consolidated statements of cash flows.
Accounts receivable	7.7	Increase due to higher year-over-year fourth quarter sales, as well as the acquisition of Progressive.
Other receivables	3.6	Mainly due to tooling costs invoiced to customers.
Inventories	17.8	Due to the acquisition of Progressive ($14.2 million), and to an increase in inventories at the Landing Gear Division arising from the introduction of new manufacturing programs and increased business volume at fiscal year-end 2005.
Other current assets	2.3	Represents deposits made for the purchase of new property, plant and equipment (see Note 22 to consolidated financial statements).
Property, plant and equipment	18.8	Due to: • Acquisition of Progressive ($26.5 million). • Purchase of property, plant and equipment ($13.4 million). Net of: • Amortization ($15.9 million). • Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($3.7 million). • Disposal of property, plant and equipment ($1.5 million).
Other assets	(1.8)	Due to: • Capitalization of $2.0 million in transaction costs at March 31, 2004 related to the Progressive acquisition (see note 11 to the consolidated financial statements) • Amortization of deferred financing costs and the deferred loss related to a financial derivative instrument ($0.4 million). Offset by: • A $0.5 million gain on financial derivative instrument (interest rate swap agreement) recorded following the adoption of AcG-13 (see Note 2 to the consolidated financial statements). • A lower U.S. exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.1M).
Finite-life intangible assets, net	7.8	Mainly due to the net backlog acquired pursuant to the acquisition of Progressive ($9.6 million), reduced by amortization ($1.2 million) and the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($0.7 million) (see note 10 to the consolidated financial statements).
Goodwill	16.7	Due to the acquisition of Progressive ($18.3 million), reduced by the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($1.6 million) (see note 12 to the consolidated financial statements).
Accounts payable and accrued liabilities	4.8	Mainly due to the acquisition of Progressive and to the year-over-year increase in the fourth quarter business activity.
Customers' advances	(5.0)	Represents unearned amounts received by customers of the Landing Gear Division. These advances were liquidated based on units delivered to customers during fiscal 2005 (see Note 14 to the consolidated financial statements).

Item	Change ($ Million)	Explanation
Long-term debt (including current portion)	22.3	Due to: • Increase in long-term debt to finance the acquisition of Progressive ($36.4 million)· • Increase in long-term debt ($15.1 million), consisting mainly of net draws on the Secured Syndicated Revolving Credit Facilities. Net of: • Repayment of long-term debt ($24.3 million) including $20.6 million net repayments on the Secured Syndicated Revolving Credit Facilities. • Impact of the use of a lower U.S. exchange rate to convert the net assets of self-sustaining U.S. subsidiaries ($4.9 million).
Capital stock	16.4	Represents the issuance of 3,500,000 common shares to finance the acquisition of Progressive for a total net cash consideration of $16.2 million, and 52,993 common shares for total proceeds of $0.2 million pursuant to the exercise of stock options and the issuance of common shares pursuant to the stock purchase and ownership incentive plan (see Note 17 to the consolidated financial statements).
Cumulative translation adjustment	(5.2)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining U.S. subsidiaries.
Retained earnings	(2.1)	See consolidated statements of retained earnings.

The Company's working capital ratio was 1.48:1 on March 31, 2005 compared to 1.87:1 on March 31, 2004 while the long-term debt-to-equity ratio was 0.51:1 on March 31, 2005 compared to 0.49:1 on March 31, 2004. At March 31, 2005, the balance sheet included cash and cash equivalents of $9.6 million. At March 31, 2004, cash and cash equivalents stood at $53.6 million.

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

	Payments due by period				
Contractual Obligations ($'000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Loans bearing no interest	**14,117**	1,671	5,644	3,243	3,559
Capital lease (including interest expenses)	**12,747**	3,111	6,651	2,985	–
Operating lease – Machinery and equipment	**5,789**	2,002	3,181	606	–
Operating lease – Building	**1,065**	333	594	138	–
Sub-total contractual obligations	**33,718**	7,117	16,070	6,972	3,559
Secured Syndicated Revolving Credit Facilities, if not extended next year					
• Operating credit facilities	**16,048**	16,048	–	–	–
• Term credit facilities	**44,501**	–	17,800	26,701	–
Total contractual obligations	**94,267**	23,165	33,870	33,673	3,559

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

The Company had entered into operating leases amounting to $5.8 million as at March 31, 2005, mainly for machinery and equipment. All these amounts are repayable over the next five years (see Note 22 to the consolidated financial statements). At March 31, 2005, the Company had also machinery and equipment purchase commitments totalling $10.1 million (see Note 22 to the consolidated financial statements).

At March 31, 2005, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $128.0 million at an average exchange rate of 1.3308. These contracts relate to its export sales and mature at various dates between April 2005 and December 2009 (see Note 6 to the consolidated financial statements). This compares to US $103.1 million in forward foreign exchange contracts held at March 31, 2004 at an average exchange rate of 1.4089.

CRITICAL ACCOUNTING ESTIMATES

Design-to-manufacture and major assembly manufacturing contracts

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

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

- Estimated average production unit cost
- Production accounting quantities

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

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

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

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

Goodwill

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

Pension plans and other employee post-retirement benefits

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

A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $3.4 million respectively on the Company's pension plan expense and accrued benefit obligation.

A lower expected return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $135,000 on the Company's pension plan expense.

Income taxes

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

CHANGES IN ACCOUNTING POLICIES

Hedging Relationships

On April 1, 2004, the Company adopted Accounting Guideline No.13 (AcG-13) on Hedging Relationships, which applies to all existing and new hedging relationships, provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that are economic hedges but do not qualify for hedge accounting are recognized at fair value on the balance sheet, with changes in fair value recorded in earnings until they are designated as qualifying for hedge accounting.

As at April 1, 2004, all derivative instruments used by the Company that previously qualified for hedge accounting continued to qualify under the accounting guideline, except for the US $10.0 million interest rate swap agreement.

- Interest Rate Swap Agreement

  As at April 1, 2004, the Company recorded a deferred loss amounting to $727,000 regarding the interest rate swap agreement. On May 20, 2004, the interest rate swap agreement was designated for hedge accounting purposes, and the change on its fair value since April 1, 2004, representing a gain of $528,000, is included as a reduction of the Company's financial expenses. In fiscal 2005, the amortization of the resulting net deferred loss amounted to $148,000 and is also included in the Company's financial expenses.

  As at March 31, 2005, the net deferred loss of $334,000 is included in the Company's other assets and is amortized over the remaining life of the interest rate swap agreement, which matures on August 2, 2007.

- Forward Foreign Exchange Contracts

  Pursuant to its adoption of AcG-13 as of April 1, 2004, the Company has revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at end of the period. For accounts receivable qualifying for hedge accounting, unrealized gains and losses are included in the Company's balance sheet under "other receivables" or "accounts payable and accrued liabilities". As at March 31, 2005, the Company's "other receivables" included $1.5 million of unrealized gains related to the conversion of accounts receivable qualifying for hedge accounting. Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates for each month of the year. Translation gains and losses are included in the statement of income. Foreign exchange translation gains and losses on foreign currency-denominated derivate financial instruments used to hedge anticipated U.S. dollar denominated sales are recognized as an adjustment to revenues (sales) when a sale is recorded.

Asset Retirement Obligations

In March 2003, the CICA issued a new section in the CICA Handbook, Section 3110, "Asset Retirement Obligations". This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over its useful life.

Effective April 1, 2004, the Company adopted this change in accounting policy retroactively to account for asset retirement obligations.

The Company's asset retirement obligations represent essentially environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil, including $4.6 million included in the Company's accounts payable and accrued liabilities at March 31, 2005 ($4.4 million in 2004).

The impact of this new accounting policy on the Company's balance sheet at March 31, 2004, using a discount rate of 4.5%, was as follows:

	($'000)
• Increase in property, plant and equipment	1,582
• (Increase) in accumulated amortization of property, plant and equipment	(1,582)
• (Increase) in retained earnings	(178)
• (Decrease) in future income taxes included in current assets	(96)
• Decrease in accounts payable and accrued liabilities	274

The impact of this change in accounting policy on the consolidated statements of income for the years ended March 31, 2005 and 2004 is as follows:

	2005 ($'000)	2004 ($'000)
Increase in financial expenses	**200**	192
(Increase) in income tax recovery	**(68)**	(69)
Increase in net loss	**132**	123

Rehabilitation costs are expected to be paid over the next three fiscal years.

FUTURE CHANGES IN ACCOUNTING POLICIES

• Financial Instruments

The CICA issued revisions to Section 3860 of the CICA Handbook, *Financial Instruments - Disclosure and Presentation*. These changes are effective for fiscal years beginning on or after November 1, 2004. The revisions change the accounting for certain financial instruments that have liability and equity characteristics. It requires instruments that meet specific criteria to be classified as liabilities on the balance sheet. Some of these instruments were previously classified as equities. The Company currently does not have any instruments with these characteristics.

• Comprehensive Income

The CICA issued Section 1530 of the CICA Handbook, *Comprehensive Income*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net income, including the following:

- changes in the currency translation adjustment relating to self-sustaining foreign operations;
- unrealized gains or losses on available-for-sale investments;
- changes in fair value for derivatives.

The CICA also made changes to Section 3250 of the CICA Handbook, *Surplus*, and reissued it as Section 3251, *Equity*. This section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, *Comprehensive Income*.

Adopting these sections on April 1, 2007 will require the Company to start reporting the following items in the consolidated financial statements:

- comprehensive income and its components;
- accumulated other comprehensive income and its components.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting these sections on April 1, 2007.

• Financial Instruments – Recognition and Measurement

The CICA also issued Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes the accounting policies for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

This CICA section requires the following:

- all financial assets be measured at fair value, with certain exceptions such as loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

• Hedges

The CICA recently issued Section 3865 of the CICA Handbook, *Hedges*. This section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between the following:

- changes in the fair value of a hedged item and a hedging item;
- changes in the cash flows attributable to a hedged item and a hedging item, or
- changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the hedged item are recorded in the statement of income in the same period.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

SUBSEQUENT EVENT: SALE OF LOGISTICS & DEFENCE DIVISION (DIEMACO)

On May 20, 2005, the Company concluded the sale of its Logistics & Defence Division (Diemaco) (see Notes 4 and 25 to the consolidated financial statements).

FIRST CERTIFICATION ON DISCLOSURE CONTROLS AND PROCEDURES, AND OTHER CORPORATE GOVERNANCE POLICIES

At March 31, 2005, Company management proceeded with its first certification on disclosure controls and procedures by its Chief Executive Officer and Chief Financial Officer.

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

In that regard, in February 2005, the Company's Human Resources and Corporate Governance Committee and the Board approved the formation of a disclosure management committee. This committee has the responsibility to ensure that management has access to all information that must be disclosed in the Company's public reporting to provide accurate and complete information to security holders.

It also ensures that the Company's Chief Executive Officer and Chief Financial Officer can evaluate the effectiveness of the design and operation of the Company's disclosure controls and procedures for the purpose of improving them as necessary and disclosing the results of evaluation in the reports.

The president and CEO and the Executive Vice-president and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures for the Company, and they have:

1. Designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared;
2. Evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by the annual filings and concluded that the disclosure controls and procedures as of the end of the period covered by the annual filings based on such evaluation are adequate.

The required certification on disclosure controls and procedures will be filed on SEDAR on or before June 29, 2005.

The Human Resources and Corporate Governance Committee and the Board also approved the Company's Code of Business Conduct in February 2005, which establishes a high standard for ethical behaviour throughout the Company, and the Company's Whistleblower Policy in September 2004, which encourages and enables employees to raise any serious concerns, particularly in relation to the violation of laws within the Company, without fear of reprisal or discrimination.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments subject to various risks and uncertainties that could have a material adverse effect on the Company's business, financial condition and results of operations. These risks and uncertainties include, but are not limited to, those mentioned below.

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 65% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

Operational Risk

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

General Economic Conditions

Unfavourable economic conditions may adversely affect the business of the Company. For example, the large civil aerospace industry, which represents approximately 15% of the Company's sales, has experienced considerable uncertainty in prior years, especially the market for planes with more than 100 seats. Furthermore, the industrial power generation market, which collapsed in 2002, is now recovering slowly. This could adversely affect the Company's financial condition and results of operations. Although long-term growth will likely resume eventually, the timing of that resumption is uncertain, and these sectors will remain cyclical. In addition, curtailment of production activities due to unfavourable economic conditions could result in the Company incurring significant costs associated with temporary layoffs or termination of employees.

Military Spending

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

Foreign Currency Fluctuations

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

The indentures governing certain of the Company's indebtedness and syndicated credit facilities contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all its assets;
- incur secured or other indebtedness;
- engage in mergers or consolidations; and
- engage in transactions with affiliates.

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

Changing Interest Rates

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

External Business Environment

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

Warranty Casualty Claim Losses

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

Environmental Matters

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

Collective Bargaining Agreements

The Company is party to some collective bargaining agreements, which are subject to expiration at various times in the future. If the Company is unable to renew these agreements or others as they become subject to renegotiation from time to time, it could result in work stoppages and other labour disturbances, which could have a material adverse effect on the Company's business. The Company currently has collective agreements in place with all its unionized employees for the next two years (three years for the Longueuil plant unionized employees).

SELECTED QUARTERLY FINANCIAL INFORMATION

(Unaudited) ($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2005					
Sales	**232,998**	**52,318**	**57,165**	**57,101**	**66,414**
Net income (loss) from continuing operations	**(4,291)**	**(1,440)**	**(1,734)**	**(1,631)**	**514**
Net income (loss)	**(2,129)**	**(1,316)**	**(1,561)**	**(887)**	**1,635**
Earnings (loss) per share from continuing operations ($) – basic and diluted	**(0.16)**	**(0.05)**	**(0.06)**	**(0.06)**	**0.02**
Earnings (loss) per share ($) – basic and diluted	**(0.08)**	**(0.05)**	**(0.06)**	**(0.03)**	**0.06**
For the fiscal year ended March 31, 2004 - Restated					
Sales	192,678	48,010	49,112	41,304	54,252
Net income (loss) from continuing operations	(3,972)	(1,090)	(1,124)	(1,727)	(31)
Net income (loss)	(2,335)	(818)	(886)	(1,626)	995
Earnings (loss) per share from continuing operations ($) – basic and diluted	(0.17)	(0.05)	(0.05)	(0.07)	–
Earning (loss) per share ($) – basic and diluted	(0.10)	(0.03)	(0.04)	(0.07)	0.04

A sustained good performance by Progressive at the Aerostructure Division favourably impacted the Company's results throughout 2005. During the first quarter, overall sales were negatively impacted by delays in deliveries at both the Landing Gear and the Gas Turbine Components Division. These delays were caught up in subsequent quarters.

FOURTH QUARTER 2005 RESULTS

As anticipated, the Company posted improved results for the fourth quarter, traditionally a strong period, due primarily to increased sales at the Landing Gear Division. Progressive continued to contribute strongly to Aerostructure Division results. The Gas Turbine Division also increased deliveries in the fourth quarter, but did not yet succeed in improving its manufacturing productivity or results of operation.

OUTLOOK

In the past year, the civil aerospace market entered a new cycle of growth that should continue for the next several years. New aircraft such as the Airbus A380 and the Boeing 787 are now in development. Héroux-Devtek is well placed to participate in this industry growth, and is already seeing stronger backlog and improved profit margins on new business.

The military aerospace market, which has been strong for several years now, should continue to grow in the near term, albeit at a slower pace. Given its participation in new generation aircraft programs such as the JSF, Héroux-Devtek is well positioned to gain an increasing share of this market. The JSF program is scheduled to gradually ramp up over a seven-year period beginning in 2008.

Improvement in the power generation market, which has been in a slump since 2002, is expected to begin this year and accelerate in fiscal 2007. The centralization of Héroux-Devtek's gas turbine components operations is now complete, and very little capital investment will be required to meet increased business volume.

On April 13, 2005, the Company announced that it had renewed its collective agreement with employees at its Landing Gear plant in Longueuil, Quebec. This was the last collective agreement up for renewal, and the Company now has agreements in place for the next few years.

For the current year, management's expectations remain cautiously optimistic. The Company continues to work on managing the impact of the low US/Canada exchange rate and high raw materials prices and, as business conditions improve, increases the Company's overall performance through the execution of its business plan.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee on May 25, 2005 and by the Board of Directors on May 26, 2005. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements of Héroux-Devtek Inc. and all the information in this Annual Report are the responsibility of Management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts that are based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Héroux-Devtek Inc.'s policy is to maintain systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, accurate and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and is comprised of outside Directors. The Committee meets periodically with Management and the external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities and to review the consolidated financial statements and the external auditors' report.

The Committee reports its findings to the Board for consideration when it approves the consolidated financial statements for issuance to the Shareholders.

The consolidated financial statements as at March 31, 2005 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The consolidated financial statements for the preceding year were audited by other auditors. The external auditors have full and free access to the Audit Committee.

Gilles Labbé
President and
Chief Executive Officer
May 26, 2005

Réal Bélanger
Executive Vice-President and
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Héroux-Devtek Inc.

We have audited the consolidated balance sheet of Héroux-Devtek Inc. as at March 31, 2005 and the consolidated statements of income (loss), retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at March 31, 2004 and for the year then ended, prior to adjustments for changes in accounting policies as described in note 2 and for discontinued operations as described in note 4, were audited by other auditors who expressed an opinion without reservation on those statements in their report dated May 5, 2004. We have audited the adjustments to the 2004 consolidated financial statements and in our opinion, such adjustments, in all material respects, are appropriate and have been properly applied.

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants
Montréal, Québec
May 6, 2005
(except for Notes 15 and 25 which are as of May 20, 2005)

CONSOLIDATED BALANCE SHEETS

As at March 31, 2005 and 2004 (In thousands of dollars)

	Notes	2005	2004 (Restated Notes 2 and 4)
Assets	15		
Current assets			
Cash and cash equivalents		**$ 9,550**	$ 53,599
Accounts receivable		**35,955**	28,217
Income taxes receivable		**2,660**	1,552
Other receivables		**6,671**	3,026
Inventories	8	**71,726**	53,933
Prepaid expenses		**828**	2,006
Future income taxes	19	**7,211**	5,494
Other current assets	22	**2,339**	–
Discontinued operations	4	**7,834**	10,546
		144,774	158,373
Property, plant and equipment, net	9	**103,294**	84,527
Finite-life intangible assets, net	3, 10	**11,023**	3,239
Other assets	11	**1,092**	2,872
Future income taxes	19	**7,572**	5,866
Goodwill	3, 12	**35,276**	18,617
Discontinued operations	4	**9,099**	9,464
		$ 312,130	$ 282,958
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	5, 13, 22	**$ 65,932**	$ 61,107
Customers' advances	14	**–**	5,030
Income taxes payable		**994**	229
Future income taxes	19	**1,329**	292
Current portion of long-term debt	15	**20,185**	4,049
Discontinued operations	4	**9,266**	13,805
		97,706	84,512
Long-term debt	15	**65,660**	59,464
Other liabilities	16	**7,613**	7,542
Future income taxes	19	**9,820**	9,413
Discontinued operations	4	**1,650**	1,525
		182,449	162,456
Shareholders' Equity			
Capital stock	17	**87,269**	70,883
Contributed surplus	17	**340**	227
Cumulative translation adjustment	18	**(5,338)**	(147)
Retained earnings		**47,410**	49,539
		129,681	120,502
		$ 312,130	$ 282,958

Commitments and contingencies (Notes 22, 23)
The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors

Christian Dubé
Director

Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended March 31, 2005 and 2004 (In thousands of dollars, except per share data)

	Notes	2005	2004 (Restated Notes 2 and 4)
Sales		$ 232,998	$ 192,678
Cost of sales		202,629	164,940
Amortization		16,948	13,290
Gross profit		13,421	14,448
Selling and administrative expenses	7	15,746	18,489
Operating loss		(2,325)	(4,041)
Financial expenses	15	4,009	1,920
Loss before restructuring charges, income tax recovery and discontinued operations		(6,334)	(5,961)
Restructuring charges	5	–	1,052
Loss before income tax recovery and discontinued operations		(6,334)	(7,013)
Income tax recovery	19	(2,043)	(3,041)
Net loss from continuing operations		(4,291)	(3,972)
Net income from discontinued operations	4	2,162	1,637
Net loss		$ (2,129)	$ (2,335)
Loss per share from continuing operations – basic and diluted		$ (0.16)	$ (0.17)
Earnings per share from discontinued operations – basic and diluted		$ 0.08	$ 0.07
Loss per share – basic and diluted		$ (0.08)	$ (0.10)
Weighted-average number of shares outstanding during the year		26,932,650	23,437,928

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31, 2005 and 2004 (In thousands of dollars)

	Notes	2005	2004 (Restated Note 2)
Balance at beginning of year – as previously reported		$ 49,361	$ 51,718
Change in accounting policy	2	178	301
Balance at beginning of year – restated		49,539	52,019
Repurchase of common shares	17	–	(145)
Net loss		(2,129)	(2,335)
Balance at end of year		$ 47,410	$ 49,539

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2005 and 2004 (In thousands of dollars)

	Notes	2005	2004 (Restated Notes 2 and 4)
Cash and cash equivalents provided by (used for):			
Operating activities			
Net loss from continuing operations		$ (4,291)	$ (3,972)
Items not requiring an outlay of cash:			
Amortization		17,280	13,577
Future income taxes	19	(1,022)	(1,535)
Loss (gain) on sale of property, plant and equipment		34	(22)
Gain on financial derivative instrument	2, 15	(528)	–
Amortization of net deferred loss related to financial derivative instrument	2, 15	148	–
Accretion expense of asset retirement obligations	2	200	192
Stock-based compensation	17	113	146
Cash flows from continuing operations		11,934	8,386
Net change in non-cash items related to operations	20	(17,908)	11,526
Cash and cash equivalents provided by (used for) operating activities		(5,974)	19,912
Investing activities			
Net change in temporary investments		–	45,191
Purchase of property, plant and equipment		(13,370)	(13,624)
Proceeds on disposal of property, plant and equipment		1,388	1,496
Business acquisition, net of cash acquired	3	(67,349)	–
Cash and cash equivalents provided by (used for) investing activities		(79,331)	33,063
Financing activities			
Increase in long-term debt	15	51,488	1,101
Repayment of long-term debt	15	(24,335)	(3,060)
Repurchase of common shares	17	–	(579)
Issuance of common shares	17	16,386	–
Other		(530)	(502)
Cash and cash equivalents provided by (used for) financing activities		43,009	(3,040)
Effect of changes in exchange rates on cash and cash equivalents		(1,483)	(222)
Cash and cash equivalents provided by (used for) discontinued operations		(270)	17
Change in cash and cash equivalents		(44,049)	49,730
Cash and cash equivalents at beginning of year		53,599	3,869
Cash and cash equivalents at end of year		$ 9,550	$ 53,599
Supplemental information:			
Interest paid		$ 3,647	$ 2,569
Income taxes paid		$ 951	$ 4,232

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2005 and 2004 (All dollar amounts in thousands, except share data)

NOTE 1. NATURE OF ACTIVITIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles within the framework of the significant accounting policies summarized below.

Basis of consolidation

The principal wholly-owned subsidiaries of the Company included in the consolidated financial statements are the following:

McSwain Manufacturing Corporation
A.B.A. Industries, Inc.
Héroux-Devtek Aerostructure inc.
Progressive Incorporated
Devtek Corporation
Devtek Aerospace inc.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues and expenses and disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the sales contract assumptions, determination of pension and other employee benefits, reserves for environmental matters, asset retirement obligations and for the restructuring of operations, the useful life of assets for amortization and evaluation of net recoverable amount, the determination of fair value of assets acquired and liabilities assumed in business combinations, implied fair value of goodwill, fair value of backlog, provisions for income taxes and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

Inventory valuation, revenue recognition and cost of sales

a) Inventory valuation

- Design-to-manufacture and major assembly manufacturing long-term contracts

  Inventories include raw materials, direct labor and related manufacturing overhead costs and comprise unamortized non-recurring costs (development costs, pre-production and tooling costs), production costs and the excess-over-average production costs (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract).

- Other sales contracts

  Inventories include raw materials, direct labor and related manufacturing overhead and comprise unamortized tooling costs specifically related to these contracts.

Inventories of raw materials, work in process and finished goods are valued at the lower of cost (average cost method) and replacement cost for raw materials and net realizable value for work in process and finished goods.

b) Revenue recognition for all sales contracts

Revenues from the sale of aerospace and industrial products are recognized as the related units are delivered and when collectibility is reasonably assured.

c) Cost of sales

- Design-to-manufacture and major assembly manufacturing long-term contracts

  The average unit cost for the design-to-manufacture and major assembly manufacturing long-term contracts is determined based on the estimated total production costs for a predetermined contract quantity. The average unit cost is recorded to cost of sales at the time of each related product delivery. Under the learning curve concept, which anticipates a decrease in costs as tasks and production techniques become more efficient through repetition and management action, excess-over-average production costs (the difference between actual and average costs in the early stage of a contract) during the early stages of a contract are deferred in inventories and recovered from product sales to be produced later at lower-than-average costs.

  Non-recurring costs, which are comprised of the development costs, pre-production and tooling costs related to these contracts, are amortized based on the predetermined contract quantity.

  Estimates of total production costs and contract quantities are an integral component of average cost accounting. Contract quantities are established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders and options related to the long-term sales contracts at the beginning of the production stage for each contract.

- Other sales contracts

  The average unit cost method is used for other sales contracts. The production costs related to these contracts include tooling costs and are generally amortized on a straight-line basis over two years.

- Reviews of estimates

  The Company's management conducts quarterly review as well as a detailed annual review in the fourth quarter of its cost estimates and contract quantities related to the long-term contracts and other sales contracts. The effect of any revisions is accounted for by way of a cumulative catch-up adjustment to income in the period in which the revision takes place.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Government assistance

Government assistance is recorded as a reduction of the related capital expenditure or expense. In fiscal 2005, the Company recorded as a reduction of cost of sales an amount of $472 ($559 in 2004) for government assistance.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments held with investment grade financial institutions, with maturities of three months or less from the date of acquisition.

Long-lived assets

Long-lived assets are comprised of property, plant and equipment and finite-life intangible assets (software related costs and acquired backlog).

Long-lived assets held for use are reviewed for impairment when certain events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability test is performed using undiscounted future net cash flows that are directly associated with the assets' use and eventual disposition. The amount of the impairment, if any, is measured as the difference between the carrying value and the fair value of the impaired assets and presented as an additional current period depreciation expense.

Long-lived assets are recorded at cost and amortization is provided for on a straight-line basis, except for the backlog which is amortized on a pro-rata basis over the life of the related sales contracts, over the estimated useful lives of the related assets, as follows:

Buildings and leasehold improvements	5 to 40 years
Machinery, equipment and tooling	3 to 15 years
Machinery and equipment held under capital lease	3 to 15 years
Automotive equipment	3 to 10 years
Computer and office equipment	3 to 5 years
Finite-life intangible assets	
• Software related costs	3 to 5 years
• Backlog	Based on the duration of the related sales contracts

Goodwill

Goodwill represents the excess of the purchase price, including acquisition costs, over the fair value of the identifiable net assets acquired.

Goodwill is tested for impairment annually, or more frequently if events or circumstances, such as significant declines in expected cash flows, indicate that it is more likely than not that the asset might be impaired. Goodwill is considered to be impaired when the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value. Goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

Translation of foreign currency

- Self-sustaining foreign operations

  The assets and liabilities of foreign subsidiaries are translated at the exchange rate in effect at the balance sheet dates. Revenues and expenses are translated at the average exchange rate for the year. Translation gains and losses are deferred and shown separately in shareholders' equity as cumulative translation adjustment.

- Foreign currency transactions

  Foreign currency transactions are translated using the temporary method. Under this method, monetary balance sheet items are translated into Canadian dollars at the exchange rate prevailing at year-end. Revenues and expenses are translated using the average exchange rates prevailing during each month of the year. Translation gains and losses are included in the consolidated statements of income (loss).

Derivative financial instruments

In accordance with its risk management policy, the Company uses derivative financial instruments to manage its foreign currency and interest rate exposures. These financial instruments are not recorded in the consolidated financial statements at the time of contract if they meet hedging criteria. Management is responsible for establishing standards of acceptable risks and monitoring, as appropriate, the transactions covering these risks. The Company uses financial instruments for the sole purpose of hedging existing commitments or obligations. These derivative financial instruments are not used for trading purposes.

- Forward foreign exchange contracts

  The Company uses forward foreign exchange contracts to manage foreign currency exposure arising from forecasted foreign currency cash flows related to its export sales. Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge anticipated US dollar denominated sales are recognized as an adjustment of the revenues when the sale is recorded. For monetary items which qualify for hedge accounting, unrealized gains and losses are included in the Company's balance sheet under other receivables or accounts payable and accrued liabilities.

  Realized and unrealized gains or losses associated with forward foreign exchange contracts, which have been terminated or cease to be effective prior to maturity, are deferred under other current, or non-current, assets or liabilities on the consolidated balance sheets and recognized to income in the period in which the underlying hedged transaction is recognized. In the event a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in the consolidated statements of income (loss).

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments (cont'd)

- Interest rate swaps

  The Company utilizes interest rate swap agreements to manage the fixed and floating interest rate mix of its debt portfolio. These swaps are accounted for using the accrual method. Under this method, unrealized gains and losses are not recognized and net payments due on receivable are accounted for as an adjustment of interest expense on the consolidated statements of income (loss). Gains and losses related to ineffective interest rate swap agreement are immediately recognized to income.

Deferred financing costs

The deferred financing costs are amortized on a straight-line basis over the duration of the related loans and their unamortized portion is shown in other assets.

Pension Plans and Other Post-Retirement Benefits

The actuarial determination of the accrued benefit obligations for pensions uses the accrued benefit method for the flat benefit plan and the projected benefit method prorated on services for the other plans (which incorporate management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees and other actuarial factors). Plan obligations are determined based on expected future benefit payments discounted using current market interest rates.

For the purpose of calculating the expected return on plan assets, those assets are valuated at fair value.

Actuarial gains (losses) arise from the difference between the actuarial rate of return on plan assets for the year and the expected long-term rate of return on plan assets for that year and from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The weighted average remaining service period of the active employees is 17 years for 2005 (18 years for 2004).

Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of active employees at the date of amendment.

On April 1, 2000, the Company adopted the new accounting standard on employee future benefits using the prospective application method. The Company is amortizing the transitional obligation on a straight-line basis over 17 years, which was the weighted-average remaining service period of employees expected to receive benefits under the benefit plans as of April 1, 2000.

When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement. A curtailment is the loss by employees of the right to earn future benefits under the plan. A settlement is the discharge of a plan's obligation. The Company uses a measurement date of March 31.

Income taxes

Income taxes are provided for using the liability method. Under this method, future income tax assets and liabilities are determined based on all significant differences between the carrying amounts and tax bases of assets and liabilities using substantively enacted tax rates and laws, which will be in effect for the year in which the differences are expected to reverse.

A valuation allowance is recorded to reduce the carrying amount of future income tax assets, when it is more likely than not that such assets will not be realized.

Earnings per share

The earnings per share amounts are determined using the weighted-average number of outstanding shares during the year. The treasury stock method is used to calculate the diluted earnings per share. This method assumes that the proceeds would be used to purchase common shares at the average market price during the year.

Stock-based compensation and other stock-based payments

- Stock option plan

  The Company has a stock option plan where options to purchase common shares are issued to directors, officers and key employees. The Company uses the Black & Scholes model to determine the fair value of stock options, and expenses all granting of stock options based on their earned period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in the Company's contributed surplus.

- Stock Appreciation Right plan

  The Company has a Stock Appreciation Right (SAR) plan where rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, 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 granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted value. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in the Company's accounts payable and accrued liabilities.

- Stock Purchase and ownership incentive plan

  The Company has a stock purchase and ownership incentive plan allowing key management employees to subscribe, by salary deduction, to a number of common shares issued by the Company. The common share issuance is accounted for in the Company's Capital stock. Also, the Company matches 50% of the employee's contribution by attributing to the employee, additional common shares acquired on the TSX at market price. Common shares purchased by the Company on behalf of the employee are accounted for as a compensation expense which is included in the Company's selling and administrative expenses.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

CHANGES IN ACCOUNTING POLICIES

Hedging relationships

On April 1, 2004, the Company adopted, on a prospective basis, Accounting Guideline No.13 (AcG-13) on Hedging relationships which applies to all existing and new hedging relationships and provides additional documentation and designation requirements for hedge accounting and requires regular, periodic assessment of effectiveness. Derivatives that do not qualify for hedge accounting, are recognized at fair value on the balance sheet with changes in fair value recorded in earnings.

As at April 1, 2004, derivative instruments used by the Company and that previously qualified for hedge accounting continue to qualify under the accounting guideline except for the interest rate swap agreement of US$10,000.

- Interest rate swap agreement

  As at April 1, 2004, the Company recorded a deferred loss amounting to $727 related to the interest rate swap agreement. On May 20, 2004, the interest rate swap agreement was designated for hedge accounting purposes and the change in its fair value from April 1, 2004 to May 20, 2004, representing a gain of $528, is included as a reduction of the Company's financial expenses. In fiscal year 2005, the amortization of the resulting net deferred loss amounted to $148 and is also included in the Company's financial expenses.

  As at March 31, 2005, the net deferred loss of $334 is included in the Company's other assets and is amortized over the remaining life of the interest rate swap agreement which matures on August 2, 2007.

- Forward Foreign Exchange Contract

  As at April 1, 2004, the Company has revised its accounting policies regarding foreign currency transactions. Monetary items in foreign currencies included in current assets and liabilities are translated into Canadian dollars at the exchange rate prevailing at period-end. For accounts receivable which qualify for hedge accounting, unrealized gains and losses are included in the Company's balance sheet under "other receivables" or "accounts payable and accrued liabilities". As at March 31, 2005, the Company's "other receivables" included $1,549 for unrealized gains related to the conversion of accounts receivable which qualify for hedge accounting. Revenues and expenses in foreign currencies not designated as hedged items are translated using the average exchange rates prevailing during each month of the year. Translation gains and loses are included in the consolidated statements of income (loss). Foreign exchange translation gains and losses on foreign currency denominated derivate financial instruments used to hedge anticipated U.S. dollar denominated sales are recognized as an adjustment of the revenues (sales) when the sale is recorded.

Asset Retirement Obligations

In March 2003, the CICA issued CICA Handbook, Section 3110, *Asset Retirement Obligations*. This standard focuses on the recognition and measurement of liabilities related to legal obligations associated with the retirement of property, plant and equipment. Under this standard, these obligations are initially measured at fair value and subsequently adjusted for the accretion of discount and any changes in the underlying cash flows. The asset retirement cost is to be capitalized to the related asset and amortized into earnings over its useful life.

Effective April 1, 2004, the Company has adopted retroactively this change in accounting policy to account for asset retirement obligations.

The Company's asset retirement obligations represent essentially environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil of which $4,626 is included in the Company's accounts payable and accrued liabilities at March 31, 2005 ($4,426 at March 31, 2004). These rehabilitation costs are expected to be paid over the next three fiscal years.

The impact of this new accounting policy on the Company's balance sheet at March 31, 2004, using a discount rate of 4.5%, was as follows:

• Increase in property, plant and equipment	$	1,582
• (Increase) in accumulated amortization of property, plant and equipment	$	(1,582)
• (Increase) in retained earnings	$	(178)
• (Decrease) in future income taxes included in current assets	$	(96)
• Decrease in accounts payable and accrued liabilities	$	274

The impact of this change in accounting policy on the consolidated statements of income (loss) for the years ended March 31, 2005 and 2004 is as follows:

		2005		2004
Increase in Financial expenses	$	200	$	192
(Increase) in Income tax recovery		(68)		(69)
Increase of net loss	**$**	**132**	$	123

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

FUTURE CHANGES IN ACCOUNTING POLICIES

Financial Instruments

The CICA issued revisions to Section 3860 of the CICA Handbook, *Financial Instruments - Disclosure and Presentation*. These changes are effective for fiscal years beginning on or after November 1, 2004. The revisions change the accounting for certain financial instruments that have liability and equity characteristics. It requires instruments that meet specific criteria to be classified as liabilities on the balance sheet. Some of these instruments were previously classified as equities. The Company currently does not have any instruments with these characteristics.

Comprehensive Income

The CICA issued Section 1530 of the CICA Handbook, *Comprehensive Income*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components.

Comprehensive income is the change in a company's net assets that results from transactions, events and circumstances from sources other than the company's shareholders. It includes items that would not normally be included in net income, including the following:

- changes in the currency translation adjustment relating to self-sustaining foreign operations;
- unrealized gains or losses on available-for-sale investments;
- changes in fair value of derivative financial instruments that qualify for hedge accounting.

The CICA also made changes to Section 3250 of the CICA Handbook, *Surplus*, and reissued it as Section 3251, *Equity*. This section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with the new requirements of section 1530, Comprehensive Income.

Adopting these sections on April 1, 2007 will require the Company to start reporting the following items in the consolidated financial statements:

- comprehensive income and its components;
- accumulated other comprehensive income and its components;
- all derivative financial instruments measured at fair value.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting these sections on April 1, 2007.

Financial Instruments – Recognition and Measurement

The CICA also issued Section 3855 of the CICA Handbook, *Financial Instruments – Recognition and Measurement*. This section is effective for fiscal years beginning on or after October 1, 2006. It describes the accounting policies for recognizing and measuring financial assets, financial liabilities and non-financial derivatives.

This CICA section requires the following:

- all financial assets be measured at fair value, with certain exceptions such as loans and investments that are classified as held-to-maturity;
- all financial liabilities be measured at fair value if they are derivatives or classified as held for trading purposes. Other financial liabilities are measured at their carrying value;
- all derivative financial instruments be measured at fair value, even when they are part of a hedging relationship.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

Hedges

The CICA recently issued Section 3865 of the CICA Handbook, Hedges. This section is effective for fiscal years beginning on or after October 1, 2006, and describes when and how hedge accounting can be used.

Hedging is an activity used by a company to change an exposure to one or more risks by creating an offset between the following:

- changes in the fair value of a hedged item and a hedging item;
- changes in the cash flows attributable to a hedged item and a hedging item, or
- changes resulting from a risk exposure relating to a hedged item and a hedging item.

Hedge accounting ensures that all gains, losses, revenues and expenses from the derivative and the hedged item are recorded in the statement of income in the same period.

The Company has not yet evaluated the impact on its consolidated financial statements of adopting this section on April 1, 2007.

NOTE 3. BUSINESS ACQUISITION

Description of business

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 to acquire all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector with approximate annual sales of $50,000. This acquisition was accounted for using the purchase method. The earnings of Progressive have been accounted for in the Company's consolidated statement of income (loss) since the acquisition date and are included in the Aerospace segment. The total initial purchase price representing $74,193 (US$56,356) at the acquisition date (April 1, 2004) was adjusted downward by $2,894 to $71,299 at March 31, 2005 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments related to additional profitability performance made or provided for. At March 31, 2005, the total adjusted purchase price can be detailed as follows:

Basic purchase price	$ 60,951
Tax impacts	3,421
Acquisition of a large specialized manufacturing equipment	4,246
Transaction costs and other	2,681
	$ 71,299

As part of the asset purchase agreement and plan for merger, additional payments of up to $15,798 in total (US$6,000 for fiscal years 2004 and 2005 and US$6,000 for fiscal year 2006), could also be made based on additional profitability performance. At March 31, 2005, additional payments of $2,110 (US$1,700) were made or provided for.

Additional payments related to profitability performance of up to $7,258 (US$6,000) could still be made or provided for in fiscal year 2006. Should these payments be made, the Basic purchase price will be adjusted accordingly.

Financing of the acquisition

In order to finance this acquisition, the Company used $36,409 of its existing Secured Syndicated Revolving Credit Facilities, issued 3,500,000 common shares through private placements for a total net cash consideration of $16,180 and used $18,710, net of the adjustments to the initial purchase price, of its available cash at March 31, 2004. The financing and the total outlay of cash and cash equivalents at March 31, 2005 can be broken down as follows:

Secured Syndicated Revolving Credit Facilities		$ 36,409
Issuance of common shares		16,180
Cash	$ 11,469	
Sale balance in escrow	7,241	18,710
		71,299
Less:		
Cash and cash equivalents acquired		2,498
Additional payments provided for		1,452
		$ 67,349

Purchase Price Allocation

The identifiable intangible asset related to the acquisition of Progressive which amounted to $9,601 was attributed to the backlog. The backlog value was determined using a discounted cash flow method. The underlying value of the backlog which relates to specific sales contracts will be amortized on a pro-rata basis over the life of the related sales contracts. The excess of the purchase price over the fair value of the net tangible assets acquired and the acquired backlog amounted to $18,274, net of the adjustments to the initial purchase price. Backlog and goodwill are tax deductible, and the adjusted purchase price allocation at March 31, 2005 can be detailed as follows:

Cash	$ 2,498
Tangible assets	44,936
Backlog	9,601
Goodwill	18,274
Accounts payable and accrued liabilities	(4,010)
	$ 71,299

NOTE 4. DISCONTINUED OPERATIONS: SALE OF LOGISTICS AND DEFENCE DIVISION, DIEMACO

On February 10, 2005, the Company entered into an agreement with Colt Defence LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a manufacturer of small arms for military and law enforcement forces. The sale price was established at $18,200, subject to certain final adjustments (see note 25). All assets and liabilities in the Company's consolidated balance sheets along with revenues and expenses in the Company's consolidated statements of income (loss) and the cash and cash equivalents in the Company's consolidated statements of cash flows related to the Logistics and Defence Division, Diemaco were segregated and presented as discontinued operations.

Sales, income before income taxes and net income related to Diemaco were as follows:

	2005	2004
Sales	**$ 21,530**	$ 20,531
Income before income taxes	**3,441**	2,590
Net income	**2,162**	1,637

All the activities of the Logistics & Defence Division, Diemaco operations were excluded from the Company's Aerospace segment and Canadian geographical segment in the segmented information disclosure.

NOTE 5. RESTRUCTURING CHARGES

In fiscal year 2003, considering the significant reduction in demand in the industrial gas turbine market, and taking into account the economic environment in the United States and the Company's manufacturing capacity utilization in its Gas Turbine Division, management decided to close the gas turbine components manufacturing plants in Tampa and transfer all of its operations to the Gas Turbine Division's Cincinnati plants.

In fiscal year 2004, the Company completed the transfer of Tampa operations into the Cincinnati plants. During the transfer of the production expertise, the Company incurred non-recurring expenses mainly for employees' relocation expenses, retention bonuses, training expenses and other expenses related to the maintenance of the unused production facility in Tampa. These non-recurring expenses amounted to $1,052 and were included in restructuring charges in 2004.

At March 31, 2005, the remaining balance of accrued liabilities related to the restructuring charges amounted to $36 ($1,010 at March 31, 2004) and is included in the Company's accounts payable and accrued liabilities.

NOTE 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk related to derivative financial instruments

Presently the Company engages in derivative financial instruments only with Canadian chartered banks or their subsidiaries. Thus, the Company does not anticipate any breach of agreement by counterparties.

Interest rate risk

In order to limit the effect of interest rate variations over the portion of its long-term debt in U.S. currency, the Company has entered into a five-year interest rate swap agreement for an amount of US$10,000. This agreement, dated August 2, 2002, fixes the Libor rate at 4.1%.

Foreign exchange risk

The Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.3308 an amount of US$128,000 (US$103,050 at an average rate of 1.4089 in 2004) for the purpose of foreign exchange risk management related to its export sales maturing at various dates between April 1, 2005 and December 31, 2009.

Credit concentration and credit risks

A significant portion of the Company's sales, approximately 65%, are made to a limited number (six) of customers (60% to three customers in 2004).

However, credit concentration risks are limited due to the fact that the Company deals generally with large corporations and/or government agencies, with the exception of sales made to non government agencies outside North America, which represent less than 2% of the Company's total sales.

Fair value of financial instruments

At March 31, the book value of all financial instruments approximated fair value, with the exception of the following financial instruments:

	2005		2004	
	Book value	**Fair value**	Book value	Fair value
Current portion of long-term debt and long-term debt	**$ 85,845**	**$ 84,339**	$ 63,513	$ 61,645
Off-balance sheet derivative instruments:				
Forward foreign exchange contracts				
Favorable position	**–**	**16,252**	–	8,504
Interest rate swap				
Favorable (Unfavorable) position	**–**	**5**	–	(727)

The fair values are based on information available to management as at March 31, 2005 and 2004. The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgement in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessary indicative of the amounts that the Company could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

NOTE 6. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The following methods and assumptions have been used to evaluate the fair value of each category of financial instruments:

For certain financial instruments of the Company, including cash and cash equivalents, accounts receivable, other receivables, other current assets, accounts payable and accrued liabilities and customers' advances, the book value approximates fair value because of the near maturity of these financial instruments.

The fair values of the current portion of long-term debt and long-term debt are determined by discounting the future contractual cash flows anticipated pursuant to the financial contracts in force using discount rates which represent the interest rates on loans of which the Company could avail itself for loans having similar terms and conditions.

NOTE 7. SELLING AND ADMINISTRATIVE EXPENSES

Following the prospective adoption of Accounting Guideline No.13 (AcG-13) on hedging relationship on April 1, 2004, gains or losses on foreign exchange resulting from the conversion of monetary items denominated in foreign currencies are included in the Company's selling and administrative expenses. Previously, these gains or losses resulting from the conversion of the net monetary items in foreign currencies hedged by forward foreign exchange contracts were included in the Company's revenues.

In fiscal year 2005, the foreign exchange currency gain included in the Company's selling and administrative expenses amounted to $916 compared to a loss of $408 in 2004.

NOTE 8. INVENTORIES

Inventories consist of:

	2005	2004 (Restated Note 4)
Raw materials	$ 14,450	$ 7,840
Work in process and finished goods	66,318	52,354
Less: Progress billings	9,042	6,261
	$ 71,726	$ 53,933

Progress billings received during the production process are reduced from the related inventories.

At March 31, 2005, the work in process and finished goods include non-recurring costs (development costs, pre-production costs and tooling costs) and the excess over average production costs (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract) of $1,031 ($1,940 in 2004).

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

	2005		
	Cost	Accumulated Amortization	Net book Value
Land	$ 3,590	$ –	$ 3,590
Buildings and leasehold improvements	37,483	12,842	24,641
Land and building held for resale	5,579	3,177	2,402
Machinery, equipment and tooling	142,050	70,327	71,723
Automotive equipment	993	870	123
Computer and office equipment	7,087	6,272	815
	$ 196,782	$ 93,488	$ 103,294

	2004 (Restated Notes 2 and 4)		
	Cost	Accumulated Amortization	Net book Value
Land	$ 2,906	$ –	$ 2,906
Buildings and leasehold improvements	32,372	11,818	20,554
Land and building held for resale	6,993	3,753	3,240
Machinery, equipment and tooling	115,946	59,573	56,373
Machinery, equipment and tooling for resale	2,077	1,963	114
Automotive equipment	912	800	112
Computer and office equipment	7,039	5,811	1,228
	$ 168,245	$ 83,718	$ 84,527

The amortization expense of property, plant and equipment amounted to $14,640 in fiscal year 2005 ($12,185 in fiscal year 2004).

At March 31, 2005, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $21,609 ($22,064 at March 31, 2004) with accumulated amortization of $4,665 ($2,543 at March 31, 2004).

Land and building held for resale are related to the remaining surplus assets following the closing of the Tampa operations. These assets are included in the Aerospace segment, and are presented at the lower of carrying amount or fair value less cost to sell.

NOTE 10. FINITE-LIFE INTANGIBLE ASSETS

Finite-life intangible assets include software related costs and acquired backlog pursuant to the acquisition of Progressive. Changes in Finite-life intangible assets are as follows:

	2005	2004 (Restated Note 4)
Balance at beginning of year	$ 3,239	$ 3,445
Acquisition of software related costs	1,231	985
Acquisition of backlog related to the acquisition of Progressive (see note 3)	9,601	–
Amortization	(2,308)	(1,105)
Effect of changes in exchange rate	(740)	(86)
	$ 11,023	$ 3,239

The Finite-life intangible assets consist of:

	2005		
	Cost	Accumulated Amortization	Net book Value
Software	$ 11,283	$ 7,987	$ 3,296
Backlog	8,821	1,094	7,727
	$ 20,104	$ 9,081	$ 11,023

	2004 (Restated Note 4)		
	Cost	Accumulated Amortization	Net book Value
Software	$ 10,163	$ 6,924	$ 3,239

NOTE 11. OTHER ASSETS

The Company's other assets can be summarized as follows:

	2005	2004 (Restated Note 4)
Deferred financing costs – net	$ 758	$ 889
Deferred loss related to financial derivative instrument – net	334	–
Deferred transaction costs	–	1,983
	$ 1,092	$ 2,872

The deferred transaction costs, included in the Company's other assets at March 31, 2004 represented expenses related to the acquisition of Progressive. On April 1, 2004 (the acquisition date), these costs were included in the purchase price of the new subsidiary (see note 3).

NOTE 12. GOODWILL

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Changes in the goodwill balance can be detailed as follows:

	2005	2004 (Restated Note 4)
Balance at beginning of year – as previously reported	$ 22,060	$ 22,060
Logistics and Defence Division, Diemaco – discontinued operations (see Note 4)	(3,443)	(3,443)
Balance at beginning of year – restated	$ 18,617	$ 18,617
Acquisition of Progressive, April 1, 2004 (see Note 3)	21,168	–
Progressive's acquisition purchase price adjustments (see Note 3)	(2,894)	–
Effect of changes in exchange rate	(1,615)	–
	$ 35,276	$ 18,617

NOTE 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

At June 12, 2000, the purchase price for the acquisition of Devtek Corporation and its subsidiaries included adjustments to the net book value of the net assets acquired representing contingency and reorganization reserves. At March 31, 2005, the balance of these reserves amounted to $4,765 ($6,316 at March 31, 2004) and is included in accounts payable and accrued liabilities.

NOTE 14. CUSTOMERS' ADVANCES

The customers' advances represent unearned amounts received from Landing Gear Division's customers. These customers' advances are liquidated based on units delivered to customers.

Customers' advances received by the Company's Logistics and Defence division, which are guaranteed by the Company, are included in the Company's discontinued operations. The amount of these guarantees is reduced as the customers' advances are liquidated. The customers' advances received by the Company's Logistics and Defence division amounted to $1,246 at March 31, 2005 ($4,961 in 2004).

NOTE 15. LONG-TERM DEBT

	2005	2004
Secured Syndicated Revolving Credit Facilities of up to $100,000 (either in Canadian or U.S. currency equivalent) having revolving periods of two (2) years extendible annually, bearing interest at Bankers' acceptance plus 2.0% for the Canadian operating and term facilities (Bankers' acceptance plus 1.5% in 2004), at Libor plus 2.0% for the U.S. operating and term facilities (US base rate plus 1/2% and Libor plus 1.5% respectively in 2004) representing an effective rate of 4.6% for the Canadian facilities (4.15% in 2004) and of 4.75% for the US facilities (4.5% and 5.6% respectively in 2004) respectively at March 31, 2005. At March 31, 2005, the Company used $10,000 and US$5,000 (US$5,538 in 2004) on operating facilities and used $5,000 and US$32,656 ($13,946 and US$10,000 in 2004) on term facilities.	$ 60,549	$ 34,322
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	14,117	15,509
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between June 2005 and October 2009, with amortization periods varying between five (5) to eight (8) years, secured by the related property, plant and equipment, net of interest of $1,568 ($2,251 in 2004). During fiscal year 2005, no capital lease obligations were contracted ($1,420 in 2004).	11,179	13,682
	85,845	63,513
Less: current portion	20,185	4,049
	$ 65,660	$ 59,464

Secured Syndicated Revolving Credit Facilities

These Secured Syndicated Revolving Credit Facilities allowed the Company and its subsidiaries to borrow up to $100,000 (either in Canadian or U.S. currency equivalent) in fiscal years 2005 and 2004 which facilities were reduced to $90,000 in May 2005 and are used for its operations, acquisitions and foreign exchange risks from a group of banks and their American subsidiaries or branches and consist of revolving operating credit facilities up to $30,000 and revolving term credit facilities up to $70,000 in fiscal years 2004 and 2005 which were reduced to $30,000 and $60,000 respectively in May 2005, each having a two (2) year revolving period extendible annually, secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. In the event that the credit facilities are not extended, the operating credit facilities will mature at the end of the revolving period. As to the term credit facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five (5) years. These Syndicated Revolving Credit Facilities were extended on February 20, 2004, on a secured basis for a period of two years up to March 21, 2006. In 2005, the Company extended the renewal date of its Secured Syndicated Revolving Credit Facilities from February 19, 2005 to August 30, 2005. However, the anniversary date of the revolving period remains March 21 of each year. On that basis, the balance due on the Syndicated Revolving Operating Credit Facilities of $16,048 at March 31, 2005 was reclassified in the Company's current portion of long-term debt. The annual extension of the Secured Syndicated Revolving Credit Facilities will be negotiated during the fiscal year 2006.

Interest rates vary based on prime, Bankers' acceptance, Libor or U.S. base rate plus a relevant margin depending on the level of the Company's indebtedness and cash flows.

These Secured Syndicated Revolving Credit Facilities are governed by two credit agreements (Canadian and American).

Loans bearing no interest

Loans bearing no interest represent essentially government assistance for the purchase of specialized equipment or tooling and for the modernization or additions to the Company's facilities. They were granted as incentives under certain federal regional programs and provincial industrial programs to favour the development of the industry in Canada. Some of these loans are repayable according to certain specific conditions, in particular depending on the Company's aerospace sales and the Company's sales of certain predetermined aircraft landing gear or parts within specific delays.

Restrictive covenants

Long-term debt is subject to certain general and financial covenants related amongst others to the working capital, the capital expenditures, the indebtedness, the cash flows and the equity of the Company and/or certain subsidiaries.

At March 31, 2005, the Company had complied with all restrictive covenants. However, based on the expected Company's results of operations and cash flow levels for the first three quarters of fiscal year 2006, the Company renegotiated less restrictive financial covenants for these quarters on its Secured Syndicated Revolving Credit Facilities. Also, the total credit limit was reduced from $100,000 to $90,000.

The Company expects to comply with these restrictive financial covenants during fiscal year 2006. Should the Company fail to comply with its restrictive financial covenants referred to above, it will attempt to renegotiate them. However, the Company cannot predict what would be the outcome of these renegotiations.

NOTE 15. LONG-TERM DEBT (cont'd)

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Years ending March 31

Year	Repayments on capital leases	Repayments on loans bearing no interest	Repayments related to the earliest termination of revolving credit facilities	Total
2006	$ 3,111	$ 1,671	$ 16,048	$ 20,830
2007	3,094	2,614	8,900	14,608
2008	3,557	3,030	8,900	15,487
2009	2,379	1,580	26,701	30,660
2010	606	1,663	–	2,269

The minimum repayments include interest on obligations under capital leases of $1,568.

The financial expenses, for the years ended March 31, are comprised of:

	2005	2004 (Restated Notes 2 and 4)
Interest	$ 4,112	$ 2,546
Amortization of deferred financing costs	307	280
Standby fees	181	228
Gain on financial derivative instrument	(528)	–
Amortization of net deferred loss related to financial derivative instrument	148	–
Interest revenue	(211)	(1,134)
Financial expenses	$ 4,009	$ 1,920

NOTE 16. OTHER LIABILITIES

The Company's other liabilities are comprised of the following:

	2005	2004
Pension Plans and other post-retirement benefits (note 21)	$ 6,949	$ 6,836
Others	664	706
	$ 7,613	$ 7,542

NOTE 17. CAPITAL STOCK

Authorized capital stock

The authorized capital stock of the Company consists of the following:

An unlimited number of voting common shares, without par value

An unlimited number of first preferred shares, issuable in series

An unlimited number of second preferred shares, issuable in series.

The rights, privileges, restrictions and conditions related to the preferred shares may be established by the Board of Directors.

The issued and outstanding capital stock of the Company consists of the following:

	2005	2004
26,954,552 common shares (23,401,559 in 2004)	$ 87,269	$ 70,883

Issuance of common shares

During the fiscal year 2005, the Company issued 3,552,993 common shares for a total cash consideration of $16,386. Of these shares, 3,500,000 common shares were issued at a price of $4.90 for a total net cash consideration of $16,180 (net of $970 fees and expenses) in conjunction with the closing of the acquisition of Progressive (see Note 3). The remaining 52,993 common shares were issued under the new stock purchase and ownership incentive plan (17,993 common shares) and following the exercise of stock options (35,000 common shares) for a total cash consideration of $206.

No common shares were issued in 2004.

NOTE 17. CAPITAL STOCK (cont'd)

Repurchase of common shares

In fiscal year 2004, following the approval from the Toronto Stock Exchange (TSX) to proceed with its normal course issuer bid to purchase its common shares, the Company repurchased for cancellation 143,100 common shares for a total cash consideration of $579.

The excess of $145 of the cost of the common shares repurchased over their average book value of $434 was accounted for in reduction of the Company's retained earnings.

Stock option plan

Under the stock option plan (the plan), options are granted to directors, officers and key employees to purchase the Company's common shares. The plan establishes that the subscription price will be equal to the closing price of the related shares on the day preceding the granting of the options. Options generally may be exercised after the first anniversary of the date of grant until the seventh anniversary of the date of grant. They are vesting over a period varying from three (3) to five (5) years. For options granted after September 1, 2003 a predetermined target market price level must be reached in order for such options to become exercisable.

The aggregate number of shares reserved for issuance under the plan is 2,187,118 of which 364,279 shares have not yet been granted.

During fiscal year 2005, the Company granted to key employees 200,000 (199,903 in 2004) stock options representing a total fair value of $314 ($306 in 2004) calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a compounded risk free interest rate of 4.6% (5.1% in 2004). Stock options cost is amortized over their earned period and the expense of $113 ($146 in 2004) was accounted for in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

As of March 31, 2005, 808,821 options were issued and outstanding as follows:

	Outstanding options			Vested options	
Range of exercise price	Number	Weighted-average years of maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$3.50 to $4.99	381,321	2.8	$ 4.73	275,174	$ 4.73
$5.00 to $6.49	250,000	5.6	5.17	50,000	5.85
$8.00 to $10.00	177,500	3.7	9.71	88,500	9.70
	808,821	3.9	$ 5.96	413,674	$ 5.93

During the years ended March 31, the number of options has varied as follows:

	2005		2004	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of year	$ 6.28	792,880	$ 6.58	983,350
Granted	5.00	200,000	4.78	199,903
Exercised	3.79	(35,000)	–	–
Cancelled / forfeited	6.88	(149,059)	6.27	(390,373)
Balance at end of year	$ 5.96	808,821	$ 6.28	792,880

Stock purchase and ownership incentive plan

On September 2, 2004, the Board of Directors of the Company approved a stock purchase and ownership incentive plan to induce management employees to hold, on a long-term basis, common shares of the Company.

Under this 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. The subscription price of the issued common shares represents 90% of the average closing price of the Company's common share on the 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, the first period beginning July 1, 2005.

A trustee is in charge of the administration of the plan, including market purchases and subscriptions to the Company's common shares for and on behalf of the participating employees.

The aggregate number of shares reserved for issuance under this plan represent 90,000 common shares and has been taken out from the common shares already reserved for the Company's stock option plan.

During fiscal year 2005, 17,993 common shares were issued and 8,034 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $37 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

NOTE 17. CAPITAL STOCK (cont'd)

Stock appreciation right plan

The Company has a Stock Appreciation Right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR in fiscal years 2005 and 2004.

In fiscal year 2005, the Company also granted 15,000 SAR at a granted value of $5.00 to its non-employee directors (12,500 in fiscal year 2004).

At March 31, 2005, on a cumulative basis, 45,000 SAR were still outstanding at a weighted-average granted value of $6.13 (30,000 SAR at a weighted average granted value of $6.70 at March 31, 2004) which expire at various dates between fiscal years 2009 and 2012.

Diluted earnings per share

For fiscal years 2005 and 2004, the effect of stock options potentially exercisable on the Company's loss per share from continuing operations was anti-dilutive. Therefore, the Company's basic and diluted loss per share from continuing operations are the same.

NOTE 18. CUMULATIVE TRANSLATION ADJUSTMENT

The decrease in the cumulative translation adjustment of $5,191 during the year (decrease of $1,950 in 2004) reflects the impact of the foreign exchange rate fluctuations on the net assets of foreign subsidiaries.

NOTE 19. INCOME TAXES

The computation of income tax recovery is as follows:

	2005	2004 (Restated Notes 2 and 4)
Income taxes at combined federal and provincial tax rates	$ (2,059)	$ (2,279)
Large corporations' tax	176	88
Tax incentives for manufacturing and processing	–	(275)
Non-recognition of income tax benefits	1,473	1,027
Permanent differences	(1,481)	(1,670)
Income tax rate difference-US subsidiaries	27	(83)
Other items	(179)	151
	$ (2,043)	$ (3,041)

Temporary differences and carry-forwards, which give rise to future income tax assets and liabilities, are as follows:

	2005	2004 (Restated Notes 2 and 4)
Future income tax assets		
Current		
Non-deductible reserves	$ 4,397	$ 4,988
Inventories	2,428	506
Receivables	386	–
	$ 7,211	$ 5,494
Long-term		
Loans bearing no interest	$ 636	$ 615
Restructuring charges	–	747
Future tax benefits from tax loss utilization	4,803	3,724
Losses on contracts	486	–
Capital assets	439	214
Other	1,208	566
	$ 7,572	$ 5,866

NOTE 19. INCOME TAXES (cont'd)

Future income tax liabilities		2005		2004 (Restated Notes 2 and 4)
Current				
Inventories	$	996	$	1
Investment tax credits		333		291
	$	1,329	$	292
Long-term				
Capital assets	$	9,820	$	9,240
Other		–		173
	$	9,820	$	9,413

Operating losses carried forward and other temporary differences which are available to reduce future taxable income of certain subsidiaries, for which no related income tax benefits have been recognized in the consolidated financial statements, amounted to $8,175 as at March 31, 2005 ($3,358 as at March 31, 2004) of which approximately $6,645 have expiry periods between 3 and 10 years.

Income taxes recovery are as follows:		2005		2004 (Restated Notes 2 and 4)
Current taxes	$	(1,021)	$	(1,506)
Future taxes		(1,022)		(1,535)
	$	(2,043)	$	(3,041)

NOTE 20. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

The net change in non-cash items related to operations can be detailed as follows:

		2005		2004 (Restated Notes 2 and 4)
Accounts receivable	$	(4,135)	$	5,767
Income taxes receivable		(1,108)		2,225
Other receivables		(3,335)		(310)
Inventories		(3,595)		2,589
Prepaid expenses		1,302		6
Other current assets		(2,339)		–
Accounts payable and accrued liabilities and other liabilities		2,759		(1,804)
Customers' advance		(5,030)		5,030
Income taxes payable		(502)		(301)
Effect of changes in exchange rate		(1,925)		(1,676)
	$	(17,908)	$	11,526

NOTE 21. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS

Description of defined benefit plans

The Company has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are either based on years of service and flat amount, years of service and final average salary or set out by individual agreements.

Benefits provided by the other post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since these amounts are not significant, they are not included in figures below.

In fiscal year 2004, the Company offered an early retirement program to certain employees of one of its division. The eligible employees who accepted to retire under this program received an additional temporary pension payable up to the age of 65. The additional liability resulting from that program has been accounted for in the pension expense as "special termination benefits", amounting to $575 in 2004.

Total cash payments

Total cash payments for employee future benefits for fiscal year 2005, consisting of cash contributed by the Company to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans were $1,382 ($1,666 in 2004) while the cash contributed to its defined contribution plans was $1,242 ($858 in 2004).

NOTE 21. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (cont'd)

Defined benefit plans

The Company measures the fair value of plan assets for accounting purposes as at March 31 of each year while its accrued benefit obligations are valuated as at December 31 of each year and projected to March 31 for all plans except one, for which the measurement is made as at March 31. The most recent actuarial valuations of the pension plans for funding purposes were as of December 31, 2001 and January 1, 2003. The next required actuarial valuation will be conducted as at December 31, 2004 and will be completed by September 30, 2005. The subsequent actuarial valuation will be required as at January 1, 2006.

Defined benefit pension plan obligations

Accrued benefit obligations	2005	2004
Balance at beginning of year	$ 26,032	$ 22,513
Current service cost	807	655
Employee contributions	496	491
Interest cost	1,268	1,224
Benefits paid	(1,347)	(1,115)
Actuarial losses	2,066	1,689
Special termination benefits	–	575
Balance at end of year	$ 29,322	$ 26,032

Defined benefit pension plan assets

Fair value of plan assets	2005	2004
Balance at beginning of year	$ 13,456	$ 10,324
Actual return on plan assets	1,050	2,090
Employer contributions	1,382	1,666
Employee contributions	496	491
Benefits paid	(1,347)	(1,115)
Balance at end of year	$ 15,037	$ 13,456

Plan assets consist of:

Asset category [1]	2005	2004
Equity securities	54 %	55 %
Debt securities	37	38
Real estate	1	1
Other	8	6
Total	100 %	100 %

[1] Measured as of the measurement date as of March 31 of each year.

Reconciliation of the funded status of the defined benefit pension plans to the amounts recorded in the consolidated financial statements

	2005	2004
Fair value of plan assets	$ 15,037	$ 13,456
Accrued benefit obligation	(29,322)	(26,032)
Funded status – deficit	(14,285)	(12,576)
Unamortized net actuarial losses	5,437	3,560
Unamortized past service cost	711	784
Unamortized transitional obligation from acquisitions	295	429
Unamortized transitional obligation	893	967
Accrued benefit liability, net of valuation allowance	$ (6,949)	$ (6,836)

The accrued benefit liability, net of valuation allowance, is included in the Company's balance sheets under Other liabilities.

Plan with accrued benefit obligations in excess of plan assets

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of pension plans that are not fully funded:

	2005	2004
Accrued benefit obligation	$ (29,322)	$ (26,032)
Fair value of plan assets	15,037	13,456
Funded status – deficit	$ (14,285)	$ (12,576)

NOTE 21. PENSION PLANS AND OTHER POST-RETIREMENT BENEFITS (cont'd)

Elements of defined benefit pension costs recognized in the year

	2005	2004
Current service cost, net of employee contributions	$ 807	$ 655
Interest cost	1,268	1,224
Actual return on plan assets	(1,050)	(2,090)
Actuarial losses	2,066	1,689
Special termination benefits	–	575
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	$ 3,091	$ 2,053
Adjustments to recognize the long-term nature of employee future benefit costs:		
• Difference between expected return and actual return on plan assets for the year	89	1,331
• Difference between actuarial losses recognized for the year and actual actuarial loss on accrued benefit obligation for the year	(1,966)	(1,577)
• Difference between amortization of past service costs for the year and actual plan amendments for the year	73	73
• Amortization of the transitional obligation	208	208
Defined benefit pension costs	$ 1,495	$ 2,088

Significant assumptions

The significant assumptions used to determine the accrued benefit obligations and the defined benefit pension cost are as follows (weighted-average):

	2005	2004
Accrued benefit obligations		
Discount rate	5.30 %	5.50 %
Rate of compensation increase	3.50	3.50
Defined benefit pension costs		
Discount rate	5.50 %	6.25 %
Expected long-term rate of return on plan assets	7.00	7.00
Rate of compensation increase	3.50	3.50

Defined contribution pension plans

The defined contribution pension costs are as follows:

	2005	2004 (Restated Note 4)
Defined contribution pension costs	$ 1,242	$ 858

NOTE 22. COMMITMENTS

Building lease contracts

The Company has entered into leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2005 amounted to $1,065 excluding escalation clauses. The minimum annual lease payments over the next years are: $333 in 2006, $326 in 2007, $268 in 2008 and $138 in 2009.

Operating lease contracts – machinery and equipment

Under operating lease contracts for machinery and equipment used for its manufacturing operations, the Company has commitments at March 31, 2005 of $5,789 for which the minimum annual operating lease payments, over the next five years, are: $2,002 in 2006, $1,900 in 2007, $1,281 in 2008, $475 in 2009 and $131 in 2010.

Under these operating lease contracts, the Company has the option to purchase the related machinery and equipment at the end of the contract. These purchase option payments represent the following: $0 in 2006, $386 in 2007, $1,542 in 2008, $527 in 2009 and $254 in 2010.

Machinery and equipment acquisition commitments

The Company has released purchase orders relating to machinery and equipment which have not been delivered to the Company's facilities. These outstanding purchase orders at March 31, 2005 amounted to $10,146 for which $2,339 deposits on machinery and equipment were made and included in the Company's other current assets.

Guarantees

In the normal course of business, the Company enters into agreements that requires disclosure of guarantees. A guarantee is defined as a contract (including an indemnity) that contingently requires the Company to make payments to a third party based on (i) changes in an underlying that is related to an asset, a liability or an equity of the guaranteed party or (ii) failure of another party to perform under an obligating agreement.

The Company executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties.

Business dispositions and sale of assets

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company may agree to indemnify against claims from its past conduct of the business. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability that could be required under guarantees, since these events have not materialized yet. The duration of these indemnification agreements could extend up to 2024. At March 31, 2005, an amount of $4,765 ($6,078 in 2004) was provided for in the Company's accounts payable and accrued liabilities in respect to this item.

NOTE 23. CONTINGENCIES

The Company is involved in litigations and claims associated with normal operations. Management is of the opinion that any resulting settlements would not materially affect the financial position of the Company.

NOTE 24. SEGMENTED INFORMATION

Based on the nature of the Company's markets (customers, manufacturing techniques and regulatory requirements), two main operating segments were identified; Aerospace and Industrial. The aerospace segment previously referred to as the "Aerospace and Defence segment" was changed to Aerospace segment in the fourth quarter of fiscal year 2005 following management's decision to sale the Company's Logistics and Defence Division, Diemaco. The aerospace segment includes the design, development, manufacture, repair and overhaul and sale of systems and components for military and civil aviation, while the industrial segment represents essentially the manufacture and sale of gas turbine components and other high precision machined products.

The Company evaluates the performance of its operating segments primarily based on operating income (loss) before financial expenses and provision for income taxes.

The Company accounts for intersegment and related party sales and transfers, if any, at exchange values.

The accounting policies used to account for the operating segments are the same as those described in the summary of the Company's significant accounting policies.

Segmented information, which excludes the Logistics & Defence Division, Diemaco's operations that were reclassified as discontinued operations, consists of the following:

NOTE 24. SEGMENTED INFORMATION (cont'd)

Activity Segments

	2005			2004 (Restated Notes 2 and 4)		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 211,689	$ 21,309	$ 232,998	$ 170,635	$ 22,043	$ 192,678
Operating income (loss)	984	(3,309)	(2,325)	228	(4,269)	(4,041)
Financial expenses			4,009			1,920
Restructuring charges			–			1,052
Loss before income tax recovery and discontinued operations			(6,334)			(7,013)
Assets from continuing operations	276,667	18,530	295,197	240,044	22,904	262,948
Purchase of property, plant and equipment	11,016	2,354	13,370	12,791	2,253	15,044
Finite-life intangible assets acquired	10,832	–	10,832	802	183	985
Goodwill acquired	18,274	–	18,274	–	–	–
Amortization	15,016	2,264	17,280	11,191	2,386	13,577

Geographic Segments

	2005			2004 (Restated Notes 2 and 4)		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 141,338	$ 91,660	$ 232,998	$ 150,338	$ 42,340	$ 192,678
Property plant and equipment, net	61,284	42,010	103,294	63,711	20,816	84,527
Finite-life intangible assets, net	2,473	8,550	11,023	2,593	646	3,239
Goodwill	17,534	17,742	35,276	17,534	1,083	18,617
Export sales	84,752			96,392		

74% of the Company's sales (70% in 2004) were to US customers.

NOTE 25. SUBSEQUENT EVENT: SALE OF DIEMACO

In the first quarter of fiscal year 2006, the Company closed the sale transaction of its Logistics and Defence Division, Diemaco on May 20, 2005. The gain on the sale transaction, net of income taxes is estimated at $8,500. (See note 4).

NOTE 26. RECLASSIFICATION

Comparative figures for the financial statements as at March 31, 2004 have been reclassified to comply with the March 31, 2005 presentation.

Board of Directors

HELMUT HOFMANN †
Chairman of the Board
Héroux-Devtek Inc.
Toronto, Ontario

GILLES LABBÉ
President and
Chief Executive Officer
Héroux-Devtek Inc.
Montréal, Québec

JEAN-LOUIS FONTAINE †
Vice-Chairman of the Board
and Director
Bombardier Inc.
Montréal, Québec

Diversified manufacturer of transportation equipment

CLAUDE BOIVIN †
Consultant and Member
of various Boards of Directors
Montréal, Québec

PIERRE MARCOUILLER *
Chairman of the Board Camoplast Inc.
Montréal, Québec

Manufacturer of composite and thermoplastic products for light and heavy duty vehicles

BRIAN A. ROBBINS *
President and
Chief Executive Officer
Exco Technologies Limited
Toronto, Ontario

Supplier of molded and extruded parts for the automotive and industrial markets

JOHN CYBULSKI *
Principal, Aeroglobe LLC
Charlotte, South Carolina (USA)

International business consulting firm

CHRISTIAN DUBÉ *
Vice-President and
Chief Financial Officer
Cascades Inc.
Montréal, Québec

Leader in the production, conversion and the marketing of packaging products – boxboard, cartonboard – fine specialty papers and tissue papers made primarily with recycled fibre

† Member of Human Resources and Corporate Governance Committee
** Member of Audit Committee*

Corporate Management of Héroux-Devtek

GILLES LABBÉ
President and
Chief Executive Officer
Montréal, Québec

RÉAL BÉLANGER
Executive Vice-President
and Chief Financial Officer
Montréal, Québec

PATRICE GAUVIN
Vice-President,
Business Development
Montréal, Québec

GABRIEL DUVAL
Vice-President,
Corporate Affairs
Montréal, Québec

PAUL BOURGON
Vice-President,
Sales & Marketing
Montréal, Québec

Division Managers

Landing Gear

MARTIN BRASSARD
Vice-President, General Manager
Longueuil, Québec

GAETAN ROY
Vice-President, Plant Manager
Longueuil, Québec

NAGY HOMSY
Vice-President,
Engineering and Quality Assurance
Longueuil, Québec

MARTIN LOISELLE
Plant Manager
Repair & Overhaul
Longueuil, Québec

JACK CURLEY
General Manager
Kitchener, Ontario

DANIEL NORMANDIN
Plant Manager
Laval, Québec

Gas Turbine Components

ALVIN COOK
President
Cincinnati, Ohio

DAVE COOK
Operations Manager
Cincinnati, Ohio

Aerostructure

DENIS TRUDEL
Plant Manager
Héroux-Devtek Aerostructure
Dorval, Québec

FRÉDÉRIC LABARRE
Operations Manager
Les Industries C.A.T.
Montréal, Québec

WOLFGANG MILDENBERGER
(retired on March 31, 2005)

HANS KLEINER
Operations Manager
Magtron
Toronto, Ontario

GUINN D. CROUSEN
President
Progressive Incorporated
(acquired on April 1st, 2004)
Arlington, Texas

BUDDIE R. LANGFORD
Vice-President, Administration
Progressive Incorporated
Arlington, Texas

Shareholders' Information

Landing Gear Division

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755 Thurber Street
Longueuil, Québec
Canada J4H 3N2
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Fax: (450) 679-4554

Kitchener
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Kitchener, Ontario
Canada N2N 3K5
Tel.: (519) 576-8910
Fax: (519) 576-5119

Laval
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Laval, Québec
Canada H7L 4S3
Tel.: (450) 629-3454
Fax: (450) 629-1655

Aerostructure Division

Héroux-Devtek Aerostructure
123 Avro Street
Dorval, Québec
Canada H9P 2Y9
Tel.: (514) 421-0344
Fax: (514) 421-0588

Magtron
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Toronto, Ontario
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Tel.: (416) 757-2366
Fax: (416) 752-4838

Les Industries C.A.T.
11800 Adolphe-Caron Street
Montréal, Québec
Canada H1E 7J3
Tel.: (514) 494-2335
Fax: (514) 494-8497

Progressive Incorporated
1030 Commercial Blvd North
Arlington, Texas
USA 76001
Tel.: (817) 465-3221
Fax: (817) 465-1289

Gas Turbine Components Division

Cincinnati
189 Container Place
Cincinnati, Ohio
USA 45246
Tel.: (513) 619-1222
Fax: (513) 619-1903

Cincinnati
382 Circle Freeway Drive
Cincinnati, Ohio
USA 45246
Tel.: (513) 619-1222
Fax: (513) 619-1225

Logistics & Defence Division
(Sold May 20, 2005)

Diemaco
1036 Wilson Avenue
Kitchener, Ontario
Canada N2C 1J3
Tel.: (519) 893-6840
Fax: (519) 893-3144

ANNUAL GENERAL MEETING
The Annual General Meeting of Shareholders
will be held on Thursday, August 4, 2005, at 11:00 a.m.
in the Salon Cartier of the Downtown Delta Hotel,
777 University Street, Montréal, Québec, Canada

ANNUAL INFORMATION FORM
Shareholders may obtain the Annual Information Form
by writing to the Corporate Secretary of Héroux-Devtek Inc.

REGISTRAR AND TRANSFER AGENT
National Bank Trust
1100 University Street, Suite 9000
Montréal, Québec, Canada H3B 2G7
Tel.: (514) 871-7100

AUDITORS
Ernst & Young, LLP
1 Place Ville-Marie, Suite 2400
Montréal, Québec, Canada H3B 3M9
Tel.: (514) 875-6060

SHARE LISTING
Shares are traded on the Toronto Stock Exchange
Ticker symbol: HRX

INVESTOR RELATIONS
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Maison Brison
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WRITTEN AND PRODUCED BY
Maison Brison
Montréal, Québec, Canada

Pour obtenir la version française de ce rapport, veuillez contacter le secrétaire corporatif.

Printed in Canada

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HÉROUX DEVTEK