HÉROUX DEVTEK

Growing together

annual report 06/07

Profile

Héroux-Devtek (TSX: HRX), a Canadian company, serves two main market segments: Aerospace and Industrial Products, specializing in the design, development, manufacture and repair and overhaul of related systems and components. Héroux-Devtek supplies both the commercial and military sectors of the Aerospace segment with landing gear systems (including spare parts, repair and overhaul services) and airframe structural components and assemblies. The company also supplies the industrial segment with large components for power generation equipment and precision components for other industrial applications. About 70% of the Company's sales are outside Canada, mainly in the United States. The Company's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Dorval, Laval and Rivière-des-Prairies); Kitchener and Toronto, Ontario; Arlington, Texas and Cincinnati, Ohio.

Strategy

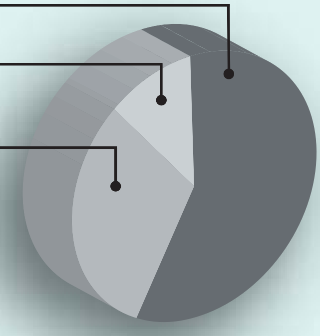
Over the last few years, the Company made progress in positioning itself to benefit from the recovery in its primary markets of aerospace and power generation as it directs all energies to a return to profitability and to fully maximize the opportunities in its markets in the years ahead.

Héroux-Devtek's strategy is focused on the development of its three core areas of expertise: landing gear, aerostructure and power generation equipment. In each of these areas, the Company is now well positioned to partner with its customers to meet market demand and to offer additional products and services.

In the near term, the Company sees interesting potential in the JSF program, which should gradually ramp up in calendar 2008 and extend over several years. Héroux-Devtek is well positioned to grow in step with this program.

The Company continues to rely heavily on the talent of both its management team and the dedication and cooperation of its employees as it builds a premier North American aerospace supplier together.

LANDING GEAR: SALES: $165.3 M
AEROSTRUCTURE: SALES: $87.9 M
GAS TURBINE: SALES: $30.1 M



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

	2007	2006	2005	2004 Restated[1]	2003 Restated[1]
Sales	**$ 283,286**	$ 256,197	$ 232,998	$ 192,678	$ 237,724
Gross profit	**$ 31,966**	$ 19,237	$ 13,421	$ 14,448	$ 27,276
Gross profit margin	**11.3 %**	7.5 %	5.8 %	7.5 %	11.5 %
EBITDA	**$ 31,050**	$ 20,907	$ 14,623	$ 9,249	$ 22,635
EBITDA margin	**11.0 %**	8.2 %	6.3 %	4.8 %	9.5 %
Net income (loss) from continuing operations	**$ 8,906**	$ (406)	$ (4,291)	$ (3,972)	$ (1,855)
Net income (loss) from continuing operations margin	**3.1 %**	(0.2)%	(1.8) %	(2.1) %	(0.8) %
Earnings (loss) Per Share-basic and diluted from continuing operations	**$ 0.28**	$ (0.01)	$ (0.16)	$ (0.17)	$ (0.08)
Net income from discontinued operations	**$ —**	$ 8,661	$ 2,162	$ 1,637	$ 1,372
Earnings per Share-basic and diluted from discontinued operations	**$ —**	$ 0.30	$ 0.08	$ 0.07	$ 0.06
Net income (loss)	**$ 8,906**	$ 8,255	$ (2,129)	$ (2,335)	$ (483)
Net income (loss) margin	**3.1 %**	3.2 %	(0.9) %	(1.2) %	(0.2) %
Earnings (loss) per Share - basic and diluted	**$ 0.28**	$ 0.29	$ (0.08)	$ (0.10)	$ (0.02)

As at March 31 (In thousands of dollars, except shares and per share data)

	2007	2006	2005	2004 Restated[1]	2003 Restated[1]
Total assets	**$ 334,503**	$ 309,531	$ 312,130	$ 282,958	$ 289,067
Working capital	**$ 86,283**	$ 70,330	$ 47,068	$ 73,861	$ 82,326
Long-term debt to equity	**0.42**	0.33	0.51	0.49	0.51
Book value per common share	**$ 5.10**	$ 4.84	$ 4.81	$ 5.15	$ 5.32
Cash flow from operations	**$ 29,771**	$ 20,007	$ 11,934	$ 8,386	$ 14,057
Average number of shares outstanding ('000)	**31,511.3**	28,727.4	26,932.7	23,437.9	24,212.9
Shares outsdanding at year-end ('000)	**31,528.0**	31,488.6	26,954.6	23,401.6	23,544.7
Fully diluted common shares (used for diluted EPS) ('000)	**31,544.6**	28,727.4	26,932.7	23,437.9	24,212.9

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

Dear Shareholders,

It is gratifying to report that Héroux-Devtek shareholders clearly benefited from the improved performance of the Company during the year just past. This is especially satisfying as this marks my last year as your Chairman, and as such, my final Message to Shareholders. While relinquishing this role, I am pleased to say that I will stand for re-election as a Director of the Corporation at the upcoming annual meeting.

The value of an investment in Héroux-Devtek reached levels not attained since early in 2002. The turnaround in the markets we serve, notably aerospace, played a large part in this advancement. However, equally as important has been the outstanding progress made in further strengthening our operations in many areas, as well as the exemplary dedication of our employees.

In the years since September 11th, 2001 both Gilles and I have discussed not only the reality of the extremely challenging business environment, but the need for constant improvement and the importance of taking absolutely nothing for granted. Our personnel have stepped up to the plate and have literally delivered. This is discussed in detail as we dedicate this annual report to our greatest asset, the women and men employed at our divisions.

The reputation of Héroux-Devtek has continued to grow, underlined by the tangible recognition from the world's major aerospace manufacturers. Your Company has been awarded record levels of new business in recent months that sets a positive trend for the years ahead. Nonetheless, it bears repeating that we must never be complacent. First, we must deliver with the traditional quality and reliability that has earned us this trust, and we must continue to seek new business so that you, our shareholders, will continue to benefit from your investments.

As indicated at the outset of this text, I have decided not to stand for re-election as Chairman. This has been in the planning for some time. As the founder of Devtek Corporation and since 2000, a proud partner of Héroux, I am most pleased with these accomplishments, among others. But there comes a time to make way for new leadership and I feel we have arrived at the point in Héroux-Devtek's evolution that new talent with fresh ideas is required at the Board level. I am delighted that John Cybulski has also agreed to seek re-election as a Director and, with the approval of the Board of the Directors, assume the Chairmanship of Héroux-Devtek. John has an outstanding record in the aerospace industry. Among a number of executive positions with major corporations, he spent 18 years with Coltec Industries, where he built a highly successful aerospace products group.

The reputation of Héroux-Devtek has continued to grow, underlined by the tangible recognition from the world's major aerospace manufacturers.

I wish to express appreciation to Héroux-Devtek's management team for their diligence and leadership throughout our organization during the past year. This report details numerous accomplishments of our dedicated workforce. I am also grateful to my fellow Board members for the strong support they have provided throughout my tenure. The challenges of recent years were dealt with proactively and strategically, helping Héroux-Devtek return to profitability. I look forward to continuing my work as a Director and express deep gratitude to our shareholders, employees and valued customers.

Signed
Helmut Hofmann
Chairman of the Board

Dear Shareholders,

A year ago, at the outset of our 2007 financial year, we anticipated sales growth of 10% and a return to profitability as we continued to execute our business plan. I am pleased to report that we have delivered on that expectation. Fiscal 2007 was a very solid year during which Héroux-Devtek achieved major accomplishments. We made significant improvements to augment the specialization of our operations, we also materially improved our financial results and set a positive trend for the years ahead.

Return to profitability

First and foremost, not only did our bottom line remain positive throughout fiscal 2007, but our results strengthened as the year progressed. This reflected both the increasing activity in our primary markets and the impact of our ongoing efforts to streamline and improve our operations. All our plants made notable progress last year in improving quality and on-time delivery, which in turn helped boost profitability.

Major new contracts support an evolving strategy

Having strengthened our three core areas of expertise in recent years, fiscal 2007 saw an evolution in our business strategy. We will continue to enhance our value added services for our customers by adding and strengthening services such as assembly, kits, processing and engineering. Our Landing Gear Division is already launched on this path, with established engineering and assembly expertise. We are now developing Héroux-Devtek's positioning as a world-class manufacturer of complex parts and assemblies in the Aerostructure sector.

Recently signed contracts support this evolution. At the end of current fiscal 2007, Lockheed Martin awarded Héroux-Devtek's Aerostructure Division a contract to manufacture structural components for the F-35 Lightning II Joint Strike Fighter (JSF) during the Low Rate Initial Production (LRIP) phase of the program which is considered to be the largest ongoing military program over the next 20 years. This long-term contract, covering wingbox parts and inner wing bulkheads for the three F-35 variants (STOVL, CTOL and CV), is a clear testament to the strong relationship we have with Lockheed Martin and their confidence in Héroux-Devtek's ability to deliver on this crucial assignment.

Details of the major contracts signed since the beginning of last year can be found in the *Management's Discussion and Analysis* section of this annual report.

Strengthened corporate culture: the 4 Rs

To support and build on our culture of entrepreneurship through participation, dedication and commitment of our employees, we have articulated and introduced last year the **4Rs** concept in our employee communications. We begin by fostering **Respect** in the quality of individual relations with customers, colleagues, suppliers and the company.

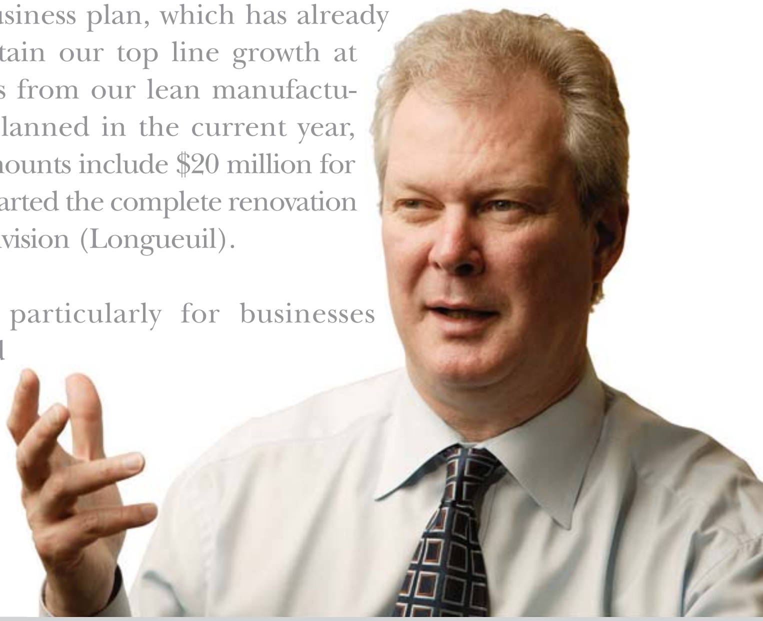
Fiscal 2007 was a very solid year during which Héroux-Devtek achieved major accomplishments.

Employees assume **Responsibility** for 100% quality delivered to our customers, fairness in dealings with each other and continuous improvement at work. In return, employees receive **Recognition** for their achievements, from customers, the Company and their peers. Finally, **Resilience** means being flexible, open and resourceful with customers and each other, and tenacious in the joint pursuit of our customers, employees and Company's successes.

Outlook

In fiscal 2008, we will continue to implement our business plan, which has already delivered most tangible results. We expect to maintain our top line growth at about 10%, and anticipate further profitability gains from our lean manufacturing efforts. Major investments of $37 million are planned in the current year, following close to $30 million invested last year; these amounts include $20 million for the JSF program over the two-year period. We have also started the complete renovation of our surface treatment facilities in the Landing Gear division (Longueuil).

We intend to re-enter the acquisition market, particularly for businesses that are a good fit with our current landing gear and aerostructure operations.



We expect to maintain our top line growth at about 10%, and anticipate further profitability gains from our lean manufacturing efforts.

We will be negotiating new collective agreements with employees at our Longueuil and Laval plants in fiscal 2008 and early fiscal 2009. The Company reached a three-year collective agreement with the unionized employees at the Dorval plant on May 22, which was ratified on June 11, 2007. Overall, we enjoy good relations with our employees, and consequently anticipate to renew successfully these other labour collective agreements.

I invite you now to read on in this report to learn about some of our major accomplishments of the past year, and some of the key people who made them happen. In addition, many others have also contributed to these accomplishments. Héroux-Devtek today represents the total sum of the dedication and efforts of each individual employee, and I am very proud of them all.

I am also thankful to our shareholders for their continued support, and to our Board of Directors for their valuable advice. I would particularly like to recognize the contribution of Mr. Helmut Hofmann, who after serving as our Chairman of the Board since the merger of Héroux and Devtek, in June 2000, is stepping down as Chairman of our Board. I am very pleased to note that Mr. Hofmann has agreed to remain with the Company as a director. We look forward to benefiting from his wisdom and experience.

2007 is a milestone year for our Company as we mark our 65th anniversary. From its humble beginnings in 1942 as Héroux Machine Parts Limited specializing in machine tooling of aircraft components, Héroux-Devtek has evolved into a highly respected supplier of quality products to a wide range of world-class aerospace and industrial customers. Together, we should all be proud of our achievements.

Signed
Gilles Labbé
President and Chief Executive Officer

AEROSPACE

INDUSTRIAL

LANDING GEAR

LONGUEUIL
Design, manufacture and repair and overhaul 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

LES INDUSTRIES C.A.T. (Montreal)
Manufacture of small-sized aircraft components

AEROSTRUCTURE

HÉROUX-DEVTEK AEROSTRUCTURE (Dorval)
Manufacture of medium and large-sized aircraft structural components

PROGRESSIVE INCORPORATED (Arlington, Texas)
Manufacture of complex military aircraft structural components

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

GAS TURBINE COMPONENTS

CINCINNATI
Manufacture of large scale components for gas turbine used in the production of electricity

Manufacture of precision components for the aerospace and industrial sectors

Manufacture of engine parts for aircraft

Landing Gear: Kitchener Plant Expansion
Commitment

In fiscal 2006, the Landing Gear Division was awarded a 10-year contract to manufacture all Boeing B-777 nose landing gear and main landing gear pistons. To execute properly this contract and meet the aggressive delivery schedule, we had to increase our manufacturing capacity and capability.

In less than 15 months, due to the dedication and competence of our people, we have built a 27,000 sq. ft plant expansion, installed 8 large specialized manufacturing equipment and met the customer's aggressive delivery schedule while implementing new manufacturing concepts.

This facility is becoming more and more efficient through automation and introduction of new manufacturing technology.

Landing Gear: Torque-Tube for the Boeing B-777

Synergies

CUSTOMER'S TESTIMONIALS

"Your ability to consistently provide a quality product ahead of schedule has allowed us to meet our customer's needs and positions us to support our future commitments".

Dale HELLAND,
Material Management,
Boeing Commercial

In fiscal 2006, when Boeing decided to retrofit all of the torque tubes in the Boeing B-777 fleet, Héroux-Devtek was awarded a contract to supply these components. The plan called for the usage of a material called "Custom 465", which was new to the aeronautical world. Few organisations had the know-how to work with this material in a manufacturing context. Boeing turned to Héroux-Devtek for the production of these complex parts.

The B-777 fleet to be retrofitted totalled 523 aircraft representing 1,046 torque-tubes sets to be replaced. Due to the nature of this order, work had to begin promptly and to be carried out rapidly and safely. This resulted in aggressive production schedules.

As such, all of the Company's Landing Gear Division's facilities were called upon to work in parallel and in synchronization in order to deliver on this daunting assignment. The project was an exceptional large scale test of the division's centers excellence strategy, established a few years ago, an approach based on capitalizing on the relative strengths of each facility.

This synchronized, team-work approach allowed Héroux-Devtek to beat the established deadline by three months, while delivering a high quality product.

Landing Gear: Major Transformation of the Laval and Longueuil Plants

Lean Manufacturing Efforts

Amongst many others, the Lean Manufacturing initiatives implemented across all sites were a major contributor to the financial turnaround of Héroux-Devtek, with all of the Company's employees contributing to their implementation.

Although evidence of these achievements can be seen throughout all Héroux-Devtek factories, two remarkable examples were the plant reorganizations carried out at the Longueuil and Laval sites of the Landing Gear Division.

Over the course of the year, significant changes were implemented at these two facilities to improve efficiency and productivity. Steps were taken at various levels of the businesses, namely: reduction of cycle time, reduction in non-quality cost, plant layout reorganization and improvement of health and safety. All of these, even taken separately would have carried their own set of challenges. But performing them simultaneously evolved into a gigantic task where only the best 'bonded' team could succeed. And yet the employees of Longueuil and Laval responded to the challenge and proved that they were 'bonded' teams.

Employees developed and implemented many of these 'transformations' in a record time. But more importantly, they obtained tangible results such as significant reduction of days lost due to health and safety as well as reductions of 20% of non-quality costs and of repair and overhaul cycle time on certain key programs.

All these activities resulted in a more efficient, safe and profitable work environment.

Aerostructure: Progressive Delivers F-35 Bulkhead Assemblies

When Lockheed-Martin Aeronautics awarded the F-35 Lightning II (JSF) manufacturing development contract to Héroux-Devtek's Progressive plant in Arlington, Texas, both organisations knew that it would be a significant challenge to develop these complex structures.

The programming and manufacturing of the first components represented an enormous effort. Involving six large bulkheads that comprise the fuselage and wing structure of the STOVL version, these complex structural parts are among the most important elements of the JSF development project.

The timeline of the project was very demanding – particularly considering a new forging alloy , the size of the monolithic structure, and the extremely close engineering tolerances. The project also required a very close cooperation between Lockheed-Martin Aeronautics, and Progressive, to ensure a highly-successful manufacturing development phase. Exceptional effort was required from all.

In Fiscal 2007, through the dedication and technical skills of its world-class employee base, Progressive was able to produce these massive complex structures with unparalleled quality. This proven performance, coupled with Progressive's unique capability, led Lockheed-Martin to award a long term contract for manufacturing of bulkheads on all three versions of Lightning II (JSF) – a contract that has the potential to be the largest contract in Héroux-Devtek's history.

Aerostructure: High-volume Electronic Enclosures Manufacturing Contracts

In 2006, Telephonics Corporation, a company specialized in providing innovative and cost effective electronic systems and products to military and commercial markets, turned to the Magtron facility of Héroux-Devtek's Aerostructure Division for an important contract to manufacture enclosures for military application. The mandate was to supply Telephonics with the chassis that houses electronics components to be use in a military vehicle. But the real challenge was the volume: very large volume were to be produce in the year.

While this new order offered considerable potential for the Magtron facility, it also meant significantly increasing production levels in a very short period of time while maintaining the quality and integrity Héroux-Devtek is known for. Magtron's employees rose to the occasion to ensure that recent upgrades to the plant's equipment with state-of-the-art technology were leveraged to their full extent. Throughput at the facility increased significantly to support deliveries required by the customer. As a result of these efforts, Magtron doubled its sales in the 2007 fiscal year and met the aggressive schedule.

This achievement has demonstrated Magtron's ability to respond to customers' demands and has positioned the facility to continue to grow its relationship with them and other important customers.

Aerostructure : Dorval Delivers Bell Helicopter Parts made on Makino Mag-3

Large investments in high-tech equipment were also the cornerstones for the recent transformation of the Dorval facility, part of the Aerostructure division of Héroux-Devtek.

To develop its new aircraft, the Bell 429, Bell Helicopter needed the contribution of all of its major suppliers. The new aircraft required the use of the most modern, state-of-the art technology. The Aerostructure Division with its new Makino Mag 3 equipments, helped achieve Bell Helicopter's objective. With 30,000 RPM spindle and 5 axis capability, these are truly high speed machines and provide the ability to manufacture complex parts that design engineers could not dream of just a few years ago.

These equipments not only allow machining of complex parts out of solid aluminium, but also permit thicknesses as low as 0,020 of an inch, which are a challenge to realize while maintaining tight tolerances. The end results are monolithic structural components having the weight of sheet metal design.

The aerostructure division manufactured a large number of different components in record time and proudly participated in the success of the first flight of the new Bell 429 on March 23rd, 2007.

Gas Turbine Components: Stator Project and Wind Turbine Components

Power Generation Stator Production
Since the 1990's, the Gas Turbine Components Division of Héroux-Devtek has been a secondary supplier of stator assemblies to the power generation market. In 2006, management decided to aggressively pursue this business and build a cellular manufacturing and assembly line for the growing requirements of welded-stator assemblies.

Welded-stator assemblies are complex machined and welded assemblies which would utilize the complete capabilities of Héroux-Devtek's Gas Turbine Components Division. The business developed a marketing plan, backed with a solid manufacturing capability to enter this market as a primary supplier to the industry. This product line has increased its relative share of the Gas Turbine Components Division's share of revenues within a 24-month time period.

Wind Turbine Components
Wind Energy has emerged as the fastest growing segment of the power generation market. Leveraging strong relationships and ties to the power generation OEMs, Héroux-Devtek's Gas Turbine Components Division has developed a production capability to support the high volume production of turbine shafts and gearbox components.

In order to meet the customer's demanding production requirements, the business invested in capital equipment and other engineering capabilities. The manufacture of these extremely large and high value components commenced in fiscal 2006 and high rate production was achieved within 3 months. Currently, the Division is an important manufacturer of turbine shaft and gearbox components for this product line and expects to remain a primary supplier well into the future.

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

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2007. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

Such factors include, but are not limited to: the impact of general economic conditions in Canada and the United States; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; foreign exchange or interest rates; stock market volatility; and the impact of accounting policies issued by Canadian and US standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive and undue reliance should not be placed on forward-looking statements.

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Company expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

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

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

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

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

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

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

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

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

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

BUSINESS STRATEGY

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

In practice, this translates into:

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

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

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

KEY PERFORMANCE INDICATORS

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

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

MARKET TRENDS

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

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

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

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

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

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

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

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

MAJOR ACHIEVEMENTS OF FISCAL 2007

— Extension of credit facilities

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

[1] Source: Boeing and Airbus Press Releases for 2006 results.
[2] Source: GAMA (General Aircraft Manufacturer Association) – 2006 general statistical data book.
[3] Source: US Department of Defence (DOD) – fiscal 2008 budget.
[4] Source: U.S. Department of Energy (DOE) – annual energy outlook 2007.

— Financial turnaround

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

— Major contracts awarded or renewed in fiscal 2007

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

— Kitchener plant expansion

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

— Progressive plant expansion

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

— Major customer supply award

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

SELECTED ANNUAL FINANCIAL INFORMATION

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

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

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

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

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

RESULTS OF OPERATIONS

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

CONSOLIDATED SALES

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

The Company's sales by segment were as follows:

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

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

Aerospace Segment

Sales for the Aerospace segment were as follows:

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

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

Industrial Segment

Sales for the Industrial segment were as follows:

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

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

Sales by Destination

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

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

GROSS PROFIT

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

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

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were as follows:

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

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

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

OPERATING INCOME (LOSS)

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

Aerospace Segment

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

Industrial Segment

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

FINANCIAL EXPENSES

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

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

DISCONTINUED OPERATIONS

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

INCOME TAX EXPENSE (RECOVERY) AND INCOME TAX RECEIVABLE

Income Tax Expense (recovery)

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

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

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

Income Tax Receivable

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

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

NET INCOME (LOSS)

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

	2007	2006
Net income (loss) from continuing operations ($'000)	**8,906**	(406)
Net income from discontinued operations ($'000)	**—**	8,661
Net income ($'000)	**8,906**	8,255
Earnings (loss) per share from continuing operations – basic and diluted ($)	**0.28**	(0.01)
Earnings per share from discontinued operations - basic and diluted ($)	**—**	0.30
Earnings per share – basic and diluted ($)	**0.28**	0.29

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

Operating Activities

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

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

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

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

Investing Activities

The Company's investing activities were as follows:

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

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

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

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

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

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

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

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

Financing Activities

The Company's financing activities were as follows:

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

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

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

In October 2006, The Company successfully concluded the amendment and extension of its Credit Facilities for a five year period whereby the previous Bank's revolving operating and term credit facilities were combined into Senior Secured Revolving credit facilities of $80 million that will mature in about five years, on October 4, 2011, with no extension. These facilities are secured by all assets of the Company and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. This agreement was concluded with a syndication of banks comprising National Bank of Canada, which also acted as the administrative agent, Bank of Nova Scotia, Toronto Dominion Bank and Laurentian Bank of Canada.

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

PENSION PLANS

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

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

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

CAPITAL STOCK, STOCK OPTION PLAN AND STOCK PURCHASE AND OWNERSHIP INCENTIVE PLAN (STOCK PURCHASE PLAN)

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

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

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

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

Changes to the Company's Stock Option Plan

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

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

FOREIGN EXCHANGE

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

CANADA/US EXCHANGE RATE

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

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

CONSOLIDATED BALANCE SHEETS

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

Item	Change ($ million)	Explanation
Cash and cash equivalents	(0.7)	See consolidated statements of cash flows.
Accounts receivable	2.9	Increase consistent with the higher year-over-year fourth quarter sales.
Income tax receivable	(3.5)	Collection of income tax receivable due from prior years.
Inventories	20.9	Mainly related to increased business volumes in the coming quarters.

Item	Change ($ million)	Explanation
Property, plant and equipment, net	10.7	Due to: • Purchase of capital assets ($28.6 million) Net of: • Amortization ($14.8 million) • Net proceeds ($2.6 million) • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.5 million).
Finite-life intangible assets, net	(1.5)	Represents mainly the amortization of the underlying value of the net backlog acquired as part of the acquisition of Progressive.
Accounts payable and accrued liabilities	5.8	Includes $5.3 million in capital expenditures made just before year-end. Overall level of accounts payable and accrued liabilities also reflects the higher activity level and the increase in raw material purchases in the fourth quarter.
Long-term debt (including current portion)	12.1	Mainly due to: • Net increase of $12.4 in long-term debt to mainly finance the additional working capital requirements and the purchase of certain capital expenditures Net of: • A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.3 million).
Cumulative translation adjustment	(0.7)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries.
Retained earnings	8.9	See consolidated statements of retained earnings.

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

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

CONTRACTUAL OBLIGATIONS

($'000)

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

OFF-BALANCE SHEET ITEMS AND COMMITMENTS

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

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

CRITICAL ACCOUNTING ESTIMATES

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

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

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

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

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

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

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

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

— Goodwill

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

— Pension plans and other employee post-retirement benefits

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

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

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

— Income tax

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

FUTURE CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". Effective April 1, 2007, the Company adopted these new accounting standards.

COMPREHENSIVE INCOME

Section 1530 introduces Comprehensive income, which comprises net income and other comprehensive income ("OCI") and represents the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. OCI includes unrealized gains and losses, net of taxes, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of taxes, arising from changes in fair value of available-for-sale financial assets and the effective portion of changes in fair value of cash flow hedging instruments and net investments in self-sustaining foreign operating hedging instruments.

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

Section 3855 requires that financial instruments be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855 are measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value, with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses including changes in foreign exchange rates are recognized directly to OCI, except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period. Investments in equity instruments classified as AFS that do not have a quoted market price in an active market are measured at cost.

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

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

HEDGES

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

In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income. However, when a hedge of an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized to OCI are reclassified and included in the initial carrying amount of the asset.

In a hedge of a net investment in self-sustaining foreign operations, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI while the ineffective portion is recognized to income. The amounts recognized to OCI are recognized to income in the same period during which corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recognized to income.

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

INTERNAL CONTROLS AND PROCEDURES

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

Disclosure controls and procedures

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

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

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

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

Internal controls over financial reporting

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

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

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

RISKS AND UNCERTAINTIES

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

Reliance on Large Customers

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

Availability and Cost of Raw Materials

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

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

Operational Risk

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

General Economic Conditions

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

Military Spending

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

Foreign Currency Fluctuations

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

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

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

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

Changing Interest Rates

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

External Business Environment

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

Warranty Casualty Claim Losses

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

Environmental Matters

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

Collective Bargaining Agreements

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

Skilled Labour

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

FOURTH QUARTER 2007 RESULTS

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

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

OUTLOOK

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

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

The collective agreements with employees at the Longueuil and Laval plants are scheduled for renewal in fiscal 2008 and early fiscal 2009. The Company reached a three-year collective agreement with the unionized employees at the Dorval plant on May 22, which was ratified on June 11, 2007. Overall, the Company enjoys good relations with its employees.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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

AUDITORS' REPORT

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") of Héroux-Devtek Inc. (the "Company") and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A 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 Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Company has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal year 2007. As of March 31, 2007, Management believes that the disclosure controls and procedures effectively provide reasonable assurance that material information related to the Company has been disclosed in the consolidated financial statements and MD&A. Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Multilateral Instrument 52-109, including the consolidated financial statements and MD&A.

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 and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors.

The Audit Committee meets periodically with Management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss internal controls over the financial reporting process, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by Management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements as at March 31, 2007 and 2006 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

Signed
Gilles Labbé
President and Chief Executive Officer
May 5, 2007

Signed
Réal Bélanger
Executive Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Héroux-Devtek Inc.

We have audited the consolidated balance sheets of Héroux-Devtek Inc. as at March 31, 2007 and 2006 and the consolidated statements of income (loss), retained earnings and cash flows for the years 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 audits.

We conducted our audits 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Québec
May 5, 2007

Signed
Ernst & Young LLP
Chartered Accountants

At as March 31, 2007 and 2006 (In thousands of dollars)	Notes	**2007**	2006
Assets	13		
Current assets			
Cash and cash equivalents		**$ 20,124**	$ 20,863
Accounts receivable		**46,850**	43,964
Income tax receivable		**2,523**	6,014
Other receivables		**4,665**	7,950
Inventories	8	**92,728**	71,785
Prepaid expenses		**974**	1,739
Future income taxes	17	**8,226**	9,217
Other current assets	20	**2,041**	1,146
		178,131	162,678
Property, plant and equipment, net	9	**109,682**	98,973
Finite-life intangible assets, net	10	**7,722**	9,243
Other assets	11	**875**	758
Goodwill	12	**38,093**	37,879
		$ 334,503	$ 309,531
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	20	**$ 82,615**	$ 76,812
Income tax payable		**—**	2,899
Future income taxes	17	**2,542**	1,573
Current portion of long-term debt	13	**6,691**	11,064
		91,848	92,348
Long-term debt	13	**67,086**	50,637
Other liabilities	14	**6,462**	7,340
Future income taxes	17	**8,259**	6,922
		173,655	157,247
Shareholders' Equity			
Capital stock	15	**103,620**	103,447
Contributed surplus	15	**691**	544
Cumulative translation adjustment	16	**(8,034)**	(7,372)
Retained earnings		**64,571**	55,665
		160,848	152,284
		$ 334,503	$ 309,531

Commitments and contingencies (Notes 20, 21)

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

On behalf of the Board of Directors

Signed
Christian Dubé
Director

Signed
Gilles Labbé
Director

For the years ended March 31, 2007 and 2006

(In thousands of dollars, except per share data)	Notes	**2007**	2006
Sales		**$ 283,286**	$ 256,197
Cost of sales	6	**234,542**	219,443
Amortization		**16,778**	17,517
Gross profit		**31,966**	19,237
Selling and administrative expenses	7	**17,694**	15,847
Operating income		**14,272**	3,390
Financial expenses, net	13	**3,681**	4,221
Income (loss) before income tax expense (recovery) and discontinued operations		**10,591**	(831)
Income tax expense (recovery)	17	**1,685**	(425)
Net income (loss) from continuing operations		**8,906**	(406)
Net income from discontinued operations	4	**—**	8,661
Net income		**$ 8,906**	$ 8,255
Earnings (loss) per share from continuing operations – basic and diluted		**$ 0.28**	$ (0.01)
Earnings per share from discontinued operations – basic and diluted		**—**	0.30
Earnings per share – basic and diluted		**$ 0.28**	$ 0.29
Weighted-average number of shares outstanding during the year		**31,511,345**	28,727,386

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31, 2007 and 2006

(In thousands of dollars)	**2007**	2006
Balance at beginning of year	**$ 55,665**	$ 47,410
Net income	**8,906**	8,255
Balance at end of year	**$ 64,571**	$ 55,665

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

For the years ended March 31, 2007 and 2006
(In thousands of dollars)

	Notes	2007	2006
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income (loss) from continuing operations		**$ 8,906**	$ (406)
Items not requiring an outlay of cash:			
Amortization		**16,778**	17,517
Future income taxes	17	**3,225**	1,997
Loss (gain) on sale of property, plant and equipment		**71**	(18)
Amortization of deferred financing costs	13	**259**	388
Amortization of net deferred loss related to a financial derivative instrument	13	**133**	138
Accretion expense of asset retirement obligations	2	**187**	187
Stock-based compensation	15	**212**	204
Cash flows from continuing operations		**29,771**	20,007
Net change in non-cash items related to operations	18	**(14,351)**	(3,130)
Cash flows relating to operating activities		**15,420**	16,877
Investing activities			
Purchase of property, plant and equipment and finite-life intangible assets		**(29,145)**	(13,391)
Proceeds on disposal of property, plant and equipment		**2,617**	305
Business acquisition – additional payments	3	**(1,577)**	(3,425)
Proceeds from the sale of a business	4	**—**	19,035
Cash flows relating to investing activities		**(28,105)**	2,524
Financing activities			
Increase in long-term debt	13	**16,900**	17,590
Repayment of long-term debt	13	**(4,491)**	(40,287)
Issuance of common shares	15	**173**	15,790
Other		**(516)**	(210)
Cash flows relating to financing activities		**12,066**	(7,117)
Effect of changes in exchange rates on cash and cash equivalents		**(120)**	(172)
Cash and cash equivalents used for discontinued operations		**—**	(799)
Change in cash and cash equivalents during the year		**(739)**	11,313
Cash and cash equivalents at beginning of year		**20,863**	9,550
Cash and cash equivalents at end of year		**$ 20,124**	$ 20,863
Supplemental information:			
Interest paid		**$ 3,128**	$ 3,781
Income taxes paid		**$ 3,400**	$ 2,905

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

For the years ended March 31, 2007 and 2006 (All dollar amounts in thousands, except share data)

1 NATURE OF ACTIVITIES

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

McSwain Manufacturing Corporation and A.B.A. Industries, Inc.
Héroux-Devtek Aerostructure inc. (wound-up into the Company on March 30, 2006)
Progressive Incorporated
Devtek Aerospace inc. (amalgamated with Devtek Corporation on April 1, 2006)

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 (sales) 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, 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, income tax expense (recovery) and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

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 mainly 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 (sales) when the sale is recorded. For monetary items which qualify for hedge accounting, unrealized gains and losses are included in the Company's consolidated 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).

- **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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 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 revenue 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 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.

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 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 and the units delivered 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 life and units delivered of the related sales contracts

Amortization of construction in progress begins when they are ready for their intended use.

Government assistance

Government assistance, including investment tax credits, is recorded as a reduction of the related capital expenditure, inventory or expense. In fiscal 2007, the Company recorded as a reduction of cost of sales an amount of $2,052 ($930 in 2006) for government assistance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Asset Retirement Obligations

The Company's asset retirement obligations represent essentially environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil, Quebec. The fair value of these obligations is measured in the year in which they are incurred when a reasonable estimate of their fair value can be made. The fair value of the obligations was determined as the sum of the estimated discounted future cash flows of the legal obligations associated with the future retirement of these rehabilitation costs. These assets retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets useful lives, while changes to the present value of the obligations are charged to income.

As of March 31, 2007, a provision of $4,798 ($4,771 as of March 31, 2006) is included in the Company's accounts payable and accrued liabilities based on management's estimate of total future cash flows using a rate of 4.5%. During fiscal 2007 and 2006, an accretion expense of $187 was recorded, each year, within financial expenses (see note 13).

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 segment ("reporting unit"), including the allocated goodwill, exceeds its fair value.

The Company evaluates the recoverability of goodwill using a two-step test approach at the reporting unit level. Under the first step, the fair value of the reporting unit, based upon discounted future cash flows, is compared to its net carrying amount. If the fair value is greater than the carrying amount, no impairment is deemed to exist and the second step is not required to be performed. If the fair value is less than the carrying amount, a second test must be performed whereby the implied fair value of the reporting unit's goodwill must be estimated. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. The carrying value of goodwill in excess of its implied fair value is charged 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 Retirement Benefit Plans

- 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 actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period 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 16 years for 2007 and 17 years for 2006.

- 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.

- When the restructuring of a benefit plan gives rise to both a curtailment and 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 shares outstanding 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 essentially to officers and key employees. The Company uses the Black-Scholes valuation 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 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, which cannot exceed 10% of the employee's annual base salary, by attributing to the employee, additional common shares acquired on the Toronto Stock Exchange (TSX) at market price. However, the Company's matching attribution cannot exceed 4% of the employee's annual base salary. 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.

- **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.

Environmental obligations

Environmental liabilities are recorded when environmental claims or remedial efforts are probable, and the costs can be reasonably estimated. Environmental costs that relate to current operations are expensed or capitalized, as appropriate. Environmental costs of a capital nature that extend the life, increase the capacity or improve the safety of an asset or that mitigate or prevent environmental contamination that has yet to occur are included in property, plant and equipment and are generally amortized over the remaining useful life of the underlying asset. Costs that relate to an existing condition caused by past operations, and which do not contribute to future revenue generation, are expensed.

FUTURE CHANGES IN ACCOUNTING POLICIES

In April 2005, the Accounting Standards Board ("AcSB") issued three new accounting standards: Section 1530 "Comprehensive Income", Section 3855 "Financial Instruments – Recognition and Measurement" and Section 3865 "Hedges". Effective April 1, 2007, the Company adopted these new accounting standards.

Comprehensive income

Section 1530 introduces Comprehensive income, which is comprised of net income and other comprehensive income ("OCI") and represents the change in Shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. OCI includes unrealized gains and losses, net of taxes, arising from the translation of the financial statements of self-sustaining foreign operations, as well as unrealized gains and losses, net of taxes, arising from changes in fair value of available-for-sale financial instruments and the effective portion of changes in fair value of cash flow hedging instruments and net investments in self-sustaining foreign operating hedging instruments.

Financial instruments – recognition and measurement

Section 3855 requires that financial instruments be recognized on the balance sheet when the Company becomes a party to the contractual provisions of the financial instrument. On initial recognition, all financial instruments subject to Section 3855 are measured at fair value. After initial recognition, the measurement of financial instruments depends on their classification: held for trading ("HFT"), available-for-sale ("AFS"), loans and receivables ("L&R"), held-to-maturity ("HTM") or other than HFT liabilities.

Financial assets and financial liabilities classified as HFT are measured at fair value with gains and losses recognized to income for the period in which they arise. Financial assets classified as L&R or HTM and financial liabilities classified as other than HFT are measured at amortized cost using the effective interest method.

Financial assets classified as AFS are measured at fair value. Unrealized gains and losses including changes in foreign exchange rates are recognized directly to OCI, except for impairment losses, which are recognized to income, until the financial assets are derecognized, at which time the cumulative gains or losses previously recognized in accumulated OCI are recognized in income for the period. Investments in equity instruments classified as AFS that do not have a quoted market price in an active market are measured at cost.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Hedges

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

In a cash flow hedge relationship, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI, while the ineffective portion is recognized to income. The amounts recognized to OCI are reclassified to income in the period during which the hedged item affects income. However, when a hedge of an anticipated transaction is subsequently recorded as a non-financial asset, the amounts recognized to OCI are reclassified and are included in the initial carrying amount of the asset.

In a hedge of a net investment in self-sustaining foreign operations, the portion of gains or losses on the hedging item that is determined to be an effective hedge is recognized to OCI while the ineffective portion is recognized to income. The amounts recognized to OCI are recognized to income in the same period during which corresponding exchange gains or losses arising from the translation of the self-sustaining foreign operations are recognized to income.

Impact of adopting Sections 1530, 3855 and 3865

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

3 BUSINESS ACQUISITION

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. 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 upward by $687 to $74,880 up to March 31, 2007 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments made related to additional profitability performance for fiscal years 2004, 2005 and 2006. At March 31, 2007, the total adjusted purchase price can be detailed as follows:

Total Adjusted Purchase Price

Basic purchase price	$ **64,532**
Tax impacts	**3,421**
Acquisition of a large specialized manufacturing equipment	**4,246**
Transaction costs and other	**2,681**
	$ **74,880**

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. These additional payments were accrued for in each related fiscal year and effectively paid in the following fiscal year. At March 31, 2007, all additional payments amounting to $5,769 (US$4,725) were made. The basic purchase price was adjusted accordingly.

4 DISCONTINUED OPERATIONS: SALE OF LOGISTIC AND DEFENCE DIVISION, DIEMACO

On February 10, 2005, the Company entered into an agreement with Colt Defense 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 agencies. The final sale price amounted to $19,035. The sale transaction closed on May 20, 2005. The gain on the sale transaction amounted to $8,385, net of income taxes of $2,521.

For the fiscal year ended March 31, 2006, sales, income before income taxes and net income related to Diemaco's discontinued operations for the period from April 1, 2005 to May 20, 2005, were as follows:

Sales	$ **2,440**
Income before taxes	$ **418**
Net income (including the gain on sale of Diemaco of $8,385)	$ **8,661**

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 (note 22).

5 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 U.S.$10,000. This agreement, dated August 2, 2002, fixes the Libor rate at 4.1% and matures on August 2, 2007.

Foreign exchange risk

At March 31, 2007, the Company had entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.2110 an amount of U.S.$129,500 (U.S.$146,500 at an average rate of 1.2617 in 2006) for the purpose of foreign exchange risk management related to its export sales maturing at various dates between April 1, 2007 and December 31, 2010.

Credit concentration and credit risks

A significant portion of the Company's sales, approximately 68% are made to a limited number (6) of customers (64% to six customers in 2006).

However, credit concentration risks are limited due to the fact that the Company deals generally with large corporations and government agencies, with the exception of sales made to non governmental agencies outside North America, which represent approximately 1% 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:

		2007		2006
	Book value	**Fair value**	Book value	Fair value
Long-term debt (including current portion)	**$ 73,777**	**$ 71,359**	$ 61,701	$ 59,142
Off-balance sheet derivative instruments:				
Forward foreign exchange contracts				
Favorable position	**—**	**8,291**	—	15,000
Interest rate swap				
Favorable position	**—**	**59**	—	167

The fair values are based on information available to management as at March 31, 2007 and 2006. 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.

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, income tax receivable, other receivables, other current assets, accounts payable and accrued liabilities and, other liabilities, income tax payable, 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.

6 COST OF SALES

In fiscal year 2006, the Company recorded an insurance recovery of $1,800 relating to a business interruption claim following a fire at one of its business units. This incident, which took place in January 2005, mainly impacted the results of the fourth quarter of the Company's 2005 fiscal year and the first quarter of fiscal year 2006. In accordance with Canadian generally accepted accounting principles, this favourable amount could not be recognized before that date because of the uncertainty of the materialization of the claim and the determination of the amount involved.

In fiscal year 2006, the Company also recorded a $1,000 provision for non-quality and for certain terminated parts on aircraft engine components following delivery and quality issues at the Company's Gas Turbine Components Division.

The net impact of the two above-mentioned items, which were recorded as a reduction of cost of sales in fiscal year 2006, increased the gross profit by $800 or 0.3% expressed as a percentage of sales.

7 SELLING AND ADMINISTRATIVE EXPENSES

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. In fiscal year 2007, the foreign exchange currency gain included, as a reduction, in the Company's selling and administrative expenses amounted to $100 ($646 in 2006).

8 INVENTORIES

Inventories consist of:

	2007	2006
Raw materials	**$ 26,257**	$ 21,960
Work in process and finished goods	**83,884**	66,623
Less: Progress billings	**17,413**	16,798
	$ 92,728	$ 71,785

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

At March 31, 2007, 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 $8,432 ($1,142 in 2006).

9 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

			2007
	Cost	**Accumulated Amortization**	**Net book Value**
Land	**$ 3,902**	**$ —**	**$ 3,902**
Buildings and leasehold improvements	**41,746**	**15,713**	**26,033**
Construction in progress	**14,926**	**—**	**14,926**
Machinery, equipment and tooling	**154,325**	**91,302**	**63,023**
Automotive equipment	**1,137**	**941**	**196**
Computer and office equipment	**8,840**	**7,238**	**1,602**
	$ 224,876	**$ 115,194**	**$ 109,682**

			2006
	Cost	Accumulated Amortization	Net book Value
Land	$ 3,537	$ —	$ 3,537
Buildings and leasehold improvements	40,040	14,069	25,971
Construction in progress	855	—	855
Land and building held for resale	5,387	3,191	2,196
Machinery, equipment and tooling	145,107	79,856	65,251
Automotive equipment	1,008	912	96
Computer and office equipment	8,172	7,105	1,067
	$ 204,106	$ 105,133	$ 98,973

The amortization expense of property, plant and equipment amounted to $14,828 in fiscal year 2007 ($15,065 in fiscal year 2006).

At March 31, 2007, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $21,070 ($21,545 at March 31, 2006) with accumulated amortization of $6,968 ($6,344 at March 31, 2006).

Land and building held for resale, at March 31, 2006, are related to the remaining surplus assets following the closing of the Tampa operations. These assets were included in the Aerospace segment, and were presented at the lower of carrying amount or fair value less cost to sell. These assets held for resale were sold during the year ended March 31, 2007.

Construction in progress include the costs of the new 72,000 square foot manufacturing facility under construction in Arlington, Texas which will be essentially dedicated to the Joint Strike Fighter program and, the costs of the new equipment being installed for the modernization of the plating department at the Longueuil plant (see Note 20).

10 FINITE-LIFE INTANGIBLE ASSETS

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

	2007	2006
Balance at beginning of year	**$ 9,243**	$ 11,023
Acquisition of software related costs	**517**	937
Amortization	**(1,950)**	(2,452)
Effect of changes in exchange rate	**(88)**	(265)
	$ 7,722	$ 9,243

The finite-life intangible assets consist of:

2007	**Cost**	**Accumulated Amortization**	Net book Value
Software	**$ 13,618**	**$ 11,759**	$ 1,859
Backlog	**8,486**	**2,623**	5,863
	$ 22,104	**$ 14,382**	$ 7,722

2006	Cost	Accumulated Amortization	Net book Value
Software	$ 12,845	$ 9,975	$ 2,870
Backlog	8,584	2,211	6,373
	$ 21,429	$ 12,186	$ 9,243

11 OTHER ASSETS

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

	2007	2006
Deferred financing costs, net	**$ 824**	$ 570
Deferred loss related to financial derivative instrument, net	**51**	188
	$ 875	$ 758

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:

	2007	2006
Balance at beginning of year	**$ 37,879**	$ 35,276
Progressive's acquisition purchase price adjustments (see Note 3)	**440**	3,141
Effect of changes in exchange rate	**(226)**	(538)
	$ 38,093	$ 37,879

13 LONG-TERM DEBT

	2007	2006
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $80,000 (see below), either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, with no extension, which bear interest at bankers' acceptance plus 1.4% for the Canadian Credit Facilities at March 31, 2007 (representing an effective interest rate of 5.7%) and at Libor plus 1.4% at March 31, 2007 for the U.S. Credit Facilities (representing an effective interest rate of 6.7%), and Libor plus 1.5% at March 31, 2006 for the U.S. Credit Facilities (representing an effective interest rate of 6.2%).		
At March 31, 2007, the Company used $12,000 (nil in 2006) and U.S.$35,000 (U.S.$30,656 at March 31, 2006) on the Credit Facilities.	**$ 52,411**	$ 35,806
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	**15,518**	17,268
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between April 2007 and October 2009, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $419 ($968 in 2006).	**5,848**	8,627
	73,777	61,701
Less: current portion	**6,691**	11,064
	$ 67,086	$ 50,637

Senior Secured Syndicated Revolving Credit Facilities
During the third quarter ended December 31, 2006, the Company successfully concluded the amendment and extension of its Credit Facilities for a five-year period whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature in five years, on October 4, 2011, with no extension. Consequently, at March 31, 2007, the outstanding debt relating to these Credit Facilities, amounting to $52,411 was included in the Company's long-term debt.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian and U.S. currency equivalent) from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes, are secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries.

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

These 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 products 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, 2007, the Company had complied with all restrictive covenants.

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 of Credit Facilities	Total
2008	$ 3,439	$ 3,542	$ —	$ 6,981
2009	2,261	1,664	—	3,925
2010	567	1,665	—	2,232
2011	—	2,268	—	2,268
2012	—	2,320	52,411	54,731

The minimum repayments include interest on obligations under capital leases of $419.

13 LONG-TERM DEBT (CONT'D)

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

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

14 OTHER LIABILITIES

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

	2007	2006
Pension plans and other post-retirement benefits (Note 19)	**$ 6,462**	$ 6,716
Others	**—**	624
	$ 6,462	$ 7,340

15 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; and
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:

	2007	2006
31,528,017 common shares (31,488,599 at March 31, 2006)	**$ 103,620**	$ 103,447

Issuance of common shares

During the fiscal year 2007, the Company issued 39,418 common shares at a weighted average price of $4.39 for a total cash consideration of $173 (see bellow) of which 12,000 common shares were issued following the exercise of stock options for a total cash consideration of $38 and the remainder, 27,418 common shares, was issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $135 (see bellow).

During the fiscal year 2006, the Company issued 4,534,047 common shares at a weighted average price of $3.75 for a total net cash consideration of $15,790 following the closing of the treasury common share issue (4,500,000 common shares) in November 2005, and the remainder, 34,047 common shares, was issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $120 (see below).

Treasury common share issue

On November 10, 2005, the Company closed the public offering of 4,500,000 common shares at a price of $3.75 per share for net proceeds of $15,670 (net of $1,205 fees and expenses). The net proceeds from the sale of the common shares was a applied by the Company in reduction of its lines of credit under its Credit Facilities, but not as a permanent reduction thereof.

Stock option plan

Under the stock option plan (the plan), stock options (options) are granted to officers and key employees to purchase the Company's common shares. The plan establishes that the subscription price shall not be lower than the average closing price of the related shares for the five trading days 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 one to four 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. Cancelled or forfeited options are included in the remaining number of shares reserved for issuance under the plan.

The aggregate number of common shares reserved for issuance under the plan is 2,808,257 of which 691,718 shares have not yet been granted at March 31, 2007.

15 CAPITAL STOCK (CONT'D)

During fiscal year 2007, the Company granted to key employees 325,000 (200,000 in 2006) stock options representing a total fair value of $479 ($247 in 2006) 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 4.2% (4.3% in 2006). Stock option cost is amortized over their earned period and the expense of $147 ($204 in 2006) 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, 2007, 1,090,521 stock options were issued and outstanding as follows:

	Outstanding options			Vested options	
Range of exercise price	**Number**	**Weighted-average years to maturity**	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
$3.50 to $4.99	**714,521**	**4.9**	**$ 4.63**	**266,241**	**$ 4.73**
$5.00 to $6.49	**216,000**	**3.5**	**5.20**	**159,560**	**5.27**
$6.50 to $10.00	**160,000**	**1.7**	**9.71**	**160,000**	**9.71**
	1,090,521	**4.1**	**$ 5.49**	**585,801**	**$ 6.24**

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

	2007		2006	
	Weighted-average exercise price	**Number of stock options**	Weighted-average exercise price	Number of stock options
Balance at beginning of year	**$ 5.72**	**873,021**	$ 5.96	808,821
Granted	**4.79**	**325,000**	3.98	200,000
Exercised	**3.15**	**(12,000)**	—	—
Cancelled / forfeited	**5.50**	**(95,500)**	4.61	(135,800)
Balance at end of year	**$ 5.49**	**1,090,521**	$ 5.72	873,021

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 common shares reserved for issuance under this plan represent 340,000 common shares and has been taken out from the common shares already reserved for the Company's stock option plan.

During fiscal year 2007, 27,418 common shares were issued for a total cash consideration of $135 (34,047 for a total cash consideration of $120 in 2006) and 11,841 common shares were attributed (15,424 in 2006) to the participating employees. Since the beginning of the plan, 79,458 common shares were issued and 35,299 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $67 is recorded as compensation expense ($60 in 2006) and is included in the Company's selling and administrative expenses.

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. An expense of $65 was recorded for SAR in fiscal 2007 (no expense was recorded for fiscal 2006).

15 CAPITAL STOCK (CONT'D)

In fiscal year 2007, the Company granted 28,000 SARs (15,000 in 2006) at a granted value of $5.13 ($3.84 in 2006) to its non-employee directors.

At March 31, 2007, on a cumulative basis, 88,000 SARs were still outstanding at a weighted-average granted value of $5.42 (60,000 SARs at weighted average granted value of $5.56 at March 31, 2006) which expire at various dates between fiscal years 2009 and 2013.

Diluted earnings (loss) per share

For fiscal years 2007 and 2006, the effect of stock options potentially exercisable on the Company's earnings (loss) per share from continuing operations was not significant. Therefore, the Company's basic and diluted earnings (loss) per share from continuing operations and earnings (lost) per share are the same.

16 CUMULATIVE TRANSLATION ADJUSTMENT

The decrease in the cumulative translation adjustment of $662 during the year ended March 31, 2007 (decrease of $2,034 in 2006) reflects the negative impact of the foreign exchange rate fluctuations on the net assets of self-sustaining foreign subsidiaries.

17 INCOME TAXES

The computation of income tax expense (recovery) is as follows:

	2007	2006
Income taxes at combined federal and provincial tax rates	**$ 3,453**	$ (237)
Large corporation tax	**—**	219
Provincial tax rate increase impact:		
— On net future tax assets	**—**	(491)
— Due to the winding-up of a subsidiary	**—**	464
Changes in enacted rates	**(103)**	—
Recognition of tax benefits – losses carried forward	**(1,118)**	—
Non-recognition of income tax benefits	**—**	518
Permanent differences	**(729)**	(1,200)
Income tax rate difference-U.S. subsidiaries	**200**	140
Impact of income tax rate differential on future income taxes	**(98)**	—
Other items	**80**	162
	$ 1,685	$ (425)

Temporary differences and losses carried-forward, which give rise to future income tax assets and liabilities, are as follows:

	2007	2006
Future income tax assets		
Current		
Non-deductible reserves	**$ 4,236**	$ 5,240
Inventories	**3,763**	3,637
Receivables	**151**	169
Other	**76**	171
	$ 8,226	$ 9,217
Future income tax liabilities		
Current		
Inventories and other none-deductible reserves	**$ 2,542**	$ 1,379
Investment tax credits	**—**	194
	$ 2,542	$ 1,573
Long-term		
Capital assets	**$ 11,837**	$ 12,093
Goodwill	**931**	1,305
Loans bearing no interest	**(500)**	(634)
Future tax benefits from tax losses	**(3,917)**	(3,186)
Other	**(92)**	(2,656)
	$ 8,259	$ 6,922

17 INCOME TAXES (CONT'D)

Tax losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries, for which no related income tax assets have been recognized in the consolidated financial statements, amounted to $7,800 as at March 31, 2007 and have expiry periods mainly between 3 and 10 years.

	2007	2006
Income tax expense (recovery) is as follows:		
Current	**$ (1,540)**	$ (2,422)
Future	**3,225**	1,997
	$ 1,685	$ (425)

18 NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

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

	2007	2006
Accounts receivable	**$ (2,886)**	$ (8,003)
Income tax receivable	**3,491**	(3,354)
Other receivables	**3,285**	(1,279)
Inventories	**(20,943)**	(59)
Prepaid expenses	**765**	(911)
Other current assets	**(895)**	1,193
Accounts payable and accrued liabilities and, other liabilities	**5,827**	9,712
Income tax payable	**(2,899)**	474
Effect of changes in exchange rate	**(96)**	(903)
	$ (14,351)	$ (3,130)

19 PENSION AND OTHER RETIREMENT BENEFIT PLANS

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 based either on years of service and flat amount, years of service and final average salary, or set out by individual agreements.

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

Total cash payments

Total cash payments for employee future benefits for fiscal year 2007, 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 $1,912 ($1,986 in 2006) while the cash contributed to its defined contribution plans was $1,366 ($1,307 in 2006).

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 valued as at December 31 of each year and projected to March 31 for all plans except one, for which the valuation is made as at March 31. The most recent actuarial valuations of the pension plans for funding purposes were as at December 31, 2004 and January 1, 2007. The next required actuarial valuations will be conducted as at December 31, 2007 and as at January 1, 2009.

Plan amendments

The provisions of the pension plan for unionized employees were modified in May 2005 as a result of the collective bargaining agreement ratified on April 9, 2005. This past service cost is evaluated at $814 as at May 1, 2005 and is amortized over the average remaining service lifetime of active employees (17 years).

Defined benefit pension plan obligations

Accrued benefit obligations	2007	2006
Balance at beginning of year	**$ 32,170**	$ 29,322
Current service cost	**939**	888
Employee contributions	**591**	490
Interest cost	**1,456**	1,438
Benefits paid	**(1,488)**	(1,431)
Actuarial losses	**1,064**	649
Plan amendments	**—**	814
Balance at end of year	**$ 34,732**	$ 32,170

19 PENSION AND OTHER RETIREMENT BENEFIT PLANS (CONT'D)

Defined benefit pension plan assets

Fair value of plan assets	**2007**	2006
Balance at beginning of year	**$ 17,508**	$ 15,037
Actual return on plan assets	**1,893**	1,426
Employer contributions	**1,912**	1,986
Employee contributions	**591**	490
Benefits paid	**(1,488)**	(1,431)
Balance at end of year	**$ 20,416**	$ 17,508

Plan assets consist of:

Asset category (1)	**2007**	2006
Equity securities	**59 %**	59 %
Debt securities	**35**	34
Real estate	**1**	1
Other	**5**	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

	2007	2006
Fair value of plan assets	**$ 20,416**	$ 17,508
Accrued benefit obligations	**34,732**	32,170
Funded status – plans deficit	**(14,316)**	(14,662)
Unamortized net actuarial loss	**5,796**	5,558
Unamortized past service cost	**1,288**	1,408
Unamortized transitional obligation from acquisitions	**28**	162
Unamortized transitional obligation	**742**	818
Accrued benefit liability, net of valuation allowance	**$ (6,462)**	$ (6,716)

The accrued benefit liability, net of valuation allowance, is included in the Company's consolidated balance sheets in the other long-term liabilities (Note 14).

Plans with accrued benefit obligations in excess of plan assets

The above accrued benefit obligations and fair value of plan assets at year-end represent also all amounts in respect of pension plans that are not fully funded.

Elements of defined benefit pension costs recognized in the year

	2007	2006
Current service cost, net of employee contributions	**$ 939**	$ 888
Interest cost	**1,456**	1,438
Actual return on plan assets	**(1,893)**	(1,426)
Actuarial losses	**1,064**	649
Plan amendments	**—**	814
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 1,566**	$ 2,363
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	**632**	337
• Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligations for the year	**(871)**	(458)
• Difference between amortization of past service costs for the year and actual plan amendments for the year	**120**	(697)
• Amortization of the transitional obligations	**210**	208
Defined benefit pension costs recognized	**$ 1,657**	$ 1,753

19 PENSION AND OTHER RETIREMENT BENEFIT PLANS (CONT'D)

Significant assumptions

The significant assumptions used are as follows (weighted-average):

	2007	2006
Accrued benefit obligations as at March 31:		
Discount rate	**4.80 %**	4.95 %
Rate of compensation increase	**3.50**	3.50
Defined benefit pension costs for years ended March 31:		
Discount rate	**4.95 %**	5.30 %
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:

	2007	2006
Defined contribution pension costs	**$ 1,366**	$ 1,307

20 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, 2007 amounted to $1,717 excluding escalation clauses. The minimum annual lease payments over the next five years are: $399 in 2008, $395 in 2009, $371 in 2010, $227 in 2011 and $217 in 2012.

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, 2007 of $11,230 for which the minimum annual operating lease payments, over the next five years, are: $2,806 in 2008, $2,086 in 2009, $1,753 in 2010, $1,427 in 2011 and $1,359 in 2012.

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, if exercised, represent the following: $1,369 in 2008, $503 in 2009 and $242 in 2010.

Machinery and equipment and construction in progress acquisition commitments

The Company has released purchase orders relating to machinery and equipment which have not been delivered yet to the Company's facilities and to the construction in progress for the new facility in Arlington, Texas. These outstanding purchase orders at March 31, 2007 amounted to $20,168 ($7,386 in 2006) for which $2,041 ($933 in 2006) deposits on machinery and equipment were made and are included in the Company's other current assets.

Guarantees

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.

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 be subjected 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, 2007 and 2006, an amount of $6,000 was provided for in the Company's accounts payable and accrued liabilities in respect to these items.

21 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.

22 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 income tax expense (recovery).

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, consists of the following:

Activity Segments

			2007			2006
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	**$ 257,324**	**$ 25,962**	**$ 283,286**	$ 233,752	$ 22,445	$ 256,197
Operating income (loss)	**16,156**	**(1,884)**	**14,272**	6,246	(2,856)	3,390
Financial expenses			**3,681**			4,221
Income (loss) before income tax expense (recovery) and discontinued operations			**10,591**			(831)
Assets from continuing operations	**312,370**	**22,133**	**334,503**	289,309	20,222	309,531
Goodwill	**37,059**	**1,034**	**38,093**	36,833	1,046	37,879
Purchase of property, plant and equipment	**27,303**	**1,325**	**28,628**	11,550	904	12,454
Purchase of finite-life intangible assets	**489**	**28**	**517**	937	—	937
Goodwill acquired	**440**	**—**	**440**	3,141	—	3,141
Amortization	**14,086**	**2,692**	**16,778**	15,288	2,229	17,517

Geographic Segments

			2007			2006
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	**$ 203,214**	**$ 80,072**	**$ 283,286**	$ 169,309	$ 86,888	$ 256,197
Property plant and equipment, net	**69,973**	**39,709**	**109,682**	60,733	38,240	98,973
Finite-life intangible assets, net	**1,399**	**6,323**	**7,722**	2,047	7,196	9,243
Goodwill	**17,534**	**20,559**	**38,093**	18,702	19,177	37,879
Export sales (1)	**130,637**			104,027		

68% of the Company's sales (71% in 2006) were to U.S. customers.

[(1)] *Export sales are attributed to countries based on the location of the customers*

23 RECLASSIFICATION

Comparative figures for the financial statements as at March 31, 2006 have been reclassified to comply with the March 31, 2007 presentation.

BOARD OF DIRECTORS, CORPORATE INFORMATION & SHAREHOLDERS INFORMATION

BOARD OF DIRECTORS

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papers made primarily with
recycled fibre

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and heavy duty vehicles

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and Chief Executive Officer
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parts for the automotive and
industrial markets

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Officer
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Executive Vice-President and
Chief Financial Officer
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GILBERT GUÉRIN
Corporate Director,
Human Resources
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Vice-President, Internal Audit
and Conformity
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JEAN-FRANÇOIS BOURSIER
Corporate Controller
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* Member of Audit Committee

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Vice-President, Sales & Marketing
Toronto, Ontario

GAS TURBINE COMPONENTS

MICHAEL L. MESHAY
Vice-President, General Manager
Cincinnati, Ohio

SHAREHOLDERS' INFORMATION

Annual General Meeting
The Annual General Meeting of Shareholders will be held on Thursday, August 2, 2007 at 11:00 A.M. in the Pierre-de-Coubertin Room of the Hôtel Omni Mont-Royal, 1050 Sherbrooke Street West, Montréal, Québec, Canada

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