HÉROUX DEVTEK

REACHING HIGHER

ANNUAL REPORT 07-08

Héroux-Devtek 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 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. The Company also supplies the industrial segment with large components for power generation equipment and precision components for other industrial applications. Approximately 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.

GROWTH STRATEGY

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

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

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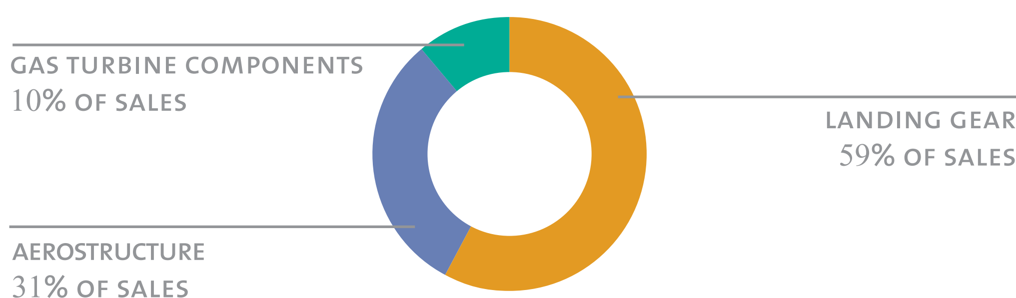
FINANCIAL HIGHLIGHTS



YEARS ENDED MARCH 31 (In thousands of dollars, except per share data)

	2008	2007	2006	2005	2004 Restated[1]
Sales	307,882	283,286	256,197	232,998	192,678
Gross profit	46,647	31,966	19,237	13,421	14,448
Margin	15.2%	11.3%	7.5 %	5.8 %	7.5%
EBITDA	44,286	31,050	20,907	14,623	9,249
Margin	14.4%	11.0%	8.2 %	6.3 %	4.8%
Net income (loss) from continuing operations	19,019	8,906	(406)	(4,291)	(3,972)
Margin	6.2%	3.1%	(0.2)%	(1.8)%	(2.1)%
Earnings (loss) Per Share- From continuing operations					
Basic	0.60	0.28	(0.01)	(0.16)	(0.17)
Diluted	0.59	0.28	(0.01)	(0.16)	(0.17)
Net income from discontinued operations	–	–	8,661	2,162	1,637
Earnings per Share-Basic and diluted from discontinued operations	–	–	0.30	0.08	0.07
Net income (loss)	19,019	8,906	8,255	(2,129)	(2,335)
Margin	6.2%	3.1%	3.2 %	(0.9)%	(1.2)%
Earnings (loss) Per Share-Basic	0.60	0.28	0.29	(0.08)	(0.10)
Earnings (loss) Per Share-Diluted	0.59	0.28	0.29	(0.08)	(0.10)

AS AT MARCH 31 (In thousands of dollars, except per share data)

	2008	2007	2006	2005	2004
Total assets	356,454	339,461	309,531	312,130	282,958
Working capital	101,596	86,283	70,330	47,068	73,861
Working capital ratio	2.20:1	1.89:1	1.76:1	1.48:1	1.87:1
Long-term debt to equity	0.40	0.42	0.33	0.51	0.49
Book value per common share	5.71	5.10	4.84	4.81	5.15
Cash flow from operations	37,848	29,771	20,007	11,934	8,386
Average number of shares outstanding ('000)	31,609.6	31,511.3	28,727.4	26,932.7	23,437.9
Shares outsdanding at year-end ('000)	31,639.0	31,528.0	31,488.6	26,954.6	23,401.6
Fully diluted shares (used for diluted EPS) ('000)	31,984.0	31,544.6	28,727.4	26,932.7	23,437.9

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

MAJOR CONTRACT ANNOUNCEMENTS 2007-2008

Sikorsky Aircraft Corporation

$95 million

CH-53K

JUNE 07

Sikorsky Aircraft Corporation awarded the Landing Gear Division a contract to design, develop, fabricate, assemble, test and deliver the Helicopter's landing gears and tail bumper during the CH-53K Heavy Lift program's Systems Design and Development (SDD) phase. This phase includes the production of landing gears and tail bumper assemblies for 8 systems. The Low Rate Initial Production phase of the program will begin in 2013 with the delivery of two systems to be followed by four systems in 2014 to the U.S. Marine Corps. Total program expectations are for a total of 156 aircraft to be produced.

AUGUST 07

The Landing Gear Division was awarded contracts for the production of landing gear components mainly for the C-130, C-5, F-16, KC-135, E-3 and B-1B aircraft. These new orders are in addition to similar contracts announced in October 2006. Deliveries will start in fiscal year 2009 and production will be spread out over the next four years.

US Air Force

$14.5 million

C-130J

Messier-Dowty

$115 million

B-787
A-320
Sukhoi RRJ

NOVEMBER 07

The Landing Gear Division signed a preferred supplier agreement with Messier-Dowty accompanied by orders to manufacture major landing gear components over the next 10 years. Héroux-Devtek will manufacture these components for three large commercial aircraft programs. Production of these complex components requires an investment of $16 million over the next two years in ultra-modern and highly-automated equipment. Deliveries will begin in calendar 2008 and a full production ramp-up is anticipated over an 18-month period.

JANUARY 08

Bombardier Aerospace awarded the Aerostructure Division a five year contract to manufacture structural detail components spanning Bombardier's entire portfolio of Regional and Business aircraft. Under the terms of the agreement, which extends and broadens the previous mandate, Héroux-Devtek will fabricate, assemble and deliver over 200 structural detail components such as spars, ribs, frame and engine mounts. The contract became effective upon its ratification and continues through December 2012 with a relatively consistent revenue stream through the entire period.

Bombardier

$110 million

Dash 8-400

CHAIRMAN'S MESSAGE

Dear Shareholders:
I am delighted to convey my first official message to you as Héroux-Devtek's Chairman. In today's environment of strict corporate governance, the role of Chairman entails significant responsibilities. Clearly, it is essential that all shareholders' interests are considered and protected. It is an honour for me to assume these responsibilities from Helmut Hofmann who served our Company so capably for many years. As you may know, Helmut was the founder of the Devtek Corporation. He remains with Héroux-Devtek as an honorory Director. I value this continuity and look forward to carrying on our work together.

Both Helmut and Gilles Labbé, in their messages of previous years, held to a consistent theme – they cautioned against complacency. I completely agree. There has been a positive turnaround over the past two years in the markets we serve. Héroux-Devtek's performance has notably improved as a result. In fact, all of our business units returned to profitability during fiscal year 2007-2008, something we have not experienced since the events of September 11, 2001. Nonetheless, the unprecedented high price of fuel, the strength of the Canadian dollar and a deteriorating economy are realities we must face with vigilance and resolve.

These developments cast a shadow on what has been unparalleled growth in the commercial aerospace sector. As well, while defence budgets have seen robust growth, this has not necessarily translated into increased levels of equipment purchases. With a November U.S. Presidential election, defence budgets could go either way. The Board is mindful of these factors. Héroux-Devtek must continue to execute in a manner that will maximize productivity to remain competitive and continue to improve profitability and, in turn, benefit shareholders.

Our Company has clearly demonstrated that it has the resources in talent and experience to accomplish all our objectives. We continue to gain global recognition from the world's leading aerospace manufacturers. A number of important programs were won last year, in part, due to the original design work of our engineering team. Gilles discusses this aspect, among other factors contributing to our high performance, in his message. As well, see the section entitled "Engineering" (page 10) for further elaboration upon this important strength of Héroux-Devtek.

I look forward to a positive year and assure you that my Board colleagues and I will undertake our duties with diligence and passion. It is with great pride that I serve as your Chairman, a position I have undertaken with greater ease, confident of the capabilities of the fine women and men who comprise the Héroux-Devtek team.

(signed by)
John Cybulski
Chairman of the Board

REPORT TO SHAREHOLDERS

Dear Shareholders:
I am very pleased to report that the fiscal year ended March 31, 2008, was outstanding for Héroux-Devtek. We generated solid revenue and earnings growth, with underlying individual improved results at all our divisions. More importantly, we were awarded new contracts representing over $335 million in revenues on strategic programs with global leaders such as Sikorsky, Messier-Dowty and Bombardier.

I am even more satisfied with the service improvements we achieved. Recognition from our key customers underlined this performance, with awards from Lockheed-Martin and Boeing. Improvement in quality, on-time delivery and service, and the resulting customer satisfaction are fundamental to ensuring long-term growth and sustainability of our business, a key objective for Héroux-Devtek.

Operations
In fiscal 2008, we completed the turnaround of all our business units, with our Dorval aerostructure and Cincinnati gas turbine centres of excellence achieving operating profitability.

Our Landing Gear Division, which has delivered solid results for the past few years, continued its sales growth, supported by an improved quality and on-time delivery record. Héroux-Devtek is now the third largest landing gear manufacturer in the world, and has gained broad industry recognition as a key landing gear supplier.

The Landing Gear Division also increased its profitability despite the higher Canadian dollar, thanks in large part to its specialized engineering capabilities, which continue to evolve. Based within the Landing Gear Division but serving all divisions, the engineering department provides customers with tailored, state-of-the-art solutions and Héroux-Devtek with value-added, proprietary products. Investment in our engineering capabilities is part of a strategy to carve out a place as a full supplier of design, development, qualification, manufacturing and lifecycle support in the market for small-to-mid-sized aircraft, such as helicopters as well as regional, business and military aircraft.

Our Aerostructure Division also performed well in fiscal 2008. Led by a new management team, our Dorval facility delivered a financial and quality turnaround. In Texas, where Progressive is participating in the major Joint Strike Fighter (JSF) military program, the new plant expansion is complete and additional employees are in place, ensuring enhanced operations in fiscal 2009 as the JSF program ramps up.

Fiscal 2008 saw a major turnaround at our Gas Turbine Components Division. Our management team in Cincinnati put the finishing touches on the restructuring initiated in prior years and completed the exit of the aircraft engine business, making way for better margin business. The division turned a profit in the second half of fiscal 2008 and is now benefiting from the recovery in the gas turbine market that finally materialized last year, as well as a rapidly developing wind power sector.

Meeting the Challenge of the High Canadian Dollar
In fiscal 2008, we challenged our employees to improve further productivity to compensate for the high Canadian/U.S. exchange rate, which continues to be a major

Working

issue for Héroux-Devtek. Our employees have shown that they have the dedication and skills to improve our processes and produce more. This effort must continue. Management, for its part, has undertaken to provide all the tools needed to meet the challenge:

- Substantial resources were invested in fiscal 2008 to develop value-added proprietary products and we expect to continue to invest about 4% of our total sales in research and development over the next five years.
- $38.1 million was invested mostly in new buildings and automated equipment last year and $35.0 million is budgeted for the current year.
- Investment in training and lean manufacturing.
- Improved administrative processes to support operational efficiency.

Markets and Outlook
Héroux-Devtek's principal markets are all in growth mode. The aerospace market should remain strong until at least 2010 - 2011, although caution is warranted in light of a weakening U.S. economy and surging crude oil prices. On the military side, while U.S. budgets were higher again this year, a new administration may reduce funding in the future. However, recent major Canadian government purchases of military aircraft are expected to generate important benefits for Héroux-Devtek.

TOGETHER

The industrial segment, while a much smaller market for Héroux-Devtek, promises good growth in the sectors we supply. Industrial gas turbine demand should grow for several years, and wind energy is growing at a brisk 20% per year. The Company also supplies the construction and resource sectors, both of which have remained strong, but can be affected by commodity price fluctuations.

With our strong customer relationships and solid backlog, we are anticipating internal top line growth of 10% this year. We are also in the market for acquisitions representing a good fit with our core landing gear and aerostructure segments, supported by an increase in our credit line from $80 million to $125 million negotiated in fiscal 2008 and our strong financial position.

Corporate Culture and Success
While Héroux-Devtek has benefitted from solid demand in all sectors of its business, the results of the past year were not solely due to improved markets. In the last few years, our divisions have honed their business practices and processes to become efficient, profitable business units. Division management was adjusted to create tightly-knit, highly-effective teams focused on delivering tangible results. Through lean manufacturing, training and practice of the 4 Rs – Respect, Responsibility, Recognition and Resilience – each and every employee is solicited to be a full participant in a climate of continuous improvement and productivity enhancement.

Héroux-Devtek has evolved into a company where each individual has a distinct role to play in the success of their business unit, and where relations between head office, the various divisions, the centres of excellence and individual employees are smooth and well-defined.

I am extremely proud of what we have achieved together as a team. I am confident Héroux-Devtek's dedicated employees will continue to reach higher to attain the desired productivity gains so that we may continue to excel for our customers.

(signed by)
Gilles Labbé
President and Chief Executive Officer

OUR OPERATIONS

SALES BY SECTORS

AEROSPACE

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 flight critical parts

KITCHENER
Manufacture of large landing gear components for commercial and military aircraft and replacement parts

LES INDUSTRIES C.A.T. (MONTRÉAL)
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 electronic enclosures, heat exchangers and other high precision components for the aerospace and defence sectors

INDUSTRIAL

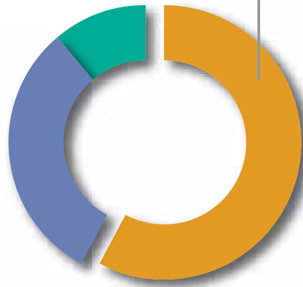
GAS TURBINE COMPONENTS

CINCINNATI
Manufacture of large scale components for gas and wind turbines used in the production of electricity

Manufacture of precision components for various industrial sectors, such as heavy equipment

59%

of sales



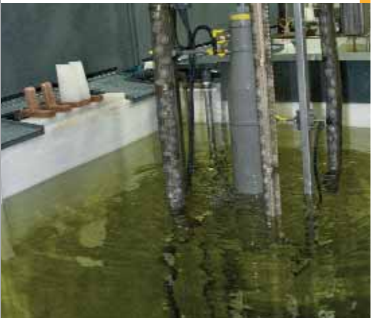
Design prowess wins Sikorsky contract

The CH-53K, being developed by Sikorsky, is a heavy lift helicopter for the 21st century. It will apply the expertise gained from Sikorsky's fifty years of helicopter development and play a forward role in the operations strategy of the U.S. Marine Corps. Sikorsky has turned to Héroux-Devtek for the design and manufacture of the landing gear and tail bumper for the CH-53K.

Sikorsky recognized the advantages of our design solutions and system integration capability, the principal reason we won this mandate expected to exceed $95 million. We devised an innovative approach to meet weight and reliability demands. The successfully completed landing gear and tail bumper systems Preliminary Design Review (PDR) by March 31, 2008, represented a major milestone for Héroux-Devtek.

Significant investment

New technology to automate the plating line and increase throughput at the Longueuil plant represents a major investment in added capacity. This development combines state-of-the-art technology implementation with lean techniques. The resulting reduction in manufacturing time for major components provides us with further competitive advantage. Two lines have already been started, and full operation is scheduled for the fall in the current fiscal year.



Improving Internal Processes

With investments in new technology, fixturing and programming, together with lean manufacturing initiatives, we have been able to reduce manufacturing time in key instances. This has helped us significantly mitigate the impact of the rise in the Canadian dollar. At the same time, training initiatives and skills development have remained an ongoing priority, as we upgrade our skills and utilize our equipment to their maximum.

Preferred Supplier to Messier-Dowty

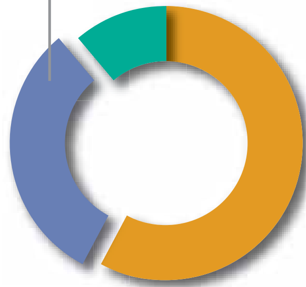
Having met our commitments, we have been awarded the status of preferred supplier by Messier-Dowty for a ten-year period accompanied by a $115-million contract to manufacture major landing gear components for three large commercial aircraft programs. This close and enduring relationship with a global leader in the production of landing systems represents a further acknowledgment of Héroux-Devtek's technical ability and affordable solutions.

Outlook

Order backlogs for large commercial aircraft, business jets and turboprops remain strong, while our involvement in strategic military aircraft programs provides good visibility. Ongoing investments in R & D and production capability have advantageously positioned the Landing Gear Division at the forefront of its realm of expertise, a position we firmly intend to sustain.

31%

of sales



AEROSTRUCTURE

Building the foundation for long-term, sustainable growth through new technology, operations excellence, and customer focus

The Aerostructure Division reported record sales and improved financial performance in FY2008. Core competencies were strengthened. Value-added, vertically integrated services were developed. Customer satisfaction levels rose at all units.

Turnaround at Dorval

Dorval's successful profitability improvement is owed much to the unit's new approach to value creation and customer relationship management. Value pricing was instituted, contracts were renegotiated, and new ones were captured. During FY2008, Héroux-Devtek signed its largest contract ever with Bombardier and acquired a new customer in Bell Helicopter. The five-year mandate with Bombardier covers the entire range of Bombardier's regional and business aircraft.

Expansion in Texas

At Progressive Incorporated in Texas, operating results exceeded planned targets with record sales and improved profitability. Continuing development included a new 72,000 square foot climate-controlled building and the installation of nine (9) new 5-axis machines, primarily for the F-35 program. With the new capacity, Progressive is fully prepared to meet the growth forecasted in our three-year plan, including the rate increases announced on military contracts with Boeing Integrated Defense Systems. Progressive also expanded its international customer base, signing a ten (10) year contract with Israel Aerospace Industries for F-15 and F-16 structural omponents. In addition, we successfully completed the first year of full-rate production on the Falcon Star F-16 modification program, expanding our kitting business and meeting customer expectations for value-added services.

Sustained Growth in Toronto

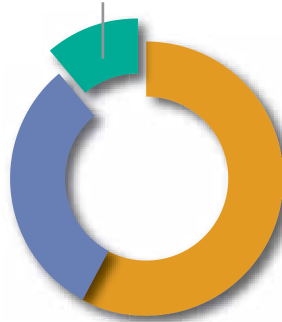
Continued good financial results were achieved at Magtron, in Toronto, where our highly specialized processes of vacuum brazing and dip brazing have helped us make excellent progress in diversifying our customer base. We are excited about our future plans for Magtron, which will include aerospace machined part production, to increase synergies with the Dorval and Texas sites.

Outlook

Commercial and military aerospace markets continue to grow. With new contracts in all major aerospace markets, we have established a strong foundation for continued growth. Our future development takes aim at creating capability for vertical integration, including processing and assembly, to meet our customer's expectations to transform Heroux Devtek Aerostructure into a full service aerostructure provider.

10%

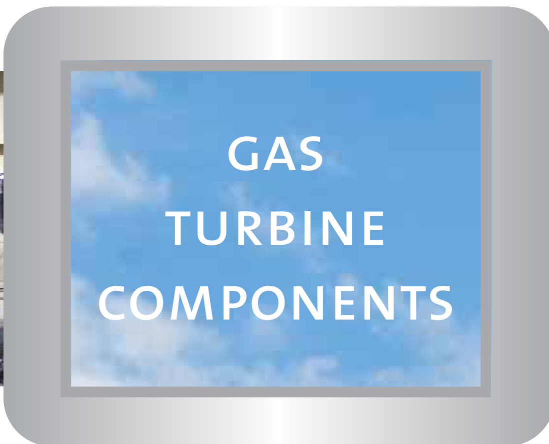
of sales



Héroux-Devtek's Gas Turbine Components Division marked the year with a return to profitability, as organic industrial sales growth exceeded 10%.

The ability to manufacture substantial volumes of ultra large metal parts with close tolerances has made Gas Turbine Components an important value-added fabricator for a range of OEMs. In addition to supplying large scale, high value components for gas turbines used in the production of electricity, the division builds products for manufacturers of wind energy turbines and earth moving equipment.

The excellent performance of the division over the last year responded to streamlined internal operations and enhanced deployment of capacity. The division pruned its customer base, and exited the aircraft engine component market to concentrate on core strengths. These strategies led to a major turnaround and contributed solidly to top and bottom line growth.



Stators for Power Generation

Management's decision in the recent years to build a cellular manufacturing and assembly line for the growing requirements of welded-stator assemblies has made Héroux-Devtek a major supplier of stator assemblies to the power generation market. The accelerating requirements for power generation technology, particularly from emerging economies, indicates that the demand for components will double over the next ten years.

Wind Power Components

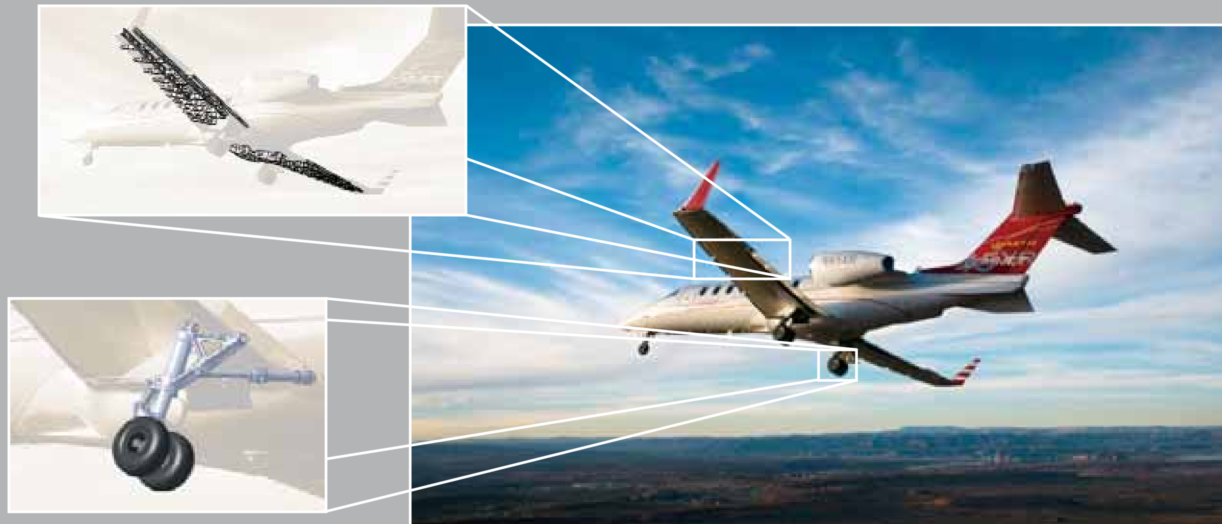
An increasingly important source of business for Héroux-Devtek's Gas Turbine Components Division is the rapidly growing wind energy sector. Having developed the capacity to produce in high volume the large shafts and complex gearboxes required by modern windmills, the division has leveraged its relationships with power generation OEMs to become a primary supplier and expects significant growth in this sector.

Earth Moving Equipment

The division's capabilities extend to providing components for earth moving equipment. For example, Héroux-Devtek's Gas Turbine Components Division supplies rear axles and drive sprockets to Caterpillar Inc., the world's leading manufacturer of construction and mining equipment. As the boom in the natural resources sector is ongoing, with associated demand for earth moving equipment, excellent growth is forecast in this sector for Héroux-Devtek.

Outlook

Industrial trends are positive and point to abiding growth for the division. Gas Turbine Components is uniquely positioned to leverage its technological infrastructure, its exceptional capabilities in high-precision machining, and its strong customer relationships. The division will continue to offer an expertise and profile that render it markedly distinct from the competition.



Learjet 45

MANUFACTURING ENGINEERING

Since the inception of Héroux-Devtek, the development and implementation of innovative production systems have distinguished the Company as a leader in the aerospace industry. Our expertise in manufacturing engineering for landing gear, aerostructure and industrial components ranks among the world's best.

Cutting Edge Processes:

Every division of Héroux-Devtek can proudly point to innovative achievements in manufacturing engineering, all related to strategic programs of original equipment manufacturers.

Landing Gear Division:

Processes for the manufacture of the Boeing 777 piston, integral to one of the largest landing gear systems in the world, were developed by Héroux-Devtek's manufacturing engineering team in Kitchener, Ontario.

Aerostructure Division:

Héroux-Devtek's team has developed specific know-how for the manufacturing of highly complex, critical airframe parts for both commercial and military aircraft, including the strategic Joint Strike Fighter and Bombardier Learjet 45.

Gas Turbine Division:

Héroux-Devtek has successfully leveraged its established power generation manufacturing engineering expertise by entering new, promising markets. The Division's knowledge and machining capabilities are now being employed for the manufacture of high-precision heavy equipment components.

DESIGN ENGINEERING

Héroux-Devtek's design engineering expertise spans more than four decades. Achievements include the integrated landing gear programs for Canadair's amphibious CL-215 aircraft, the De Havilland Twin Otter DHC-6, the Bombardier LearJet 45 and the BA609 tilt rotor helicopter from Bell-Augusta.

At the turn of the 21st century, aircraft manufacturers refocused their efforts on product sales and marketing. Opportunities were thereby created for suppliers able to participate in the systems design and development phase of a program, and capable of providing complete assemblies.

Héroux-Devtek immediately recognized the potential in this trend, and swiftly established a design engineering team that has grown to more than 50 dedicated professionals.

Innovation Generates Growth: The work of our design engineering team serves two critical purposes that advance the growth of Héroux-Devtek. On the one hand, our engineers create novel technology for our customers and thereby win production mandates for the Company. On the other, our design team drives innovation in our manufacturing expertise, which in turn serves to expand Héroux-Devtek's reach and capacity.

Blue-Chip Client List: Héroux-Devtek has earned a worldwide reputation for its consistently creative design work and has won strategic mandates from many of the world's largest aircraft producers. Over the last six years, design accomplishments include landing gear systems for the Northrop Grumman Global Hawk, the X-45C unmanned drone from Boeing, the landing gear door uplocks for Lockheed-Martin's Joint Strike Fighter, and during fiscal 2008, for the Sikorsky CH-53K Heavy Lift helicopter.

B-777 nose landing gear piston

CH-53K

Engaged Corporate Citizen

Héroux-Devtek is sparing no effort to highlight its role as a conscientious employer and corporate citizen. We are implementing a range of policies that advance the skills of our employees and protect their health. Moreover, Héroux-Devtek acts to promote community values, and adheres to a rigorous environmental agenda.

CONTINUOUS TRAINING

In a highly competitive globalized economy, the key differentiator for the successful company resides in the talent and commitment of its workforce. As qualified labour is scarce and manufacturing equipment increasingly complex, Héroux-Devtek is investing $7 million in a comprehensive employee training program.

HEALTH AND SAFETY

The wellbeing of our employees is a priority concern and team effort on a daily basis at Héroux-Devtek. The Company's health and safety committees, comprised jointly of members from management and front-line staff, place particular emphasis on prevention. Our due diligence aims at the minimization of all workplace hazards. Safety strategies are continually updated in every work unit, and compliance reviewed regularly. All employees have the opportunity and right to voice concerns and receive immediate feedback about health and safety issues.

ENVIRONMENTAL PERFORMANCE

At Héroux-Devtek, our goal is to foster sustainability and limit the Company's environmental footprint. We consider leadership in this regard to be a function of integrating environmental considerations into corporate decision-making. In that optic, we attempt to exceed regulatory standards through the exercise of internally formulated best practices – and their continuous improvement.

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. (''Héroux-Devtek'' or the ''Company'') changed between March 31, 2007 and March 31, 2008. It also compares the operating results and cash flows for the year ended March 31, 2008 to those for the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2008. 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, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

Héroux-Devtek and its subsidiaries specialize in the design, development, manufacture, repair and overhaul of systems and components used principally in the aerospace and industrial 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 and Canada.

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 Company supplies both the commercial and military sectors of the Aerospace market with landing gear (including spare parts and repair and overhaul services) and airframe structural components including kits. However, as already announced last year, the Company gradually exited the aircraft engine components market in fiscal 2008. In the commercial sector, the Company is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

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

The Company's sales by segment are as follows:

	2008	2007
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 2008, sales to these six customers represented approximately 68% of total sales.

The Aerospace segment comprises the Landing Gear and Aerostructure divisions. 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 large components for the power generation and other industrial markets.

Business Management

The Company's segments or Divisions are decentralized operations that encourage entrepreneurship and the involvement of every employee. Each Division has the management, engineering, manufacturing and marketing resources required to meet the needs of its specific market segments. The growth and profitability of each Division is the responsibility of a Vice President - General Manager who reports directly to the Company's President and Chief Executive Officer, while the Vice President Finance of each Division reports directly to the Company's Executive Vice President and Chief Financial Officer.

The Company's Corporate Office is responsible for the Company's public financial and other reporting and disclosure requirements and for all financial and major business development decisions. It also provides each Division with support in establishing budget and strategic plans, developing new products and markets, and with assistance for public relations, financial controls and reporting, legal counsel, human resources and information technology.

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 to medium landing gear and complete 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, earnings before interest, tax, depreciation and amortization (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 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.

Risk Management

The Company's Risk Management process includes essentially the identification and assessment of business risks and opportunities and the implementation of strategies and controls to manage, monitor and communicate these risks. To help achieve its risk management objectives, the Company has included risk management activities and controls in the operational responsibilities of management in each Division. The Company's Board of Directors is ultimately responsible for identifying and assessing the Company's principal business risks, reviewing overall business risks and ensuring the implementation of appropriate systems to manage these risks. The Human Resources and Corporate Governance Committee and the Audit Committee, composed of independent Directors, assist the Board of Directors in its general management responsibilities.

The Company operates in industry segments subject to various risks and uncertainties. Some of these risks are inherent to the nature of the Company's operations. See *Risks and Uncertainties* below.

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 years. In calendar 2007, Boeing and Airbus together delivered 894 large commercial aircraft, a 7% increase over the 832 units delivered in 2006 [1].

The market for regional jets with 70 or more seats is still very good, with deliveries rising steadily. In other regional aircraft, turboprops continue to regain popularity in 2007 [2].

The business jet market is still very strong, with deliveries up 28% in 2007 to 1,138 aircraft compared to 886 in 2006 [3]. This market is supported by the strong world economy.

The military market remains strong, with the US government still planning to increase military spending in 2009 [4]. In Canada, the government pursued its "Canada First" replacement program, awarding Lockheed-Martin a contract for seventeen C-130J aircraft [5].

In the power generation market, energy demand remains strong and power plant requirements are increasing [6].

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 2008

- Award of a contract by Sikorsky Aircraft Corporation for the Landing Gear Division to design, develop, manufacture, assemble, test and deliver helicopter landing gear and tail bumpers for the CH53K Heavy Lift program's Systems Design and Development (SDD) phase. Total revenue from this contract is expected to exceed $95 million.

- Award of $14.5 million in contracts with the USAF for the production of landing gear components, mainly for the C-130, C-5, F-16, KC-135, E-3 and B-1B.

- Signature of an estimated $115 million strategic 10-year agreement with Messier-Dowty to manufacture major landing gear components for three large commercial aircraft programs.

- Award of an estimated $110 million contract by Bombardier Aerospace for a five-year period to manufacture structural detail components for Bombardier's entire portfolio of regional and business aircraft. The agreement, which extends and broadens the current mandate, represents the single largest contract from Bombardier in Héroux-Devtek's 65-year history.

- An increase in the Company's Senior Secured Syndicated Banks Credit Facilities from $80 million to $125 million subsequent to fiscal year-end

Progressive Plant Expansion

The Company finalized the construction of 72,000 square feet building announced last year to its main plant in Arlington, Texas, to support work on the Joint Strike Fighter (JSF) and other aircraft programs.

Major Customer Supply Award

Subsequent to year-end, the Company received a silver level Boeing Performance Excellence Award for its outstanding delivery and quality performance in calendar 2007.

1 Source: Boeing and Airbus press releases, 2007 and 2006 results.
2 Source: Merril Lynch forecast, January 2008.
3 Source: GAMA (General Aviation Manufacturers Association) press release, February 2008.
4 U.S. Department of Defense (DOD) press release, February 2008.
5 Canadian Department of National Defense (DND) press release, January 2008
6 U.S. Department of Energy, March 2008

Selected Annual Financial Information

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

Years ended March 31 ($'000, except per share data)	**2008**	2007	2006
Sales	**307,882**	283,286	256,197
EBITDA	**44,286**	31,050	20,907
Net income (loss) from continuing operations	**19,019**	8,906	(406)
Net income from discontinued operations [1]	**–**	–	8,661
Net income	**19,019**	8,906	8,255
Earnings (loss) per share from continuing operations ($) – basic	**0.60**	0.28	(0.01)
Earnings (loss) per share from continuing operations ($) – diluted	**0.59**	0.28	(0.01)
Earnings per share ($) – basic	**0.60**	0.28	0.29
Earnings per share ($) – diluted	**0.59**	0.28	0.29
Total assets	**356,454**	339,461	309,531
Long-term debt	**72,242**	67,086	50,637
Cash and cash equivalents	**24,431**	20,124	20,863

(1): Following the sale of the Logistics and Defence Division, Diemaco.

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

Years ended March 31 ($'000)	**2008**	2007	2006
Net income (loss) from continuing operations	**19,019**	8,906	(406)
Income tax expense (recovery)	**3,750**	1,685	(425)
Financial expenses	**4,999**	3,681	4,221
Amortization	**16,518**	16,778	17,517
EBITDA	**44,286**	31,050	20,907

The turnaround initiated in fiscal 2006 continued again this year, with both the Landing Gear and Aerostructure divisions again improving their top and bottom lines. This year, however, the Company's results were also boosted by the turnaround at the Gas Turbine division, which improved its production efficiency and output while exiting the Aircraft Engine market and returned to profitability by year-end.

Consolidated Sales

Consolidated sales for the year ended March 31, 2008 rose 8.7% to $307.9 million from $283.3 million last year, due mainly to increased Landing Gear large commercial, business jet and military sales, Aerostructure military sales and industrial Gas Turbine sales. These increases were somewhat offset by a reduction in regional jet market sales and the exit of the Aircraft Engine market. The negative impact of the stronger Canadian dollar, against the US currency, reduced sales by $21.3 million or 7.5% compared to last year.

The Company's sales by segment were as follows:

	2008 ($'000)	2007 ($'000)	% Change
Aerospace			
Military			
Military sales to government	**56,777**	58,273	(2.6)
Military sales to civil customers	**95,512**	80,193	19.1
Total Military	**152,289**	138,466	10.0
Total Commercial	**126,631**	118,858	6.5
Total Aerospace	**278,920**	257,324	8.4
Total Industrial	**28,962**	25,962	11.6
Total	**307,882**	283,286	8.7

Comparative figures for the Aerospace segment of last year have been reclassified to comply with this year's presentation.

Aerospace Segment

Sales for the Aerospace segment were as follows:

	2008 ($'000)	2007 ($'000)	% Change
Landing Gear	181,876	$165,317	10.0
Aerostructure	95,053	87,906	8.1
Aircraft Engine Components	1,991	4,101	(51.4)
Total	278,920	$257,324	8.4

The increase in fiscal 2008 was primarily due to higher manufacturing military sales by the Company's Landing Gear division for the KC-135, C-130, B-1B and E-3 programs, new design and engineering work on the Sikorsky CH-53K helicopter program and higher large commercial sales for the B-777, A-330/340 and A-380 programs. It also reflects an increase in Aerostructure military program sales, mostly due to the F-16 program but also to schedule recovery on A-330/340 program sales, somewhat offset by lower regional jet sales for the Aerostructure division. The decline in Aircraft Engine Component sales essentially reflects the exit of this market.

Industrial Segment

Sales for the Industrial segment were as follows:

	2008 ($'000)	2007 ($'000)	% Change
Gas Turbine	15,154	12,551	20.7
Other Industrial	13,808	13,411	3.0
Total	28,962	25,962	11.6

The increase in industrial sales was driven by value-added power generation sales, which rebounded this year, and from increased sales to the heavy equipment industry sector, powered by growing mining and oil and gas activities. The other industrial segment was relatively flat, with wind market sales slightly lower than last year due to material shortages. The Company nevertheless still sees good potential in the wind energy market.

Sales by Destination

Sales by destination remained at the same level as last year, as shown below:

	2008 (%)	2007 (%)
Canada	31	31
US	68	68
International	1	1
Total	100	100

Gross Profit

Consolidated gross profit improved from 11.3% to 15.2% of sales in fiscal 2008 in spite of a 1.1% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency. Gross profit was favourably impacted by the previously-mentioned improved sales volume for Landing Gear large commercial and business jet and military manufacturing sales, as well as by overall increased productivity and better margins at the Aerostructure division. The Gas Turbine division continued its turnaround and significantly improved its gross profit margin due to increased power generation and heavy industrial sales coupled with increased production efficiency and better absorption of manufacturing overhead costs.

The impact of the stronger Canadian dollar against the US currency on the Company's gross profit margin, expressed as a percentage of sales, is mitigated by the use of forward foreign exchange contracts and the natural hedging from the purchase of material made in US dollars.

In the fourth quarter ended March 31, 2008, the Company wrote-off a loan bearing no interest of $1.3 million ($851,000 net of income taxes) which was accounted for as a reduction of cost of sales for that year. This loan was initially granted as a Government incentive to favour and support the development of an aerospace program. This write-off was made as the forgiveness of this loan by the related Government was granted, following the conclusion that the conditions of repayments of this loan could not be met (see Note 6 to the consolidated financial statements). Excluding this one time item, the gross profit as a percentage of sales for fiscal 2008 would have been 14.7%.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	2008	2007
Selling and administrative expenses ($'000)	18,879	17,694
% of sales	6.1	6.2

Selling and administrative expenses of $18.9 million were $1.2 million higher than last year, but 0.1% lower as a percentage of sales due to higher expenses to support sales growth net of a higher gain on the foreign currency translation of the Company's net monetary items credited against these expenses. This gain stood at $771,000 this year compared to $100,000 last year.

Operating Income (Loss)

Consolidated operating income increased from $14.3 million or 5.0% of sales last year to $27.8 million or 9.0% of sales this year.

Aerospace Segment

Aerospace operating income was $27.4 million or 9.8% of sales this year, compared to $16.2 million or 6.3% of sales last year, mainly reflecting higher sales and the improved performance of both the Aerostructure and Landing Gear divisions as explained above, along with the exit of the lower-margin aircraft engine market.

Industrial Segment

Operating income of $0.4 million or 1.4% of sales for the Industrial segment compares to last year's loss of $1.9 million or (7.3)% of sales and reflects the above-mentioned turnaround at the Gas Turbine division. Increases in sales and pricing and, production efficiency and better absorption of manufacturing overhead costs contributed to this change.

Financial Expenses

	2008 ($'000)	2007 ($'000)
Interest	4,321	3,606
Interest accretion on loans bearing no interest	743	–
Amortization of deferred financing costs	183	259
Standby fees	157	188
Accretion expense of asset retirement obligations	204	187
Amortization of net deferred loss related to a financial derivative instrument	51	133
Interest revenue	(660)	(692)
Total	4,999	3,681

The $1.3 million increase in net financial expenses reflects the higher average long-term debt arising from additional working capital and capital expenditure investments required to support the Company's sales growth. This increase was partially compensated for by interest rate reductions in the U.S. and Canada in fiscal 2008.

Income Tax Expense and Income Tax Receivable

Income Tax Expense

The income tax expense for fiscal 2008 amounted to $3.8 million compared to $1.7 million for the previous year. The Company's effective income tax rate for fiscal 2008 was 16.5% compared to the Company's Canadian blended statutory income tax rate of 32.5%. The main factors positively affecting the income tax expense for fiscal 2008 were $0.7 million in permanent differences and the recognition of $2.4 million in income tax benefits from the utilization of tax losses carried forward for which no income tax benefits had been recognized in prior years. The remainder represents favourable future tax adjustments of $0.5 million, net of the impact of the reduction in the federal income tax rate ($0.3 million) announced in the last quarter of fiscal 2008.

The income tax expense for fiscal 2007 amounted to $1.7 million. 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 in 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.

At March 31, 2008, there were no operating losses carried forward and other temporary differences for which no related income tax assets have been recognized in the consolidated financial statements (see Note 16 to the consolidated financial statements).

Income Tax Receivable (Payable)
Income tax receivable increased $2.9 million compared to last year, mainly due to research and development tax credits. The $2.3 million income tax payable represents the income tax payable on this year's taxable income, net of the utilization of prior years' tax losses.

Net Income

For fiscal 2008, the Company posted net income of $19.0 million compared to net income of $8.9 million last year.

	2008 ($ million)	2007 ($ million)
Net income from operations, before other items	15.7	7.8
Other items		
Loans bearing no interest – forgiveness of debt included as a reduction in the cost of sales, net of income taxes	0.9	–
Income tax benefits, from utilization of prior years' tax losses	2.4	1.1
Net income	19.0	8.9

	2008	2007
Net income ($ million)	19.0	8.9
Earnings per share – basic ($)	0.60	0.28
Earnings per share – diluted ($)	0.59	0.28

Earnings per share figures are based on weighted-averages of 31,609,638 common shares outstanding for fiscal 2008 and 31,511,345 for the previous year. This year's increase is essentially due to the issuance of 27,702 common shares under the Company's stock purchase and ownership incentive plan and 83,300 common shares pursuant to the exercise of stock options (see Note 15 to the consolidated financial statements).

On May 30, 2008, the date of this MD&A, the Company had 31,646,243 common shares and 1,274,221 stock options outstanding with a weighted average of 4.5 years to maturity.

Liquidity and Capital Resources

At March 31, 2008, the Company had cash and cash equivalents of $24.4 million, compared to $20.1 million a year earlier.

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

	2008 ($'000)	2007 ($'000)
Cash flows from operations	37,848	29,771
Net change in non-cash items related to operations	(12,147)	(14,351)
Cash flows relating to operating activities	25,701	15,420

The $8.1 million increase in cash flows from operations for fiscal 2008 can mainly be explained by the $10.1 million increase in net income, somewhat offset by the lower future income taxes variance. In fiscal 2008, the $12.1 million net change in non-cash items is primarily due to the $18.9 million reduction in accounts payable and accrued liabilities and other liabilities, which included $5.3 million in outstanding amounts for raw materials and capital expenditures at the end of last fiscal year, and a $3.7 million negative effect of changes in the exchange rate on U.S.-denominated non-cash balance-sheet items. These were partially offset by a $10.7 million reduction in inventories following the Company's concerted effort to reduce the number of days in inventories and the invoicing of capitalized development costs for the JSF program (see Consolidated Balance Sheet section below).

In fiscal 2007, the $14.4 million net change in non-cash items was primarily due to the $20.9 million increase in inventories in preparation for rising business activity, and included capitalized development costs for the JSF program. Other changes in the net change in non-cash items for fiscal 2007 included 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 due mainly to certain capital expenditures made before the March 31, 2007 year-end.

Investing Activities

The Company's investing activities were as follows:

	2008 ($'000)	2007 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	(38,134)	(29,145)
Proceeds on disposal of property, plant and equipment	291	2,617
Business acquisition, additional payments	–	(1,577)
Cash flows relating to investing activities	(37,843)	(28,105)

Capital investments for fiscal 2008 stood at $38.1 million, including $26.2 million to complete the plant expansion for the JSF program at the Aerostructure plant in Arlington, Texas and to continue work on modernizing the plating department at the Landing Gear plant in Longueuil, Quebec, scheduled for completion in the third quarter of fiscal 2009 (See Notes 9 and 19 to the consolidated financial statements and under Off-balance Sheet Items and Commitments, below).

In fiscal 2007, capital investments amounted to $29.1 million, with investments at the Longueuil and Texas plants, as explained above. Proceeds on the disposal of property, plant and equipment for fiscal 2007 included $2.2 million in proceeds 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.

Business acquisition investments represent profitability performance payments in relation to the acquisition of Progressive (see Note 4 to the consolidated financial statements) on April 1, 2004. The $1.6 million for fiscal 2007 represented the last payment for this acquisition.

Capital expenditures for fiscal 2009 are expected to be about $35 million, of which $14 million will be for investments following the award in November 2007 of a $115 million sales contract to manufacture major landing gear components for certain large commercial aircraft programs.

Financing Activities

The Company's financing activities were as follows:

	2008 ($'000)	2007 ($'000)
Increase in long-term debt	25,192	16,900
Repayment of long-term debt	(8,990)	(4,491)
Issuance of common shares	640	173
Other	(743)	(516)
Cash flows relating to financing activities	16,099	12,066

The increase in long-term debt mainly reflects drawings against the Senior Secured Revolving Credit Facilities (Credit Facilities) for additional working capital requirements and capital expenditures to support the Company's sales growth. It also includes the addition of new loans bearing no interest to support capital expenditures made in the Aerospace segment and from new obligations under capital leases (See Note 9 to the consolidated financial statements).

Subsequent to fiscal year 2008, on April 14, 2008, the Company increased its $80 million in Credit Facilities to $125 million, under essentially the same terms and conditions.

In fiscal 2007, 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 Credit Facilities of $80 million to mature in about four years, on October 4, 2011, with no extension. These facilities are secured by all the 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.

At March 31, 2008, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants in fiscal 2009.

Pension Plans

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

	2008 ($'000)	2007 ($'000)
Deficit	14,489	14,316
Accrued benefit liability (included in other liabilities)	6,330	6,462

The pension plan deficit of $14.5 million at March 31, 2008 includes $8.2 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, 2008, the Company had 31,639,019 common shares outstanding (31,528,017 as at March 31, 2007).

During fiscal 2008, the Company issued 111,002 common shares at a weighted-average price of $5.77 for a total cash consideration of $640,152, including 83,300 common shares issued pursuant to the exercise of stock options for a total cash consideration of $413,168. The other 27,702 common shares were issued under the Company's stock purchase plan for a total cash consideration of $226,984.

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.

At March 31, 2008, 1,274,221 stock options were issued and outstanding with a weighted-average of 4.5 years to maturity and a weighted-average exercise price of $6.68 (see Note 15 to the consolidated financial statements).

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, 2008 and 2007 and for the fiscal years then ended:

Canada / US Exchange Rates		2008	2007
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/ US $ equivalent	1.0265	1.1546
	US $ equivalent		
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/	0.974	0.866
	US $ equivalent	1.0322	1.1377
	US $ equivalent	0.969	0.879

The Company makes use of derivative contracts to hedge foreign currency fluctuation exposure risks in an effort to mitigate these risks. At March 31, 2008, the Company had forward foreign exchange contracts totalling US $145.5 million at an average exchange rate of 1.0922 maturing over the next four fiscal years, with the majority maturing 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, 2007 and March 31, 2008:

Item	Change ($ million)	Explanation
Cash and cash equivalents	4.3	See consolidated statements of cash flows.
Accounts receivable	(2.0)	Increased level of activity more than offset by improved accounts receivable collection. Also due to the impact of the rise in the Canadian dollar since March 31, 2007, on US-denominated accounts receivable ($4.2 million)
Income tax receivable	2.9	Represents the research and development tax credits for fiscal 2008
Inventories	(11.1)	Reflects the invoicing of the capitalized JSF development costs during the first quarter of this fiscal year, the lower exchange rate used to convert the Company's U.S. self-sustaining subsidiaries inventories ($2.9 million) and a concerted effort to reduce the number of days in inventories.
Future income taxes (short-term assets)	0.9	Includes the $0.5 million future income tax impact from the recognition in the Company's balance sheets of the financial instruments measured at fair value – see 'Changes in Accounting Policies' below.
Other current assets	7.2	Essentially reflects the recognition in the Company's balance sheets of financial instruments measured at fair value ($6.7 million) – see 'Changes in Accounting Policies', below, and The increase ($0.5 million) in deposits for machinery and equipment purchase commitments – see Note 19 to the consolidated financial statements.
Property, plant and equipment, net	14.9	Due to: – Purchase of capital assets ($37.9 million) Net of: – Amortization ($15.0 million) – Net proceeds ($0.4 million) – A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.4 million). – Recognition in the Company's balance sheets of financial instruments measured at fair value ($3.2 million) – see 'Changes in Accounting Policies', below

Item	Change ($ million)	Explanation
Finite-life intangible assets, net	(1.9)	Due to: – Purchase of information technology software (software) ($0.3 million) Net of: – Amortization of software ($1.2 million) – Amortization of the underlying value of the net backlog acquired as part of the acquisition of Progressive ($0.4 million) – Lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.6 million).
Other assets	2.8	Essentially reflects the recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below.
Accounts payable and accrued liabilities	(16.6)	Mainly reflects the impact of payment of increased raw material purchases at the end of the fourth quarter last year and the outstanding payment of capital expenditures ($5.3 million), both made in the first quarter of fiscal 2008. Also due to the impact of the rise in the Canadian dollar since March 31, 2007, on US-denominated accounts payable and accrued liabilities ($2.6 million) and the reduction in the number of days in accounts payable and accrued liabilities.
Income tax payable	2.3	Represents the income tax payable on the fiscal 2008 taxable income, net of the tax benefits from the utilization of prior years' tax losses.
Future income taxes (short-term liabilities)	4.1	Represents the future income tax impact from the recognition in the Company's balance sheets of the financial instruments measured at fair value – see 'Changes in Accounting Policies' below ($2.2 million) and from the increase in non-deductible reserves ($1.9 million).

Long-term debt (including current portion)	3.5	Due to:
		• Proceeds from new debt:
		  • Loans bearing no interest to support capital investment in the Aerospace segment ($7.4 million)
		  • Obligations under capital leases ($9.6 million) for capital investments in the Company's US self-sustaining subsidiaries, and
		  • US Credit Facilities ($8.2 million) to support additional working capital requirements and capital expenditures in line with the Company's sales growth
		Net of:
		• Capital repayment of long-term debt ($9.0 million);
		• Deferred financing costs presented as a reduction of long term debt following the implementation of the new accounting rules ($0.6 million);
		• Recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below ($6.8 million),
		• A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($4.0 million), and
		• Forgiveness of a government loan bearing no interest ($1.3 million) – see Note 6 to the consolidated financial statements

Item	Change ($ million)	Explanation
Other liabilities	2.1	Essentially reflects the recognition on the Company's balance sheets of financial instruments measured at fair value – see 'Changes in Accounting Policies', below.
Future income taxes (long-term liabilities)	1.6	Reflects mainly the future income tax impact from the recognition in the Company's balance sheets of the financial instruments measured at fair value – see 'Changes in Accounting Policies' below.
Accumulated other comprehensive loss	(1.9)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self sustaining US subsidiaries and the unrealized net gains (losses), net of taxes, on the fair value of the financial instruments designated as cash flow hedges – see 'Changes in Accounting Policies', below.
Retained earnings	20.8	See consolidated statements of changes in shareholders' equity.

The Company's working capital ratio was 2.20:1 at March 31, 2008 compared to 1.89:1 at March 31, 2007, while the long-term debt-to-equity ratio was 0.40:1 at March 31, 2008 compared to 0.42:1 at March 31, 2007. At March 31, 2008, the balance sheet included cash and cash equivalents of $24.4 million. At March 31, 2007, cash and cash equivalents stood at $20.1 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)	Total	Payments due by period: Less than 1 year	1-3 years	4-5 years	After 5 years
Loans bearing no interest (including the effective interest expenses)	**17,836**	1,700	3,919	3,754	8,463
Capital leases (including interest expenses)	**13,570**	3,991	3,786	3,105	2,688
Operating leases – Machinery and equipment	**8,178**	1,793	3,056	2,538	791
Operating leases – Buildings and facilities	**1,227**	416	486	325	–
Subtotal, contractual obligations	**40,811**	7,900	11,247	9,722	11,942
Credit Facilities	**53,140**	–	–	53,140	–
Total contractual obligations	**93,951**	**7,900**	**11,247**	**62,862**	**11,942**

Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $9.4 million as at March 31, 2008, mainly for machinery and equipment. All these amounts are repayable over the next seven years (see Note 19 to the consolidated financial statements). At March 31, 2008, the Company also had machinery-and-equipment and construction-in-progress purchase commitments totalling $16.5 million (see Note 19 to the consolidated financial statements).

At March 31, 2008, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $145.5 million at an average exchange rate of 1.0922. These contracts relate mainly to its export sales, and mature at various dates between April 2008 and January 2012, but mainly over the next two years (see Note 5 to the consolidated financial statements). This compares to US $129.5 million in forward foreign exchange contracts held at March 31, 2007 at an average exchange rate of 1.2110.

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". The Company adopted these new accounting standards effective April 1, 2007.

A new statement entitled "consolidated statement of changes in shareholders' equity" has been added to the Company's interim and annual consolidated financial statements and includes the changes in capital stock, contributed surplus and retained earnings, as well as comprehensive income and accumulated other comprehensive income (loss).

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents changes in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI may include 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.

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, including embedded derivatives financial instruments that are not closely related to the host contract, are measured at fair value. The Company has selected April 1, 2003, as the date for identification of embedded derivatives. 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.

The Company has made the following classification of its financial instruments:

– Cash and cash equivalents are classified as HFT.
– Amounts receivable are classified as L&R.
– Amounts payable in current liabilities, long-term debt (including current portion) and other liabilities are classified as other than HFT liabilities.

Section 3865 specifies that 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.

The Company elected to continue to apply hedge accounting for its forward foreign exchange contracts and for its interest rate swap agreement as cash flow hedges.

The impact of the implementation of these new accounting standards was recognized as an adjustment to the carrying amount of the related financial instruments and recorded in shareholders' equity as at April 1, 2007. This transition adjustment resulted in an increase of $5.6 million recorded to accumulated OCI and an increase of $1.7 million recorded to retained earnings. The impact of these changes on the Company's consolidated balance sheet accounts at April 1, 2007, can be summarized as follows:

($ million)	April 1, 2007 Increase (decrease)
Current assets - Other current assets	5.2
Long-term assets - Property, plant and equipment, net	(1.0)
Long-term assets - Other assets	4.1
Current liabilities - Accounts payable and accrued liabilities	0.6
Current liabilities - Future income taxes	1.5
Current liabilities - Current portion of long-term debt	(0.1)
Long-term liabilities - Long-term debt	(3.5)
Long-term liabilities - Other liabilities	0.4
Long-term liabilities - Future income taxes	2.0
Accumulated other comprehensive income	5.6
Retained earnings	1.7

The adoption of these new standards also impacted the Company for the fiscal year ended March 31, 2008. During the fiscal year 2008, this impact represented a reduction of $435,000 of the amortization expense, an increase of $743,000 of financial expenses for loans bearing no interest and a reduction of $47,000 of the cost of sales, totalling a net reduction of $174,000 of the Company's net income. However, the adoption of these new standards had no impact on the Company's cash flows relating to operating activities for the fiscal year ended March 31, 2008.

Critical Accounting Estimates

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

Company 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 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 inventories. 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 inventories:

- 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 and intangible assets*

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 $4.0 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 $207,000 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

Inventories
In June 2007, the AcSB released Section 3031, 'Inventories', which replaces Section 3030, 'Inventories'. It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2, 'Inventories'. For the Company, this accounting standard is effective for interim and annual financial statements beginning on April 1, 2008. The section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements.

Capital disclosures
In December 2006, the AcSB issued Section 1535, 'Capital Disclosures', which establishes standards for disclosing information about an entity's capital and how it is managed. For the Company, the new accounting standard is effective for interim and annual financial statements beginning on April 1, 2008.

Financial instruments – Disclosure and Presentation
In December 2006, the AcSB issued Section 3862 'Financial Instruments – Disclosure' and Section 3863 'Financial Instruments – Presentations', which modify the disclosure requirements for financial instruments. These sections are effective, for the Company, for interim and annual financial statements beginning on April 1, 2008.

The new standards require entities to provide disclosure in their financial statements that enable users to evaluate:

- The significance of financial instruments for the Company's financial position and performance.
- The nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and how the Company manages these risks.

Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064, 'Goodwill and Intangible Assets', which replaces Section 3062, 'Goodwill and Other Intangible Assets' and Section 3450, 'Research and Development Costs'. For the Company, this section is effective for interim and annual financial statements beginning on April 1, 2009. This section establishes standards for the recognition, measurement and disclosure of goodwill and intangibles assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38, 'Intangible Assets'.

International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian GAAP for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. For the Company, the conversion to IFRS will be required for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS, such as IAS 2, 'Inventories' and IAS 38, 'Intangible Assets', thus mitigating the impact of adopting IFRS at the mandatory transition date.

Company management is currently assessing the impact of these new standards and of the adoption of IFRS 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

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, 2008, 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, 2008, the 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.

The Company mitigates this risk through the increase of long-term sales contracts, when possible, with its main customers.

Availability and Cost of Raw Materials

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

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

Operational Risks

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

However, the Company has implemented certain risk-mitigation strategies and controls, in light of these operational risks, which include the following:

- Processes to ensure proper bid approvals, planning, execution and use of quality standards at all stages of new design or built-to-print products and assemblies and, repair and overhaul services. This includes the risk assessment of achieving the targeted revenues and related product costs as well as the development of long-term agreements and competitive bidding processes with main suppliers.
- Use of proper cash flow arrangements through the use of customer advances, with certain customers, and foreign exchange hedging.

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 now recovering. This could adversely affect the Company's financial condition and results of operation. Although long-term growth will 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.

The Company's foreign exchange hedging policy requires it to mitigate the foreign currency exposure, essentially to the US currency, arising from its Canadian operations.

The hedging policy requires the hedging of 50% to 75%, on average, of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecast cash inflows generated by sales in US currency made by its Canadian operations and related to long-term sales contracts, net of the forecast cash outflows in US currency related essentially to its raw and certain other material costs. This hedging policy also applies to the net forecast cash inflows/outflows as described above, for certain specific long-term sales contracts, on a very limited basis, for an additional period of one to three fiscal years.

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 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.

However, subsequent to the fiscal year-end, on April 14, 2008, the Company increased its Senior Syndicated Bank Credit Facilities from $80 million to $125 million, maturing on October 4, 2011.

Restrictive Debt Covenants

The indentures governing certain of the Company's indebtedness and, in particular, its Credit Facilities, contain covenants that, among other things, restrict the Company's ability to:

- sell all or substantially all of its assets;
- incur secured indebtedness;
- engage in mergers or consolidations;
- invest in capital expenditures over a certain amount per year; or
- 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. When appropriate, the Company considers 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. See under 'Operational Risks', above.

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 that expire 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.

Subsequent to the fiscal year ended March 31, 2008, the Company renewed the collective labour agreements at its Laval and Longueuil plants for four- and three-year periods, respectively. The Company now has collective labour agreements in place with all its unionized employees for at least the next two fiscal years.

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.

The Company is 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. Héroux-Devtek therefore does not anticipate a substantial increase in its manpower requirements over the next few years.

Selected Quarterly Financial Information

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2008					
Sales	**307,882**	78,776	69,758	76,260	83,088
Net income, from operations before other items	**15,748**	3,851	2,687	4,387	4,823
Other items					
Loans bearing no interest – forgiveness of debt, net of income taxes	**851**	–	–	–	851
Income tax benefits, from utilization of prior years tax losses	**2,420**	300	420	900	800
Net income	**19,019**	4,151	3,107	5,287	6,474
Earnings per share ($) – basic	**0.60**	0.13	0.10	0.17	0.20
Earnings per share ($) – diluted	**0.59**	0.13	0.10	0.17	0.20
For the fiscal year ended March 31, 2007					
Sales	**283,286**	66,317	62,669	71,519	82,781
Net income	**8,906**	688	1,496	2,198	4,524
Earnings per share ($) – basic and diluted	**0.28**	0.02	0.05	0.07	0.14

Each quarter in fiscal 2008 has showed improvements in both the top and bottom lines when compared to the corresponding quarters of fiscal 2007.

Fourth Quarter 2008 Results

Traditionally a strong period, the fourth quarter of fiscal 2008 was yet again strong for the Company. Sales for the Landing Gear and Gas Turbine divisions increased in the quarter ended March 31, 2008, compared to the same period last year, while the Aerostructure division was negatively impacted by a reduction in regional jet sales. With improved sales volumes and production efficiencies, all divisions improved their gross profit margins and net income. The stronger Canadian dollar had a negative impact on fourth quarter sales and gross profit of 10.8% and 1.5% respectively compared to the same period last year. In the quarter ended March 31, 2008, the Company also benefited from $1.3 million of income ($851,000 net of income taxes), following the forgiveness of a loan bearing no interest (see Note 6 to the consolidated financial statements) which increased the gross profit by 1.5% and from $800,000 in income tax benefits from utilization of prior years' tax losses.

Cash flow from operations yielded $12.0 million compared to $12.1 million for the fourth quarter last year, while the positive change in non-cash items related to operations added $7.0 million to cash flow this year compared to $4.7 million in the last quarter in fiscal 2007. The $7.0 million cash inflow for the quarter ended March 31, 2008, came from a $7.4 million decline in inventories and a $2.9. million increase in accounts payable and accrued liabilities and other liabilities, partially offset by an increase of $5.2 million in accounts receivable, in line with the higher fourth quarter sales (see Consolidated Balance Sheet section above).

Outlook

- Héroux-Devtek's principal markets are still in growth mode. The commercial aerospace market should remain strong for three more years, although caution is warranted in light of a weakening U.S. economy and surging crude oil prices. On the military side, while U.S. budgets were higher again this year, a new administration may reduce funding in the future. In Canada, recent major government purchases of military aircraft are expected to generate benefits for Héroux-Devtek. The industrial segment also promises good growth in sectors supplied by Héroux-Devtek. Industrial gas turbine demand should increase for several years and wind energy is growing at 20% per year. The Company also supplies the construction and resource sectors, both of which have remained strong, but can be affected by commodity price fluctuations.

- The Company has planned capital expenditures of $35 million for fiscal 2009, including $14 million for investments following the award in November 2007 of a $115 million sales contract to manufacture major landing gear components for certain large commercial aircraft programs and more than $2 million to complete the modernization of the plating department at the Landing Gear plant in Longueuil, Quebec.

- The collective agreements with employees at the Longueuil and Laval plants (all in Quebec) had been successfully renewed as of the date of this MD&A. The Company now has collective labour agreements in place with all its unionized employees for at least the next two fiscal years.

- Héroux-Devtek also intends to examine acquisition opportunities that complement its existing core Landing Gear and Aerostructure operations, supported by an increase in its Credit Facilities from $80 million to $125 million, in April 2008.

- With strong customer relationships and a solid backlog, the Company is anticipating internal revenue growth of approximately 10% this year. Given the strength of the Canadian dollar, further productivity gains are needed for Héroux-Devtek to remain globally competitive.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 29, 2008 and by the Board of Directors on May 30, 2008. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.

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 2008. As of March 31, 2008, 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, 2008 and 2007 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 by)
Gilles Labbé
President and Chief Executive Officer
May 30, 2008

(signed by)
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, 2008 and 2007 and the consolidated statements of income, changes in shareholders' equity 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, 2008 and 2007 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 9, 2008

(signed by)
Ernst & Young LLP
Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at March 31, 2008 and 2007 (In thousands of dollars)

	Notes	2008	2007
Assets	13		
Current assets			
Cash and cash equivalents		$ 24,431	$ 20,124
Accounts receivable		44,887	46,850
Income tax receivable		5,415	2,523
Other receivables		5,420	4,665
Inventories	8	86,625	97,686
Prepaid expenses		1,458	974
Future income taxes	16	9,142	8,226
Other current assets	2, 19	9,235	2,041
		186,613	183,089
Property, plant and equipment, net	2, 9	124,596	109,682
Finite-life intangible assets, net	10	5,787	7,722
Other assets	2, 11	3,646	875
Goodwill	12	35,812	38,093
		$356,454	$339,461
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	2, 3, 19	$ 70,977	$ 87,573
Income tax payable		2,349	–
Future income taxes	2, 16	6,680	2,542
Current portion of long-term debt	2, 13	5,011	6,691
		85,017	96,806
Long-term debt	2, 6, 13	72,242	67,086
Other liabilities	2, 14	8,564	6,462
Future income taxes	2, 16	9,853	8,259
		175,676	178,613
Shareholders' equity			
Capital stock	15	104,260	103,620
Contributed surplus	15	1,115	691
Accumulated other comprehensive loss	2	(9,932)	(8,034)
Retained earnings	2	85,335	64,571
		180,778	160,848
		$356,454	$339,461

Commitments and contingencies (Notes 19 and 20)

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

On behalf of the Board of Directors

(signed by)
Christian Dubé
Director

(signed by)
Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2008 and 2007
(In thousands of dollars, except share and per share data)

	Notes	2008	2007
Sales		$307,882	$283,286
Cost of sales	6	244,717	234,542
Amortization		16,518	16,778
Gross profit		46,647	31,966
Selling and administrative expenses	7, 15	18,879	17,694
Operating income		27,768	14,272
Financial expenses, net	13	4,999	3,681
Income before income tax expense		22,769	10,591
Income tax expense	16	3,750	1,685
Net income		$ 19,019	$ 8,906
Earnings per share – basic		$ 0.60	$ 0.28
Earnings per share – diluted		$ 0.59	$ 0.28
Weighted-average number of shares outstanding during the year		31,609,638	31,511,345

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended March 31, 2008 and 2007
(In thousands of dollars)

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2007, as previously reported		$103,620	$691	$ –	$(8,034)	$64,571	$ –
Change in accounting policies:	2						
Loans bearing no interest		–	–	–	–	1,745	–
Cumulative translation adjustment		–	–	(8,034)	8,034	–	–
Accumulated gains on derivative financial instruments designated as cash flow hedges, net of taxes of $2,753		–	–	5,597	–	–	–
Balance at March 31, 2007, adjusted		103,620	691	(2,437)	–	66,316	–
Common shares issued:	15						
Under the stock option plan		413	–	–	–	–	–
Under the stock purchase and ownership incentive plan		227	–	–	–	–	–
Stock-based compensation expense	15	–	424	–	–	–	–
Net income		–	–	–	–	19,019	19,019
Net gains on derivative financial instruments designated as cash flow hedges, net of taxes of $3,059		–	–	6,442	–	–	6,442
Net gains on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current year, net of taxes of $3,557		–	–	(7,493)	–	–	(7,493)
Cumulative translation adjustment		–	–	(6,444)	–	–	(6,444)
Balance at March 31, 2008		$104,260	$1,115	$(9,932)	$ –	$85,335	$11,524

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Cumulative translation adjustment	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2006, as previously reported		$103,447	$544	$ –	$(7,372)	$55,665	$ –
Change in accounting policies:	2						
Cumulative translation adjustment		–	–	(7,372)	7,372	–	–
Balance at March 31, 2006, adjusted		103,447	544	(7,372)	–	55,665	–
Common shares issued:	15						
Under the stock option plan		38	–	–	–	–	–
Under the stock purchase and ownership incentive plan		135	–	–	–	–	–
Stock-based compensation expense	15	–	147	–	–	–	–
Net income		–	–	–	–	8,906	–
Cumulative translation adjustment		–	–	(662)	–	–	–
Balance at March 31, 2007		$103,620	$691	$(8,034)	$ –	$64,571	$ –

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2008 and 2007
(In thousands of dollars)

	Notes	2008	2007
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		$ 19,019	$ 8,906
Items not requiring an outlay of cash:			
Amortization		16,518	16,778
Future income taxes	16	1,622	3,225
Gain on forgiveness of debt	6	(1,251)	–
Loss on sale of property, plant and equipment		78	71
Amortization of deferred financing costs	2, 13	183	259
Amortization of net deferred loss related to a financial derivative instrument	13	51	133
Accretion expense of asset retirement obligations and loans bearing no interest	2, 3, 13	947	187
Stock-based compensation expense	15	681	212
Cash flows from operations		37,848	29,771
Net change in non-cash items related to operations	17	(12,147)	(14,351)
Cash flows relating to operating activities		25,701	15,420
Investing activities			
Purchase of property, plant and equipment and finite-life intangible assets		(38,134)	(29,145)
Proceeds on disposal of property, plant and equipment		291	2,617
Business acquisition – additional payments	4	–	(1,577)
Cash flows relating to investing activities		(37,843)	(28,105)
Financing activities			
Increase in long-term debt	13	25,192	16,900
Repayment of long-term debt	13	(8,990)	(4,491)
Issuance of common shares	15	640	173
Other		(743)	(516)
Cash flows relating to financing activities		16,099	12,066
Effect of changes in exchange rates on cash and cash equivalents		350	(120)
Change in cash and cash equivalents during the year		4,307	(739)
Cash and cash equivalents at beginning of year		20,124	20,863
Cash and cash equivalents at end of year		$ 24,431	$ 20,124
Supplemental information:			
Interest paid		$ 3,339	$ 3,128
Income taxes paid		$ 640	$ 3,400

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2008 and 2007
(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 and Canada.

2 Changes in Accounting Policies

In April 2005, the Accounting Standards Board ("AcSB") issued new accounting standards, including 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. The comparative consolidated financial statements have not been restated. The effect of adopting the new accounting standards as at April 1, 2007 is presented as changes in accounting policies in the consolidated statements of changes in shareholders' equity.

Section 1530 introduces comprehensive income, which comprises net income and other comprehensive income (loss) ("OCI") and represents the changes in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources (not related to shareholders). OCI may include 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.

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, including embedded derivatives financial instruments that are not closely related to the host contract, are measured at fair value. The Company has selected April 1, 2003, as the date for identification of embedded derivatives. 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 year.

The Company has made the following classification of its financial instruments:

- Cash and cash equivalents are classified as HFT.
- Amounts receivable are classified as L&R.
- Amounts payable in current liabilities and long-term debt (including current portion) are classified as other than HFT liabilities.

As of April 1, 2007, the Company presents the deferred financing costs against the long-term debt and uses the effective interest method to amortize these costs over the term of the related loans. Before April 1, 2007, the Company was amortizing these deferred financing costs on a straight line basis over the term of the related loans.

2 Changes in Accounting Policies(Cont'd)

Section 3865 specifies that 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. The Company elected to continue to apply hedge accounting for its forward foreign exchange contracts and for its interest rate swap agreement as cash flow hedges.

On adoption of these new standards, the transition rules require that the Company adjusts the accumulated other comprehensive income (loss) as if the rules had always been applied in the past, without restating comparative figures for prior years. Accordingly, the following adjustments were recorded in the consolidated financial statements as at April 1, 2007:

	April 1, 2007
Current assets – Other current assets	$ 5,220
Long-term assets – Property, plant and equipment, net	(1,003)
Long-term assets – Other assets	4,145
Current liabilities – Accounts payable and accrued liabilities	590
Current liabilities – Future income taxes	1,544
Current liabilities – Current portion of long-term debt	(113)
Long-term liabilities – Long-term debt	(3,475)
Long-term liabilities – Other liabilities	425
Long-term liabilities – Future income taxes	2,049
Accumulated other comprehensive income	5,597
Retained earnings	1,745

The adoption of these new standards also impacted the Company for the fiscal year ended March 31, 2008. During the fiscal year 2008, this impact represented a reduction of $435 of the amortization expense, an increase of $743 of financial expenses for loans bearing no interest and a reduction of $47 of the cost of sales, totalling a net reduction of $174 of the Company's net income. However, the adoption of these new standards had no impact on the Company's cash flows relating to operating activities for the fiscal year ended March 31, 2008.

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

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

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, related amounts of revenues (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 and the determination of the fair value of financial instruments. Actual results could differ from these estimates.

3 Summary of significant accounting policies (Cont'd)

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 accumulated other comprehensive income (loss).

- **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.

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 derivatives financial instruments are measured at fair value; including derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract. 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.

The Company has designated forward foreign exchange contracts and interest-rate swap agreements as cash flow hedges. 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 in OCI, while the ineffective portion is recorded in net income.

The portion of gains or losses on the hedging item that is determined to be an effective hedge is recorded as an adjustment of the cost or revenue of the related hedged item.

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.

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.

3 Summary of significant accounting policies (Cont'd)

Inventory valuation, revenue recognition and cost of sales (Cont'd)

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.

3 Summary of significant accounting policies (Cont'd)

Government assistance

Government assistance, including investment tax credits, is recorded as a reduction of the related capital expenditure, inventory or expense when there is reasonable assurance that the assistance will be received. In fiscal year 2008, the Company recorded as a reduction of cost of sales an amount of $2,550 ($2,052 in 2007) for government assistance.

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, 2008, a provision of $5,022 ($4,798 as of March 31, 2007) is included in the Company's accounts payable and accrued liabilities based on management's estimate of total discounted future cash flows using a rate of 4.5%. During the fiscal year 2008, an accretion expense of $204 was recorded ($187 in 2007), in the 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. 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 using the effective interest method and their unamortized portion is shown as a reduction of long-term debt.

Pension 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).

- 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 2008 and for 2007.

3 Summary of significant accounting policies (Cont'd)

Pension and Other Retirement Benefit Plans (Cont'd)

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

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

- When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

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.

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.

3 Summary of significant accounting policies (Cont'd)

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

Inventories

In June 2007, the AcSB released Section 3031 "Inventories", which replaces Section 3030 "Inventories". It provides the Canadian equivalent to International Financial Reporting Standard ("IFRS") IAS 2 "Inventories". This accounting standard is effective, for the Company, for interim and annual financial statements beginning on April 1, 2008. The Section prescribes the measurement of inventories at the lower of cost and net realizable value. It provides further guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to net realizable value and circumstances for their subsequent reversal. It also provides more restrictive guidance on the cost methodologies used to assign costs to inventories and describes additional disclosure requirements.

Capital disclosures

In December 2006, the AcSB issued Section 1535 "Capital Disclosures", which establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard is effective, for the Company, for interim and annual financial statements beginning on April 1, 2008.

Financial instruments – Disclosure and Presentation

In December 2006,the AcSB issued Section 3862 'Financial Instruments – Disclosure' and Section 3863 'Financial Instruments – Presentations', which modify the disclosure requirements for financial instruments. These sections are effective, for the Company, for interim and annual financial statements beginning on April 1, 2008.
The new standards require entities to provide disclosure in their financial statements that enable users to evaluate:

- The significance of financial instruments for the entity's financial position and performance
- The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks.

Goodwill and intangible assets

In February 2008, the AcSB issued Section 3064 "Goodwill and Intangible Assets" which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". This Section is effective, for the Company, for interim and annual financial statements beginning on April 1, 2009. This Section establishes standards for the recognition, measurement, and disclosure of goodwill and intangibles assets. The provisions relating to the definition and initial recognition of intangible assets, including internally generated intangible assets, are aligned with IFRS IAS 38 "Intangible Assets".

International Financial Reporting Standards

In February 2008, the AcSB confirmed that Canadian generally accepted accounting principles for publicly accountable enterprises will be converged with IFRS effective in calendar year 2011, with early adoption allowed starting in calendar year 2009. The conversion to IFRS will be required, for the Company, for interim and annual financial statements beginning on April 1, 2011. IFRS uses a conceptual framework similar to Canadian generally accepted accounting principles ("GAAP"), but there are significant differences on recognition, measurement and disclosures. In the period leading up to the conversion, the AcSB will continue to issue accounting standards that are converged with IFRS such as IAS 2 "Inventories" and IAS 38 "Intangible Assets", thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company Management is currently assessing the impact of these new standards and of the adoption of IFRS on its consolidated financial statements.

4 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 statements of income 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, 2008 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, 2008, 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 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, 2008, all additional payments amounting to $5,769 (US$4,725) were made. The basic purchase price was adjusted accordingly.

5 Financial Instruments

The classification of financial instruments under the new accounting standards effective April 1, 2007, and their carrying amounts and fair values were as follows as at:

	March 31, 2008				March 31, 2007			
	Carrying value			Fair Value	Carrying value			Fair Value
	HFT	L&R	Total (1)		HFT	L&R	Total (1)	
Financial Assets								
Cash and cash equivalents	$24,431	$ –	$24,431	$24,431	$20,124	$ –	$20,124	$20,124
Accounts receivable(2)	–	44,887	44,887	44,887	–	46,767	46,767	46,767
Other receivables(3)	–	3,804	3,804	3,804	–	2,461	2,461	2,461
Other current assets(4)	6,706	2,529	9,235	9,235	–	2,041	2,041	2,041
Other assets(6)	3,641	–	3,641	3,641	–	–	–	–
	$34,778	$51,220	$85,998	$85,998	$20,124	$51,269	$71,393	$71,393

	March 31, 2008				March 31, 2007			
	Carrying value			Fair Value	Carrying value			Fair Value
	HFT	Other than HFT	Total (1)		HFT	Other than HFT	Total (1)	
Financial Liabilities								
Accounts payable and accrued liabilities(5)	$1,391	$ 48,537	$ 49,928	$ 49,928	$ –	$ 72,580	$ 72,580	$ 72,580
Long-term debt, including current portion	–	77,890	77,890	79,195	–	73,777	73,777	71,359
Long-term liabilities – Other liabilities(6)	2,234	–	2,234	2,234	–	–	–	–
	$3,625	$126,427	$130,052	$131,357	$ –	$146,357	$146,357	$143,939

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprised of trade receivables.
(3) Comprised of certain other receivables.
(4) Comprised of short-term derivative financial instruments designated in a hedging relationship and deposits on machinery and equipment.
(5) Comprised of trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities. It also includes short-term derivative financial instruments designated in a hedging relationship.
(6) Comprised of long-term derivative financial instruments designated in a hedging relationship.

5 Financial Instruments (Cont'd)

Fair value of financial instruments

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair value is determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for the instrument to which the Company has immediate access. When bid and ask prices are unavailable, the Company uses the closing price of the most recent transaction of that instrument. In the absence of an active market, the Company determines fair value based on internal or external valuation models, such as discounted cash flow analysis and using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining these assumptions, the Company uses primarily external, readily observable market inputs, including factors such as interest rates, currency rates, and price and rate volatilities, as applicable. Assumptions or inputs that are not based on observable market data are used when external data are unavailable.

No profit or loss was accounted for fiscal year 2008 on financial instruments designated as HFT.

Credit Risks

Credit risk related to cash and cash equivalents, credit facilities and derivative financial instruments

The credit risk related to cash and cash equivalents, credit facilities and, derivatives financial instruments is limited due to the fact that the Company deals only with Canadian chartered banks and their subsidiaries. Thus, the Company does not anticipate any breach of agreement by counterparties.

Interest rate risk

On July 11, 2007, in order to limit the effect of interest rate variations over a portion of its long-term debt denominated in U.S. currency, the Company has entered into a four-year interest rate swap agreement for an amount of U.S.$15,000 that fixes the Libor U.S. rate at 5.53% and matures on August 1, 2011.

Foreign exchange risk

At March 31, 2008, the Company had entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.0922 an amount of U.S.$145,500 (U.S.$ 129,500 at an average rate of 1.2110 in 2007) for the purpose of foreign exchange risk management essentially related to its export sales maturing at various dates between April 1, 2008 and January 31, 2012, but mostly over the next two years.

Credit concentration risk

A significant portion of the Company's sales, approximately 68% are made to a limited number (6) of customers (68% to six customers in 2007).

However, credit concentration risks is 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.

6 Cost of sales

During the quarter ended March 31, 2008, the Company wrote-off a loan bearing no interest of $1,251 ($851, net of income taxes) which was accounted for as a reduction of cost of sales for the year ended March 31, 2008. This loan was initially granted as a government incentive to favour and support the development of an aerospace program. This write-off was made as the forgiveness of this loan by the related government was granted, following the conclusion that the conditions of repayments of the loan could not be met (see note 13).

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 2008, the foreign exchange currency gain included, as a reduction, in the Company's selling and administrative expenses amounted to $771 ($100 in 2007).

8 Inventories

Inventories consist of:

	2008	2007
Raw materials	$ 22,761	$ 26,257
Work in process and finished goods	86,511	88,842
Less: Progress billings	22,647	17,413
	$ 86,625	$ 97,686

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

At March 31, 2008, 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 $3,094 ($8,432 in 2007).

9 Property, plant and equipment

Property, plant and equipment consist of:

	2008		
	Cost	Accumulated Amortization	Net book Value
Land	$ 3,697	$ –	$ 3,697
Buildings and leasehold improvements	52,402	17,244	35,158
Construction in progress	8,513	–	8,513
Machinery, equipment and tooling	174,545	100,590	73,955
Automotive equipment	1,118	971	147
Computer and office equipment	23,259	20,133	3,126
	$ 263,534	$138,938	$124,596

	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

The amortization expense of property, plant and equipment amounted to $14,962 in fiscal year 2008 ($14,828 in 2007).

At March 31, 2008, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $11,688 ($21,070 at March 31, 2007) with accumulated amortization of $5,639 ($6,968 at March 31, 2007).

At March 31, 2008, construction in progress includes the costs of new equipment being installed for the modernization of the plating department at the Landing Gear Division, Longueuil plant while last year it also included the costs of the new 72,000 square foot manufacturing facility at the Aerostructure Division, Arlington plant (see Note 19).

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:

	2008	2007
Balance at beginning of year	$ 7,722	$ 9,243
Acquisition of software related costs	321	517
Amortization	(1,556)	(1,950)
Effect of changes in exchange rate	(700)	(88)
	$ 5,787	$ 7,722

The finite-life intangible assets consist of:

		2008	
	Cost	Accumulated Amortization	Net book Value
Software	$ 13,629	$ 12,696	$ 933
Backlog	7,545	2,691	4,854
	$ 21,174	$ 15,387	$ 5,787

		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

11 Other assets

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

	2008	2007
Deferred financing costs, net (Note 2 and 3)	$ –	$ 824
Derivative financial instruments – interest rate swap (Note 2)	–	51
Derivative financial instruments – forward foreign exchange contracts (Note 2)	3,646	–
	$ 3,646	$ 875

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:

	2008	2007
Balance at beginning of year	$ 38,093	$ 37,879
Progressive's acquisition purchase price adjustments (see Note 4)	–	440
Effect of changes in exchange rate	(2,281)	(226)
	$ 35,812	$ 38,093

13 Long-term debt

	2008	2007
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 1.0% for the Canadian Credit Facilities at March 31, 2008 (representing an effective interest rate of 4.6%) and at Libor plus 1.0% at March 31, 2008 for the U.S. Credit Facilities (representing an effective interest rate of 3.7%), and bankers' acceptance plus 1.4% for the Canadian Credit Facilities at March 31, 2007 (representing an effective interest rate of 5.7%) and Libor plus 1.4% at March 31, 2007 for the U.S. Credit Facilities (representing an effective interest rate of 6.7%).		
At March 31, 2008, the Company used $9,000 ($12,000 at March 31, 2007) and U.S.$43,000 (U.S.$35,000 at March 31, 2007) on the Credit Facilities.	$ 53,140	$ 52,411
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2017.	12,977	15,518
Obligations under capital leases bearing interest between 4.2% and 9.0% maturing between November 2008 and November 2014, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $1,797 ($419 in 2007).	11,773	5,848
Deferred financing costs, net	(637)	–
	77,253	73,777
Less: current portion	5,011	6,691
	$ 72,242	$ 67,086

The implementation of the new accounting standards (see Note 2 – Changes in accounting policies) reduced the carrying value of the loans bearing no interest by $3,588 as at April 1, 2007.

Senior Secured Syndicated Revolving Credit Facilities
In fiscal year 2007, the Company successfully concluded the amendment and extension of its Credit Facilities whereas the previous revolving operating and term facilities were combined into Senior Secured Revolving Credit Facilities that will mature in four years, on October 4, 2011, with no extension.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian and U.S. currency equivalent – see below), 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 rate 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).

Subsequent event: Increase of the Credit Facilities
On April 14, 2008, the Company increased its $80 million Credit Facilities to $125 million, essentially under the same terms and conditions.

Loans bearing no interest
Loans bearing no interest represent essentially government assistance for the purchase of specialized equipment or tooling and for the modernization or additions to the Company's facilities. They were granted as incentives under certain federal regional programs and provincial industrial programs to favour the development of the industry in Canada. Some of these loans are repayable according to certain specific conditions, in particular depending on the Company's aerospace sales and the Company's sales of certain predetermined aircraft landing gear or parts within specific delays (see Note 6 – Cost of sales).

13 Long-term debt (Cont'd)

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, 2008, 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

Years	Repayments on capital leases	Repayments on loans bearing no interest	Repayments of Credit Facilities	Total
2009	$ 3,991	$ 1,700	$ –	$ 5,691
2010	2,216	1,651	–	3,867
2011	1,570	2,268	–	3,838
2012	1,562	1,372	53,140	56,074
2013	1,543	2,382	–	3,925

The minimum repayments include interest on obligations under capital leases of $1,726.

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

	2008	2007
Interest	$ 4,321	$ 3,606
Interest accretion on loans bearing no interest (Note 2)	743	–
Amortization of deferred financing costs (Note 2 and 3)	183	259
Standby fees	157	188
Accretion expense of asset retirement obligations (Note 3)	204	187
Amortization of net deferred loss related to financial derivative instruments	51	133
Interest revenue	(660)	(692)
Financial expenses, net	$ 4,999	$ 3,681

14 Other liabilities

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

	2008	2007
Pension plans and other post-retirement benefits (Note 18)	$ 6,330	$ 6,462
Derivative financial instruments – forward foreign exchange contracts (Note 2 and 3)	837	–
Derivative financial instruments – interest rate swap (Note 2 and 3)	1,397	–
	$ 8,564	$ 6,462

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:

	2008	2007
31,639,019 common shares (31,528,017 at March 31, 2007)	$104,260	$103,620

15 Capital stock (Cont'd)

Issuance of common shares

During the fiscal year 2008, the Company issued 111,002 common shares at a weighted average price of $5.77 for a total cash consideration of $640. A number of 83,300 common shares were issued (all in the first quarter of fiscal year 2008) following the exercise of stock options for a total cash consideration of $413 and the remainder of 27,702 common shares were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $227 (see below).

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. A number of 12,000 common shares were issued (all in the second quarter of fiscal year 2007) following the exercise of stock options for a total cash consideration of $38 and the remainder of 27,418 common shares, were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $135 (see below).

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 424,718 shares have not been granted yet at March 31, 2008.

During fiscal year 2008, the Company granted to key employees 355,000 (325,000 in 2007) options representing a total fair value of $1,378 ($479 in 2007) or a weighted-average fair value per option of $3.88 ($1.47 in 2007) calculated using the Black-Scholes valuation model assuming a six-year expected life, expected volatility of 48% (35% in 2007), no expected dividend distribution and a compounded risk free interest rate of 4.5% (4.2% in 2007). Option cost is amortized over their earned period and the expense of $424 ($147 in 2007) 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, 2008, 1,274,221 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	631,221	4.48	$ 4.59	183,548	$ 4.62
$5.00 to $6.49	148,000	3.42	5.00	98,657	5.00
$6.50 to $10.00	495,000	4.79	9.85	140,000	9.71
	1,274,221	4.48	$ 6.68	422,205	$ 6.40

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

	2008		2007	
	Weighted-average exercise price	Number of stock options	Weighted-average exercise price	Number of stock options
Balance at beginning of year	$ 5.49	1,090,521	$ 5.72	873,021
Granted	9.90	355,000	4.79	325,000
Exercised	4.96	(83,300)	3.15	(12,000)
Cancelled / forfeited	6.55	(88,000)	5.50	(95,500)
Balance at end of year	$ 6.68	1,274,221	$ 5.49	1,090,521

15 Capital stock (Cont'd)

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 represents 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 2008, 27,702 common shares were issued for a total cash consideration of $227 (27,418 for a total cash consideration of $135 in 2007) and 12,279 common shares were attributed (11,841 in 2007) to the participating employees. Since the beginning of the plan, 107,160 common shares were issued and 47,578 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $114 is recorded as compensation expense ($67 in 2007) 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 the 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 $257 was recorded for SAR in fiscal year 2008 ($65 was recorded for fiscal year 2007) and is included in the Company's selling and administrative expenses.

In fiscal year 2008, the Company granted 24,000 SARs (28,000 in 2007) at a granted value of $9.90 ($5.13 in 2007) to its non-employee directors.

In fiscal year 2008, 7,500 SARs were exercised at an average granted value of $6.56 (none exercised in fiscal year 2007) and 9,000 SARs were cancelled (none cancelled for the same period last year).

At March 31, 2008, on a cumulative basis, 95,500 SARs were still outstanding at a weighted-average granted value of $6.53 (88,000 SARs at weighted-average granted values of $5.42 at March 31, 2007) which expire at various dates between fiscal years 2009 and 2014.

16 Income taxes

The computation of income tax expense is as follows:

	2008	2007
Income taxes at combined federal and provincial tax rates	$ 7,330	$ 3,453
Changes in enacted rates	261	(103)
Recognition of tax benefits – losses carried forward and other items	(2,420)	(1,118)
Permanent differences	(696)	(729)
Income tax rate difference – U.S. subsidiaries	70	200
Impact of income tax rate differential on future income taxes	(424)	(98)
Other items	(371)	80
	$ 3,750	$ 1,685

16 Income taxes (Cont'd)

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

	2008	2007
Future income tax assets		
Current		
Non-deductible reserves	$ 5,255	$ 4,236
Inventories	3,185	3,763
Receivables	334	151
Derivative financial instruments	455	–
Other	(87)	76
	$ 9,142	$ 8,226
Future income tax liabilities		
Current		
Non-deductible reserves	$ 4,497	$ 2,542
Derivative financial instruments	2,183	–
	$ 6,680	$ 2,542
Long-term		
Capital assets	$ 9,362	$ 11,837
Goodwill	1,793	931
Non-deductible reserves	(1,442)	–
Loans bearing no interest	(500)	(500)
Future tax benefits from tax losses	(572)	(3,917)
Derivative financial instruments	1,212	–
Other	–	(92)
	$ 9,853	$ 8,259

At March 31, 2008, there were no operating losses carried forward and other temporary differences for which no related income tax assets have been recognized in the consolidated financial statements.

	2008	2007
Income tax expense is as follows:		
Current	$ 2,128	$ (1,540)
Future	1,622	3,225
	$ 3,750	$ 1,685

17 Net change in non-cash items related to operations

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

	2008	2007
Accounts receivable	$ 1,963	$ (2,886)
Income tax receivable	(2,892)	3,491
Other receivables	(755)	3,285
Inventories	10,749	(20,943)
Prepaid expenses	(484)	765
Other current assets	(488)	(895)
Accounts payable and accrued liabilities and, other liabilities	(18,886)	5,827
Income tax payable	2,349	(2,899)
Effect of changes in exchange rate	(3,703)	(96)
	$(12,147)	$ (14,351)

18 Pension and other retirement benefit plans

Description of 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 on either 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 2008, 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 $1,668 ($1,912 in 2007) while the cash contributed to its defined contribution plans was $1,546 ($1,366 in 2007).

Defined benefit plans

The Company measures the fair value of plan assets for accounting purposes as at March 31 of each year while its accrued benefit obligations are valuated as at December 31 of each year and projected to March 31 for all plans except one, for which the 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, 2006. The next required actuarial valuation was conducted as at December 31, 2007 and will be completed by September 30, 2008. The subsequent actuarial valuation will be conducted as at January 1, 2009.

Defined benefit pension plan obligations

Accrued benefit obligations	2008	2007
Balance at beginning of year	$ 34,732	$ 32,170
Current service cost	1,023	939
Employee contributions	618	591
Interest cost	1,545	1,456
Benefits paid	(1,685)	(1,488)
Actuarial (gains) losses	(1,408)	1,064
Balance at end of year	$ 34,825	$ 34,732

Defined benefit pension plan assets

Fair value of plan assets	2008	2007
Balance at beginning of year	$ 20,416	$ 17,508
Actual return on plan assets	(681)	1,893
Employer contributions	1,668	1,912
Employee contributions	618	591
Benefits paid	(1,685)	(1,488)
Balance at end of year	$ 20,336	$ 20,416

Plan assets consist of:

Asset category (1)	2008	2007
Equity securities	60%	59%
Debt securities	34	35
Real estate	–	1
Other	6	5
Total	100%	100%

(1) Measured as of the measurement date as of March 31 of each year.

18 Pension and other retirement benefit plans (Cont'd)

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

	2008	2007
Fair value of plan assets	$ 20,336	$ 20,416
Accrued benefit obligations	34,825	34,732
Funded status – plans deficit	(14,489)	(14,316)
Unamortized net actuarial loss	6,323	5,796
Unamortized past service cost	1,167	1,288
Unamortized transitional obligation from acquisitions	–	28
Unamortized transitional obligation	669	742
Accrued benefit liability, net of valuation allowance	$ (6,330)	$ (6,462)

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

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

	2008	2007
Current service cost, net of employee contributions	$ 1,023	$ 939
Interest cost	1,545	1,456
Actual return on plan assets	681	(1,893)
Actuarial (gains) losses	(1,408)	1,064
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	$ 1,841	$ 1,566
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	(2,132)	632
• Difference between actuarial (gain) loss recognized for the year and actual actuarial (gain) loss on accrued benefit obligations for the year	1,606	(871)
• Difference between amortization of past service costs for the year and actual plan amendments for the year	121	120
• Amortization of the transitional obligations	101	210
Defined benefit pension costs recognized	$ 1,537	$ 1,657

Significant assumptions

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

	2008	2007
Accrued benefit obligations as at March 31:		
Discount rate	5.20%	4.80%
Rate of compensation increase	3.50	3.50
Defined benefit pension costs for years ended March 31:		
Discount rate	4.80%	4.95%
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:

	2008	2007
Defined contribution pension costs	$ 1,546	$ 1,366

19 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, 2008 amounted to $1,227 excluding escalation clauses. The minimum annual lease payments over the next five years are: $416 in 2009, $259 in 2010, $227 in 2011, $217 in 2012 and $108 in 2013.

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, 2008 of $8,178 for which the minimum annual operating lease payments, over the next five years, are: $1,793 in 2009, $1,684 in 2010, $1,372 in 2011, $1,304 in 2012 and $1,234 in 2013.

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: $257 in 2009 and $513 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 modernization of the plating department at Landing Gear Division, Longueuil Plant (construction of a new facility at the Aerostructure Division, Arlington plant in 2007). These outstanding purchase orders at March 31, 2008 amounted to $16,546 ($20,168 in 2007) for which $2,299 ($2,041 in 2007) 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, 2008 and 2007, an amount of $6,000 was provided for in the Company's accounts payable and accrued liabilities in respect to these items.

20 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 and operating results of the Company.

21 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 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.

21 Segmented information (Cont'd)

The Company evaluates the performance of its operating segments primarily based on operating income before financial expenses and income tax.

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

	2008			2007		
	Aerospace	**Industrial**	**Total**	Aerospace	Industrial	Total
Sales	$278,920	$ 28,962	$ 307,882	$ 257,324	$25,962	$283,286
Operating income (loss)	27,370	398	27,768	16,156	(1,884)	14,272
Financial expenses			4,999			3,681
Income before income tax			22,769			10,591
Assets	333,493	22,961	356,454	317,328	22,133	339,461
Goodwill	34,893	919	35,812	37,059	1,034	38,093
Purchase of property, plant and equipment	33,546	4,267	37,813	27,303	1,325	28,628
Purchase of finite-life intangible assets	283	38	321	489	28	517
Goodwill acquired	–	–	–	440	–	440
Amortization	13,990	2,528	16,518	14,086	2,692	16,778

Geographic Segments

	2008			2007		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Sales	$220,157	$ 87,725	$ 307,882	$203,214	$ 80,072	$283,286
Property plant and equipment, net	74,623	49,973	124,596	69,973	39,709	109,682
Finite-life intangible assets, net	754	5,033	5,787	1,399	6,323	7,722
Goodwill	17,534	18,278	35,812	17,534	20,559	38,093
Export sales (1)	$124,208			$130,637		

68% of the Company's sales (68% in 2007) were to U.S. customers.

(1): Export sales are attributed to countries based on the location of the customers.

22 Reclassification

Comparative figures for the financial statements as at March 31, 2007 and for the year then ended have been reclassified to comply with the March 31, 2008 presentation.

BOARD OF DIRECTORS

John Cybulski †
Chairman of the Board
Héroux-Devtek Inc.
Principal
Aeroglobe LLC
Bradenton, Florida (USA)
International business consulting firm

Gilles Labbé
President
and Chief Executive Officer
Héroux-Devtek Inc.
Longueuil, Québec

Claude Boivin †
Consultant and Member
of various Boards of Directors
Montréal, Québec

Christian Dubé *
Vice-President
and Chief Financial Officer
Cascades Inc.
Montréal, Québec
Leader in the production, conversion and the marketing of packaging products – boxboard, cartonboard – fine specialty papers and tissue papers made primarily with recycled fibre

Jean-Louis Fontaine *
Vice-Chairman of the Board
and Director
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Montréal, Québec
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of transportation equipment

Helmut Hofmann †
Member of the Board
Héroux-Devtek Inc.
Toronto, Ontario

Louis Morin *
Vice-President
and Chief Financial Officer
Quebecor Media Inc.
One of Canada's largest media companies. It delivers services such as analog and digital broadcasting; cable and wireless telephone; Internet access; newspaper, magazine and book publishing; and the distribution and retailing of a wide array of cultural products.

Brian A. Robbins *
President
and Chief Executive Officer
Exco Technologies Limited
Toronto, Ontario
Supplier of molded and extruded parts
for the automotive and
industrial markets

CORPORATE MANAGEMENT OF HÉROUX-DEVTEK

Gilles Labbé
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Longueuil, Québec

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Executive Vice-President
and Chief Financial Officer
Longueuil, Québec

Gabriel Duval
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Longueuil, Québec

Patrice Gauvin
Vice-President, Business Development
Longueuil, Québec

Gilbert Guérin
Corporate Director, Human Resources
Longueuil, Québec

Michel Robillard
Vice-President, Internal Audit
and Conformity
Longueuil, Québec

Jean-François Boursier
Corporate Controller
Longueuil, Québec

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

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Vice-President, General Manager
Longueuil, Québec

Gaetan Roy
Vice-President, Plant Manager
Longueuil, Québec

Nagy Homsy
Vice-President, Engineering
and Quality Assurance
Longueuil, Québec

Jack Curley
General Manager
Kitchener, Ontario

Daniel Normandin
Plant Manager
Laval, Québec

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Ross Rutledge
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 Wednesday, August 6, 2008
at 11:00 A.M. in the
Pierre-de-Coubertin Room
of the Hôtel Omni Mont-Royal
1050 Sherbrooke Street West
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Share Listing
Shares are traded on the Toronto
Stock Exchange
Ticker Symbol: HRX

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Written and produced by
MaisonBrison
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