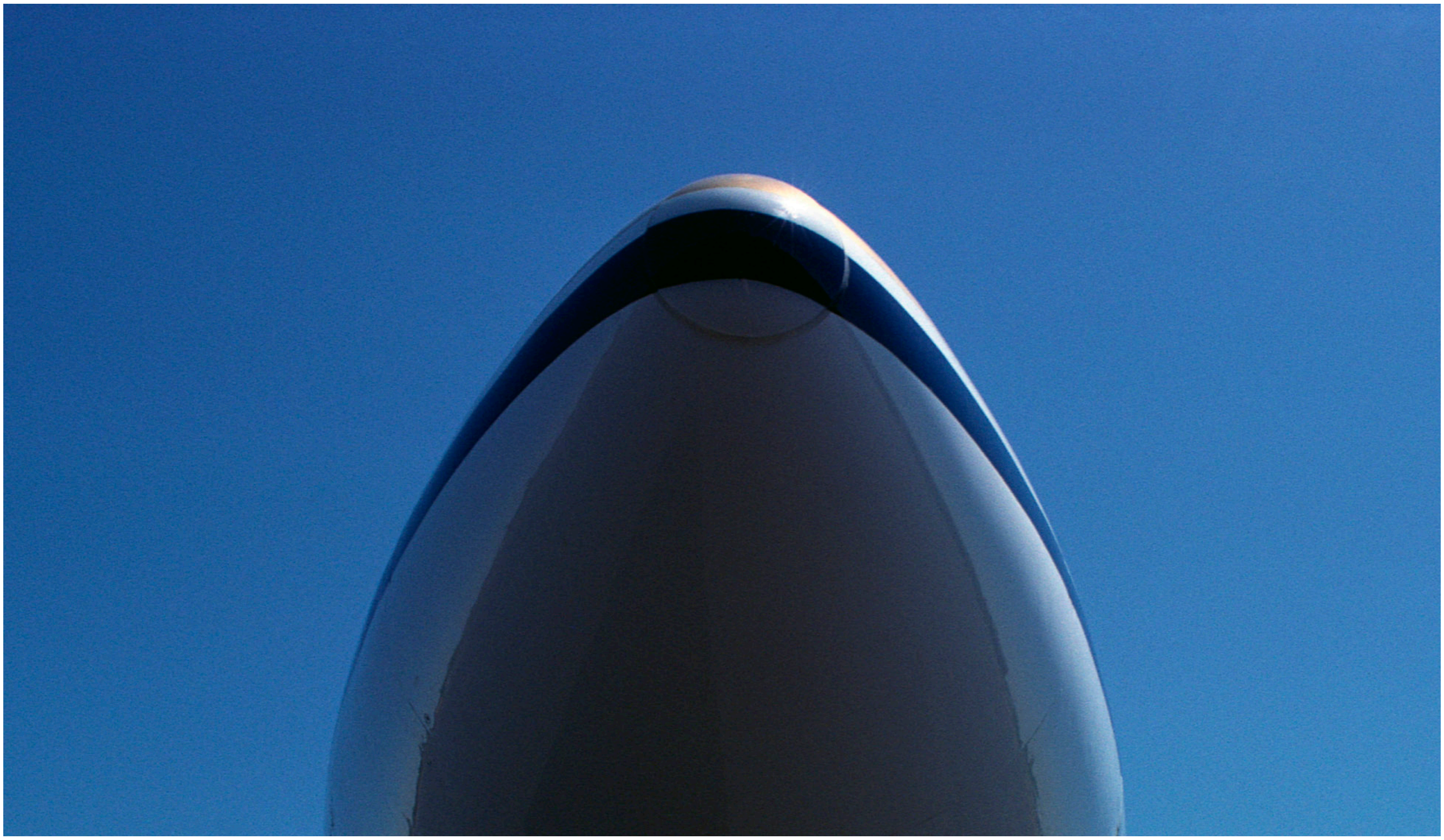

ON STRONGER GROUND

HÉROUX-DEVTEK QUARTERLY REPORT
SECOND QUARTER ENDED SEPTEMBER 30, 2010

MESSAGE TO SHAREHOLDERS

Second quarter ended September 30, 2010

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's second quarter ended September 30, 2010, during which our newly-acquired U.S. Landing Gear products operations, Eagle Tool & Machine Co. ("Eagle") and its subsidiary All Tools, Inc. ("E2"), had a solid contribution. Results also include restructuring charges of $269,000 before income taxes, equivalent to $0.01 per share net of income taxes, in connection with the closure of the Rivière-des-Prairies plant during the quarter.

Consolidated sales for the second quarter were $83.2 million, an increase of 8.7% over sales of $76.6 million for the same period last year. Excluding a $13.5 million sales contribution from Eagle and E2, sales declined mainly due to lower landing gear repair and overhaul throughput and unfavourable currency impact. Aerospace sales reached $77.0 million in the second quarter of fiscal 2011 compared with $70.9 million last year. Sales of the Landing Gear product line increased 13.1% to $53.6 million reflecting the contribution of Eagle and E2. Excluding the acquisition, sales decreased 15.4%, as lower repair and overhaul throughput and engineering sales, following the completion of certain projects, as well as currency fluctuations, more than offset new business on the A-320, B-787 and Fokker programs. Aerostructure product sales were stable at $23.3 million, as reduced F-22 sales and unfavourable currency fluctuations were offset by greater activity for certain business jet programs. Industrial sales rose 10.0% to $6.2 million in the second quarter of fiscal 2011. This increase reflects solid demand for heavy equipment from the mining industry which more than offset soft conditions in the power generation industry.

Fluctuations in the value of the Canadian dollar versus the US currency decreased second quarter sales by $2.6 million or 3.4%, compared with last year, but had a minimal impact on the Company's gross profit, which was mainly influenced by the underabsorption of manufacturing overhead costs. The impact of currency movements on the Company's gross profit is mitigated by the use of forward foreign exchange sales contracts and the natural hedging from the purchase of materials made in US dollars.

Earnings before interest, taxes, depreciation and amortization ("EBITDA"), excluding restructuring charges, were $10.8 million, or 13.0% of sales, compared with $11.7 million, or 15.3% of sales, last year essentially reflecting the unfavourable impact of lower landing gear throughput on the absorption of manufacturing overhead costs. Operating income stood at $4.9 million, or 5.9% of sales, compared with $6.4 million, or 8.3% of sales, last year. Net income reached $2.6 million, or $0.09 per share ($0.08 diluted), compared with net income of $3.5 million, or $0.11 per share a year ago.

For the first six months of fiscal 2011, consolidated sales amounted to $165.7 million, including a $20.6 million contribution from Eagle and E2, up from $158.7 million in fiscal 2010. Aerospace sales rose 4.7% to $153.0 million, while Industrial sales were 0.7% higher at $12.7 million. EBITDA reached $22.3 million, or 13.4% of sales, excluding restructuring charges of $637,000, versus $24.5 million, or 15.4% of sales, a year earlier, while operating income stood at $10.5 million, or 6.3% of sales, compared with $13.8 million, or 8.7% of sales, last year. Net income totalled $5.7 million, or $0.19 per share, versus $8.1 million, or $0.26 per share, in the prior year. Restructuring charges, net of income taxes, reduced net income by $0.02 per share in the first six months of fiscal 2011.

As at September 30, 2010, Héroux-Devtek's funded (firm orders) backlog was $574 million, up from $545 million three months ago, and remains well diversified.

After the end of the quarter, the Landing Gear product line was awarded additional orders for the manufacturing of landing gear components. These orders, essentially from the U.S. Air Force, are mainly for the B-1B, C-130, C-5 and F-15 aircraft. The combined value of the contracts is approximately Cdn$16.4 million, a majority of which was obtained by Eagle. Production will be spread out over the next four years, with deliveries beginning in the current fiscal year, ending March 31, 2011.

Conditions continue to improve in the commercial aerospace market. In the large commercial aircraft segment, Boeing and Airbus have announced production rate increase for the next three calendar years on leading programs and new orders have increased substantially in the first nine months of calendar 2010. The business jet market appears to have bottomed out and the industry is seeing positive signs. The military aerospace market, while still healthy, is stabilizing as governments address their deficits. As to the JSF program, the ramp-up continues, albeit at a slightly more moderate pace over the near term. In Canada, the Government's decision to purchase 65 JSF aircraft should also benefit the Canadian aerospace industry. The North American power generation industry appears to have bottomed out, as leading equipment manufacturers have reported rising new orders. While no significant recovery is expected in the short-term, renewable energy sources, including wind, still hold considerable potential over the mid-term.

Héroux-Devtek is in a stronger competitive position than before the recession. Our expanded North American network, strong customer relationships, healthy balance sheet and constant drive to improve efficiency and productivity firmly position the Company as a leader in its core markets. The contribution from Eagle and E2, scheduled production rate increases on large commercial aircraft programs and the ramp-up of the JSF will positively influence Héroux-Devtek's operating results for the remainder of fiscal 2011 and beyond. We continue to anticipate a stronger second half for fiscal 2011 with sales approximately 15% to 20% higher when compared with the first half of the year, assuming no major change in the average exchange rate.

Gilles Labbé
President and Chief Executive Officer
October 29, 2010

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended September 30, 2010 and 2009.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the interim financial statements, the interim financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim consolidated financial statements of the Company for the quarters ended September 30, 2010 and 2009, have been prepared in accordance with Canadian generally accepted accounting principles and are the responsibility of the Company's management.

The Company's external auditors, Ernst & Young LLP, have not performed a review of these interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the external auditors of an entity.

Dated this 29th day of October, 2010.

CONSOLIDATED BALANCE SHEETS
As at September 30, 2010 and March 31, 2010
(In thousands of Canadian dollars) (Unaudited)

	Notes	September 2010	March 2010
Assets	3, 10		
Current assets			
Cash and cash equivalents		$ 29,367	$ 46,591
Accounts receivable		46,161	39,085
Income tax receivable		2,089	1,349
Other receivables	7, 15	10,078	11,174
Inventories	8	102,992	84,408
Prepaid expenses		2,186	2,151
Future income taxes		6,817	5,124
Derivative financial instruments – forward foreign exchange contracts		8,048	7,568
		207,738	197,450
Property, plant and equipment, net		145,267	137,670
Finite-life intangible assets, net		15,551	11,698
Derivative financial instruments – forward foreign exchange contracts		8,719	12,408
Goodwill		41,800	35,621
		$ 419,075	$ 394,847
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 60,360	$ 58,069
Accounts payable – other	9	4,513	4,591
Income tax payable		450	138
Future income taxes		5,469	7,161
Current portion of long-term debt	10	5,306	4,250
		76,098	74,209
Long-term debt	10	96,638	76,807
Other liabilities	11	9,486	10,948
Future income taxes		17,602	15,791
		199,824	177,755
Shareholders' equity			
Capital stock	12	99,621	100,641
Contributed surplus	12	1,847	1,615
Accumulated other comprehensive (loss)		(5,849)	(4,618)
Retained earnings		123,632	119,454
		219,251	217,092
		$ 419,075	$ 394,847

Commitments (Note 15)

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

CONSOLIDATED STATEMENTS OF INCOME
For the periods ended September 30, 2010 and 2009
(In thousands of Canadian dollars, except share and per share data) (Unaudited)

	Notes	Quarters ended September 30 2010	2009	Six months ended September 30 2010	2009
	3				
Sales		$ 83,194	$ 76,570	$ 165,735	$ 158,730
Cost of sales, including amortization expense	5, 8	72,328	64,836	143,262	133,657
Gross profit		10,866	11,734	22,473	25,073
Selling and administrative expenses	12	5,932	5,376	11,956	11,244
Operating income		4,934	6,358	10,517	13,829
Financial expenses, net	10	1,155	1,155	2,233	2,333
Income before income tax expense and restructuring charges		3,779	5,203	8,284	11,496
Restructuring charges	6	269	-	637	-
Income before income tax expense		3,510	5,203	7,647	11,496
Income tax expense		954	1,685	1,908	3,436
Net income		$ 2,556	$ 3,518	$ 5,739	$ 8,060
Earnings per share – basic		$ 0.09	$ 0.11	$ 0.19	$ 0.26
Earnings per share – diluted		$ 0.08	$ 0.11	$ 0.19	$ 0.26
Weighted-average number of shares outstanding during the periods		30,007,178	30,644,832	30,121,872	30,795,183

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended September 30, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

For the quarter ended September 30, 2010

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at June 30, 2010		$99,128	$1,730	$(5,899)	$121,211	$ -
Common shares:	12					
Issued under the stock option plan		605	-	-	-	-
Issued under the stock purchase and ownership incentive plan		83	-	-	-	-
Repurchased under the Company's normal course issuer bid		(195)	-	-	(135)	-
Stock-based compensation expense	12	-	117	-	-	-
Net income		-	-	-	2,556	2,556
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $1,574		-	-	3,812	-	3,812
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $412		-	-	(1,097)	-	(1,097)
Cumulative translation adjustment		-	-	(2,665)	-	(2,665)
Balance at September 30, 2010		$99,621	$1,847	$ (5,849)	$123,632	$2,606

For the six-month period ended September 30, 2010

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2010		$100,641	$1,615	$(4,618)	$119,454	$ -
Common shares:	12					
Issued under the stock option plan		747	-	-	-	-
Issued under the stock purchase and ownership incentive plan		170	-	-	-	-
Repurchased under the Company's normal course issuer bid		(1,937)	-	-	(1,561)	-
Stock-based compensation expense	12	-	232	-	-	-
Net income		-	-	-	5,739	5,739
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $18		-	-	141	-	141
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $935		-	-	(2,574)	-	(2,574)
Cumulative translation adjustment		-	-	1,202	-	1,202
Balance at September 30, 2010		$99,621	$1,847	$(5,849)	$123,632	$ 4,508

HÉROUX DEVTEK

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended September 30, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

For the quarter ended September 30, 2009

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at June 30, 2009		$101,567	$1,492	$(8,684)	$108,458	$ -
Common shares:	12					
Issued under the stock purchase and ownership incentive plan		79	-	-	-	-
Repurchased under the Company's normal course issuer bid		(790)	-	-	(252)	-
Stock-based compensation expense	12	-	(110)	-	-	-
Net income		-	-	-	3,518	3,518
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $3,530		-	-	9,218	-	9,218
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $58		-	-	173	-	173
Cumulative translation adjustment		-	-	(6,540)	-	(6,540)
Balance at September 30, 2009		$100,856	$1,382	$ (5,833)	$111,724	$ 6,369

For the six-month period ended September 30, 2009

	Notes	Capital Stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at March 31, 2009		$102,822	$1,375	$(12,124)	$104,418	$ -
Common shares:	12					
Issued under the stock purchase and ownership incentive plan		159	-	-	-	-
Repurchased under the Company's normal course issuer bid		(2,125)	-	-	(754)	-
Stock-based compensation expense	12	-	7	-	-	-
Net income		-	-	-	8,060	8,060
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $7,331		-	-	17,317	-	17,317
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior periods transferred to net income in the current period, net of taxes of $887		-	-	2,040	-	2,040
Cumulative translation adjustment		-	-	(13,066)	-	(13,066)
Balance at September 30, 2009		$100,856	$1,382	$(5,833)	$111,724	$14,351

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended September 30, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended September 30 2010	Quarters ended September 30 2009	Six months ended September 30 2010	Six months ended September 30 2009
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 2,556	$ 3,518	$ 5,739	$ 8,060
Items not requiring an outlay of cash:					
Amortization		5,879	5,365	11,744	10,655
Future income taxes		(75)	2,516	611	4,067
Loss on sale of property, plant and equipment		77	26	77	24
Amortization of deferred financing costs	10	42	42	84	84
Accretion expense on asset retirement obligations and governmental authorities loans	10	382	300	758	590
Stock-based compensation expense	12	117	(110)	232	7
Cash flows from operations		8,978	11,657	19,245	23,487
Net change in non-cash working capital items related to operations	14	(702)	364	(9,302)	(25,080)
Cash flows related to operating activities		8,276	12,021	9,943	(1,593)
Investing activities					
Additions to property, plant and equipment	5	(5,898)	(971)	(9,093)	(5,200)
Net increase in finite-life intangible assets	5	(1,579)	(833)	(3,729)	(1,378)
Proceeds on disposal of property, plant and equipment		45	7	70	9
Business acquisition	3	-	-	(28,813)	-
Cash flows related to investing activities		(7,432)	(1,797)	(41,565)	(6,569)
Financing activities					
Increase in long-term debt		1,309	5,663	18,875	5,663
Repayment of long-term debt		(939)	(1,165)	(2,559)	(2,999)
Repurchase of common shares	12	(330)	(1,042)	(3,498)	(2,879)
Issuance of common shares	12	688	79	917	159
Cash flows related to financing activities		728	3,535	13,735	(56)
Effect of changes in exchange rates on cash and cash equivalents		(953)	(1,750)	663	(4,329)
Change in cash and cash equivalents during the periods		619	12,009	(17,224)	(12,547)
Cash and cash equivalents at beginning of periods		28,748	15,203	46,591	39,759
Cash and cash equivalents at end of periods		$ 29,367	$ 27,212	$ 29,367	$ 27,212
Supplemental information:					
Interest paid		$ 794	$ 816	$ 1,399	$ 1,578
Income taxes paid		$ 595	$ 126	$ 856	$ 4,044

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended September 30, 2010 and 2009
(All dollar amounts in thousands of Canadian dollars, except share data) (Unaudited)

Note 1. Interim Consolidated Financial Statements

The Interim consolidated financial statements include the accounts of Héroux-Devtek Inc. (the "Company") and its subsidiaries, all of which are wholly-owned.

The interim consolidated financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods in their application as the most recent annual financial statements. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the interim financial statements. Such adjustments are of a normal and recurring nature. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year. The interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report for the fiscal year ended March 31, 2010.

Note 2. Future changes in accounting policies

International Financial Reporting Standards ("IFRS")

In February 2008, the Accounting Standard Board ("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. 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 GAAP, but there are significant differences in 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, thus mitigating the impact of adopting IFRS at the mandatory transition date.

The Company is evaluating the effect of these new standards on its consolidated financial statements.

Note 3. Business acquisition

On April 28, 2010, the Company announced that it had concluded the acquisition through a U.S. subsidiary of substantially all the net assets of U.S. based Eagle Tool & Machine Co. and of its subsidiary All Tools, Inc. (E-2 Precision Products), two privately-owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40,000, based on their last financial year ended December 31, 2009.

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

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

The identifiable intangible assets related to the business acquisition, which amounted to $1,390, was attributed to the backlog. The backlog value was determined, using a discounted cash flow method. The excess of the purchase price over the fair value of the net tangible assets acquired and the acquired backlog amounted to $5,849.

The promissory note is repayable to the seller over 40 months, starting on April 30, 2010, bears a fixed interest rate of 5% and is guaranteed by the Company. The underlying value of the backlog which relates to specific sales contracts is amortized on a pro rata basis over the life of the related sales contracts and units delivered.

Note 4. Financial instruments

The classification of financial instruments between held-for-trading ("HFT"), loans and receivables ("L&R"), other than held-for-trading ("other than HFT") and hedging items and their carrying amounts and fair values were as follows as at:

	September 30, 2010					March 31, 2010				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	L&R	Hedging items	Total (1)		HFT	L&R	Hedging items	Total (1)	
Financial assets										
Cash and cash equivalents	$29,367	$ -	$ -	$29,367	$29,367	$46,591	$ -	$ -	$46,591	$46,591
Accounts receivable(2)	-	46,161	-	46,161	46,161	-	39,085	-	39,085	39,085
Other receivables(3)	-	409	-	409	409	-	540	-	540	540
Derivative financial instruments – forward foreign exchange contracts	-	-	16,767	16,767	16,767	-	-	19,976	19,976	19,976
	$ 29,367	$46,570	$16,767	$92,704	$92,704	$46,591	$39,625	$19,976	$106,192	$106,192

	September 30, 2010					March 31, 2010				
	Carrying value				Fair Value	Carrying value				Fair Value
	HFT	Other than HFT	Hedging items	Total (1)		HFT	Other Than HFT	Hedging items	Total (1)	
Financial liabilities										
Accounts payable and accrued liabilities(5)	$ -	$41,448	$ -	$41,448	$41,448	$ -	$44,493	$ -	$44,493	$44,493
Accounts payable – other (4)	-	-	1,960	1,960	1,960	-	613	2,021	2,634	2,634
Long-term debt, including current portion	-	102,210	-	102,210	103,737	-	81,407	-	81,407	82,988
Long-term liabilities – Other liabilities(6)	-	966	-	966	966	-	-	1,716	1,716	1,716
	$ -	$144,624	$1,960	$146,584	$148,111	$ -	$126,513	$3,737	$130,250	$131,831

(1) Represents only the carrying values of financial assets and liabilities included in the corresponding balance sheet caption.
(2) Comprising trade receivables.
(3) Comprising certain other receivables.
(4) Includes the fair value of short-term derivative financial instruments.
(5) Comprising trade accounts payable and accrued liabilities, including interest and certain payroll-related liabilities.
(6) Includes the fair value of long-term derivative financial instruments.

At September 30, 2010, the Company had entered into forward foreign exchange sales contracts to sell US$151.1 million at a weighted-average exchange rate of 1.1342 (Canadian dollar over U.S. dollar, "cad/usd" - US$150.0 million at a weighted-average exchange rate of 1.1436 cad/usd as at March 31, 2010 and US $166.4 million at a weighted-average exchange rate of 1.1427 cad/usd as at September 30, 2009) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between October 2010 and March 2015, with the majority maturing in fiscal 2011 and 2012.

At September 30, 2010, the Company had also entered into forward foreign exchange sales contracts totalling US$9.3 million at a weighted-average exchange rate of 1.2372 cad/usd (US$11.3 million at a weighted-average rate of 1.2396 cad/usd at March 31, 2010 and September 30, 2009) maturing over the next four fiscal years to cover foreign exchange risk related to certain embedded derivatives.

Note 5. Government assistance

Government assistance, including investment and other tax credits and the discounted portion of the governmental authorities loans, is recorded as a reduction of the related capital expenditures, development costs, inventory or expenses when there is reasonable assurance that the assistance will be received.

During the three- and six-month periods ended September 30, 2010, the Company recorded as a reduction of cost of sales an amount of $367 and $987 respectively, and as a reduction of the related capital expenditures or development costs an amount of $1,035 and $1,471 respectively, for government assistance.

During the three- and six-month periods ended September 30, 2009, the Company recorded as a reduction of cost of sales an amount of $1,078 and $2,373 respectively, and as a reduction of the related capital expenditures or development costs an amount of $503 and $663 respectively, for government assistance.

Note 6. Restructuring charges

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity, while further enhancing productivity of its Québec-based facilities. Consequently, the Company's Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Company's other facilities in the Greater Montreal area. During the three- and six-month periods ended September 30, 2010, the Company recorded restructuring charges of $269 and $637 respectively ($196 and $454 net of income taxes). The Company does not expect any significant additional restructuring charges.

Note 7. Other receivables

Other receivables consist of:

	September 30, 2010	March 31, 2010
Investment and other tax credits receivable	$ 7,614	$8,096
Sales tax receivable	953	1,195
Deposits on machinery and equipment (Note 15)	1,075	772
Others	436	1,111
	$10,078	$11,174

Note 8. Inventories

Inventories consist of:

	September 30, 2010	March 31, 2010
Raw materials	$54,755	$47,327
Work in progress and finished goods	89,409	69,413
Less: Progress billings	41,172	32,332
	$102,992	$84,408

The amount of inventories recognized as cost of sales for the three- and six-month periods ended September 30 is detailed as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Aerospace segment	$59,636	$51,231	$119,172	$109,420
Industrial segment	4,314	3,862	8,791	8,093
	$63,950	$55,093	$127,963	$117,513

The change in write-downs related to inventories for the three- and six-month periods ended September 30 is detailed as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Write-downs recognized as cost of sales	$1,816	$1,114	$3,322	$2,606
Reversal of write-downs recognized as a reduction of cost of sales	$1,541	$1,032	$2,340	$2,075

The inventory write-down reversal is determined following the revaluation, each quarter end, of the net realizable value of inventories based on the related sales contracts and production costs. It also includes the charges against the reserve for products delivered during the year for which a net realizable value reserve was required and recorded in prior periods.

Note 9. Accounts payable – other

The Company's accounts payable – other are summarized as follows:

	September 30, 2010	March 31, 2010
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	$ 1,163	$ 1,180
Derivative financial instruments – interest-rate swap agreements	797	841
Machinery and equipment	-	613
Customers' advances	2,553	1,957
	$4,513	$ 4,591

Note 10. Long-term debt

	September 30, 2010	March 31, 2010
Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") of up to $125,000, either in Canadian or U.S. currency equivalent, maturing on October 4, 2011, which bear interest at bankers' acceptance plus 1.0% for the Canadian Credit Facilities at September 30, 2010 (representing an effective interest rate of 2.2%; 1.4% as at March 31, 2010) and at Libor plus 1.0% at September 30, 2010 for the U.S. Credit Facilities (representing an effective interest rate of 1.3%; 1.2% as at March 31, 2010). At September 30, 2010, the Company used US$59,500 on the Credit Facilities (US$43,000 at March 31, 2010).	$ 61,226	$43,679
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until 2026.	22,304	21,040
Obligations under capital leases bearing fixed interest between 4.2% and 9.3% maturing from March 2011 to February 2016, with amortization periods ranging from five to eight years, secured by the related property, plant and equipment, net of interest in the amount of $1,950 ($2,428 at March 31, 2010).	15,439	16,688
Promissory note, repayable in monthly instalments over 40 months up to July 2013, bearing fixed interest at 5% and is guaranteed by the Company (see Note 3).	3,241	-
Deferred financing costs, net	(266)	(350)
	101,944	81,057
Less: current portion	5,306	4,250
	$96,638	$76,807

Senior Secured Syndicated Revolving Credit Facilities

The Senior Secured Revolving Credit Facilities will mature on October 4, 2011.

These Credit Facilities allow the Company and its subsidiaries to borrow up to $125,000 (either in Canadian and U.S. currency equivalent – see below), from a group of banks and their U.S. 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 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 U.S.).

Financial expenses, for the three- and six-month periods ended September 30, comprise the following:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Interest	$ 712	$ 795	$ 1,354	$ 1,624
Interest accretion on governmental authorities loans	322	243	638	476
Amortization of deferred financing costs	42	42	84	84
Standby fees	23	22	43	44
Accretion expense on asset retirement obligations	60	57	120	114
Gain on financial instruments classified as HFT - Interest income	(4)	(4)	(6)	(9)
Financial expenses, net	$ 1,155	$ 1,155	$ 2,233	$ 2,333

Note 11. Other liabilities

The Company's other liabilities are summarized as follows:

	September 30, 2010	March 31, 2010
Pension plan and other post-retirement benefits	$3,640	$ 4,381
Derivative financial instruments – interest rate swap agreements	-	280
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	966	1,436
Asset retirement obligations	4,713	4,653
Other	167	198
	$ 9,486	$10,948

Note 12. 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:

	September 30, 2010	March 31, 2010
30,070,552 common shares at September 30, 2010 (30,485,475 at March 31, 2010)	$99,621	$100,641

Issuance of common shares

During the three- and six-month periods ended September 30, 2010, the Company issued 137,992 and 190,177 common shares respectively, at weighted-average prices of $4.98 and $4.82, for a total cash consideration of $688 and $917. This includes a number of 122,221 and 157,221 common shares which were issued, following the exercise of stock options, for a total cash consideration of $605 and $747. The remainder of 15,771 and 32,956 common shares were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $83 and $170.

During the three- and six-month periods ended September 30, 2009, the Company issued 19,944 and 40,327 common shares respectively, at weighted-average prices of $3.93 and $3.94, for a total cash consideration of $79 and $159. These shares were all issued under the Company's stock purchase and ownership plan.

Normal course issuer bid

On November 25, 2009, the Company launched a new normal course issuer bid under which the Company may repurchase up to 1,500,000 of its common shares, representing approximately 5% of the issued and outstanding shares. The NCIB terminates on November 24, 2010, or on such earlier date as the Company may complete its repurchases.

During the quarter ended September 30, 2010, the Company repurchased 59,100 shares at an average price of $5.57 for a total cash consideration of $330 under the normal course issuer bid. The excess ($135) of the cost of the common shares over their average book value ($195) was accounted for as a reduction of the Company's retained earnings.

During the six-month ended September 30, 2010, the Company repurchased 605,100 shares at an average price of $5.78 for a total cash consideration of $3,498 under the normal course issuer bid. The excess ($1,561) of the cost of the common shares over their average book value ($1,937) was accounted for as a reduction of the Company's retained earnings.

Since November 25, 2009, the Company repurchased a total of 698,500 common shares at an average price of $5.69.

During the quarter ended September 30, 2009, the Company repurchased 239,400 shares at an average price of $4.35, for a total cash consideration of $1,042 under the normal course issuer bid. The excess ($252) of the cost of the common shares over their average book value ($790) was accounted for as a reduction of the Company's retained earnings.

During the six-month ended September 30, 2009, the Company repurchased 646,400 shares at an average price of $4.45, for a total cash consideration of $2,879 under the normal course issuer bid. The excess ($754) of the cost of the common shares over their average book value ($2,125) was accounted for as a reduction of the Company's retained earnings.

Stock option plan

The Company has a stock option plan where options to purchase common shares are issued to certain officers and key employees. The Company expenses all granting of stock options based on their earned period, using the Binomial valuation model to determine their fair value. The expense related to stock options in the quarter ended September 30, 2010 amounting to $117 (amounting to ($110) for the quarter ended September 30, 2009) and to $232 for the six-month period ended September 30, 2010 ($7 for the same period last year) is recorded as compensation expense and is included in the selling and administrative expenses, with a corresponding amount to the contributed surplus in the Company's Shareholders' equity.

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During the three- and six-month periods ended September 30, 2010, 138,000 stock options were granted (all in the second quarter of the current fiscal year) at a granted value of $5.94 and, 122,221 and 157,221 stock options were exercised and 27,000 and 55,000 stock options respectively were cancelled.

During the three- and six-month periods ended September 30, 2009, 246,000 stock options were granted (all in the second quarter of the current fiscal year) at a granted value of $4.56 and 75,000 stock options were cancelled (all in the first quarter of the current fiscal year) following their expiry dates.

At September 30, 2010, the Company had 1,481,000 outstanding stock options at a weighted-average exercise price of $5.91 which will expire over the next six years (between September 2011 and August 2017).

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.

During the three- and six-month periods ended September 30, 2010, 15,771 and 32,956 common shares were issued respectively (282,178 since the beginning of the plan) and 6,378 and 13,044 common shares attributed to the participating employees (119,845 since the beginning of the plan). The expense related to the attributed common shares amounting to $37 and $75, respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and six-month periods ended September 30, 2009, 19,944 and 40,327 common shares were issued respectively (214,160 since the beginning of the plan) and 8,578 and 17,222 common shares attributed to the participating employees (91,847 since the beginning of the plan). The expense related to the attributed common shares amounting to $79 and $159, respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

Stock appreciation rights plan
The Company has a stock appreciation rights ("SAR") plan under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonuses, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR.

During the three- and six-month periods ended September 30, 2010, no SARs were granted and 7,500 SARs were exercised (all in the second quarter of the current fiscal year) before their expiry dates. 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. During the three- and six-month periods ended September 30, 2010, $40 and $113 is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and six-month periods ended September 30, 2009, 35,000 SARs were granted at a granted value of $4.56. 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. During the three- and six-month periods ended September 30, 2009, no expense was recorded for SARs.

During the three- and six-month periods ended September 30, 2009, no SARS were exercised and 7,500 SARs were cancelled.

At September 30, 2010, on a cumulative basis, 143,000 SARs were still outstanding at a weighted-average granted value of $6.21 (150,500 SARs at a weighted-average granted value of $6.14 as at September 30, 2009) which will expire on various dates from fiscal 2012 to 2015.

Note 13. 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 the figures below.

Defined pension plan obligations are impacted by factors including interest rates, adjustments arising from plan amendments, changes in assumptions and experience gains or losses. The total pension costs for the three- and six-month periods ended September 30 are as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Defined benefit pension costs	$ 355	$ 274	$ 493	$ 623
Defined contribution pension costs	572	502	1,119	1,026
	$ 927	$ 776	$ 1,612	$ 1,649

Note 14. Net change in non-cash working capital items related to operations

The net change in non-cash working capital items related to operations for the three- and six-month periods ended September 30 are detailed as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Accounts receivable	$ (2,200)	$ 2,900	$ (1,725)	$ 9,216
Income tax receivable	(373)	(1,735)	(740)	(2,658)
Other receivables	1,752	(130)	1,533	(1,240)
Inventories	513	6,014	(506)	(1,293)
Prepaid expenses	494	1,069	83	470
Other current assets	-	(3)	(20)	(8)
Accounts payable and accrued liabilities and, other liabilities	764	(3,722)	(7,778)	(19,514)
Accounts payable – other	410	(1,822)	(8)	(2,631)
Income tax payable	93	(255)	312	(3,110)
Effect of changes in exchange rate(1)	(2,155)	(1,952)	(453)	(4,312)
	$ (702)	$ 364	$ (9,302)	$ (25,080)

(1) Reflects the total impact of changes in exchange rate during the related period on non-cash working capital items listed above for the Company's U.S. subsidiaries.

Note 15. Commitments

The Company has released purchase orders relating to new facilities and, machinery and equipment which have not been delivered yet to the Company's facilities. These outstanding purchase orders at September 30, 2010 amounted to $4,515 ($5,205 – March 31, 2010) for which an amount of $1,075 ($772 – March 31, 2010) in deposits on machinery and equipment were made and are included in the Company's other receivables.

Note 16. Segmented information

Quarters ended September 30
Activity segments

	2010			2009		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 76,967	$ 6,227	$ 83,194	$ 70,911	$ 5,659	$ 76,570
Operating income	4,144	790	4,934	5,619	739	6,358
Financial expenses, net			1,155			1,155
Income before income tax expense and restructuring charges			3,779			5,203
Assets	396,863	22,212	419,075	364,802	25,691	390,493
Goodwill	40,879	921	41,800	35,641	958	36,599
Additions to property, plant and equipment	5,619	279	5,898	389	582	971
Net increase in finite-life intangible assets	1,579	-	1,579	833	-	833
Amortization of property, plant and equipment	4,636	615	5,251	4,712	610	5,322

Geographic segments

	2010			2009		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 49,201	$ 33,993	$ 83,194	$ 54,867	$ 21,703	$ 76,570
Property plant and equipment, net	90,306	54,961	145,267	93,054	48,162	141,216
Finite-life intangible assets, net	11,014	4,537	15,551	6,687	4,405	11,092
Goodwill	17,535	24,265	41,800	17,534	19,065	36,599
Export sales (1)	$ 27,807			$ 32,924		

68% of the Company's sales (69% in 2009) were to U.S. customers.

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

HĒROUX DEVTEK

Note 16. Segmented information

Six months ended September 30
Activity segments

	2010			2009		
	Aerospace	Industrial	Total	Aerospace	Industrial	Total
Sales	$ 153,009	$ 12,726	$ 165,735	$ 146,094	$ 12,636	$ 158,730
Operating income	9,052	1,465	10,517	12,293	1,536	13,829
Financial expenses, net			2,233			2,333
Income before income tax expense and restructuring charges			8,284			11,496
Assets	396,863	22,212	419,075	364,802	25,691	390,493
Goodwill	40,879	921	41,800	35,641	958	36,599
Additions to property, plant and equipment	8,638	455	9,093	4,137	1,063	5,200
Net increase in finite-life intangible assets	3,729	-	3,729	1,378	-	1,378
Amortization of property, plant and equipment	9,384	1,242	10,626	9,083	1,289	10,372

Geographic segments

	2010			2009		
	Canada	U.S.	Total	Canada	U.S.	Total
Sales	$ 105,037	$ 60,698	$ 165,735	$ 110,413	$ 48,317	$ 158,730
Property plant and equipment, net	90,306	54,961	145,267	93,054	48,162	141,216
Finite-life intangible assets, net	11,014	4,537	15,551	6,687	4,405	11,092
Goodwill	17,535	24,265	41,800	17,534	19,065	36,599
Export sales (1)	$ 59,656			$ 64,256		

67% of the Company's sales (69% in 2009) were to U.S. customers.

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

Note 17. Reclassification

Comparative figures for the consolidated financial statements as at September 30, 2009 and March 31, 2010 have been reclassified to conform to the September 30, 2010 presentation.

Management Discussion and Analysis of Financial Position and Operating Results

The purpose of this management discussion and analysis ("MD&A") is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. ("Héroux-Devtek" or the "Company") changed between March 31, 2010 and September 30, 2010. It also compares the operating results and cash flows for the three- and six-month periods ended September 30, 2010 to those for the same periods in the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2010 and the related MD&A, both available on the Company's website at www.herouxdevtek.com, and with the unaudited interim consolidated financial statements to June 30, 2010 and September 30, 2010. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

Forward-Looking Statements

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

Such factors include, but are not limited to: the impact of worldwide general economic conditions and, in particular, 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 rate fluctuations; stock market volatility; and the impact of accounting policies issued by Canadian, US and international standard setters. Some of these factors are further discussed under Risks and Uncertainties in this MD&A. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

Overview

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

Héroux-Devtek serves two segments: Aerospace and Industrial. The Company supplies both the commercial and military sectors of the Aerospace segment with landing gear products (including spare parts and repair and overhaul services), and airframe structural components (including kits). In the commercial sector, the Company is active in the business jet, regional aircraft, helicopter and large commercial jet markets. On the military side, the Company provides parts and services for all major military aircraft, mainly in the United States.

Héroux-Devtek's main product for the Industrial segment is large components for power-generating equipment. It also sells precision components for other industrial applications such as the wind energy and heavy equipment industry markets.

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

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

RESULTS OF OPERATIONS

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

As previously disclosed in our June 30, 2010 unaudited interim consolidated financial statements, on April 28, 2010, the Company announced that it had concluded the acquisition, through a U.S. subsidiary of substantially all the net assets of U.S. based Eagle Tool & Machine Co ("Eagle") and of its subsidiary All Tool Inc ("E2"), two privately owned manufacturers of precision machined products mainly for the military aerospace industry, with annual sales of approximately $40 million based on their December 31, 2009, fiscal year-end (see note 3 to the interim consolidated financial statements).

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

Net assets acquired ($'000)		**Source of funds ($'000)**	
Working capital	$ 16,797	Credit Facilities	$ 16,711
Property, plant and equipment	8,498	Cash	12,102
Backlog	1,390	Promissory note, 5% repayable over 40 months	3,721
Goodwill	5,849		
	$ 32,534		**$ 32,534**

The Company drew, from its US Credit Facility, $16.7 million (US$16.5 million) and used $12.1 million of cash in the first quarter of fiscal 2011 to finance this transaction.

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

Foreign Exchange

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. Average rates are used to translate sales (but exclusive of forward foreign exchange contracts) and expenses for the years mentioned, while closing rates translate assets and liabilities.

	Quarter ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Average rates	1.0391	1.0974	1.0333	1.1323
Closing rates to September 30, 2010/March 31, 2010			1.0290	1.0158

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

The Company makes use of derivative financial instruments, in accordance with its hedging policy, to hedge foreign currency fluctuation exposure risks (Canadian dollar over U.S. dollar) in an effort to mitigate these risks. At September 30, 2010, the Company had US$151.1 million of forward foreign exchange contracts at a weighted-average of 1.1342 compared to US$149.9 million at 1.1388 at June 30, 2010. At March 31, 2010, the Company had forward foreign exchange contracts totalling US$150.0 million at a weighted-average exchange rate of 1.1436. These contracts will be maturing over the next five fiscal years, with the majority maturing over the next two fiscal years.

At September 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$9.3 million at a weighted-average rate of 1.2372 maturing over the next four fiscal years, to cover foreign exchange risks (Canadian dollar over U.S. dollar) related to certain embedded derivatives.

Consolidated Sales

As stated previously, the general economic climate, although more favourable, is still not improving the Company's sales volume. Total sales for the second quarter ended September 30, 2010 stood at $83.2 million, up from $76.6 million for the same period last year. Excluding the $13.5 million sales coming from the Eagle and E2 acquisition, consolidated sales were actually $6.9 million or 9.0% lower than last year for the second quarter, mainly as a result of lower repair and overhaul sales of $4.2 million and from the negative US/CAD currency impact of $2.6 million.

To date, consolidated sales totalled $165.7 million or 4.4% higher than last year's sales of $158.7 million. Excluding the $20.6 million sales of Eagle and E2 since the acquisition, consolidated sales were down by $13.6 million or 8.6%. For the first six months, the Canadian dollar, when compared to its US counterpart, had a $7.6 million or 4.8% unfavourable impact, when compared to the same period last year. The remaining difference is explained by lower military sales in the Aerospace segment.

The Company's sales by segment were as follows:

Segment	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Total Aerospace	76,967	70,911	6,056	8.5	153,009	146,094	6,915	4.7
Total Industrial	6,227	5,659	568	10.0	12,726	12,636	90	0.7
Total	**83,194**	**76,570**	**6,624**	**8.7**	**165,735**	**158,730**	**7,005**	**4.4**

This year's Aerospace sales, excluding the acquisition whose sales are included in the Aerospace segment, declined $7.4 million or 10.4% this quarter and $13.6 million or 9.3% year-to-date, compared to the same period last year essentially for the same reasons mentioned above.

Industrial sales marginally improved due to increased heavy equipment product sales.

Aerospace Segment

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

Product	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	53,581	47,375	6,206	13.1	107,855	95,493	12,362	12.9
Aerostructure	23,321	23,342	(21)	-	45,015	50,084	(5,069)	(10.1)
Other	65	194	(129)	(66.5)	139	517	(378)	(73.1)
Total	**76,967**	**70,911**	**6,056**	**8.5**	**153,009**	**146,094**	**6,915**	**4.7**

For the second quarter and for the first six-month period, this year's Landing Gear sales increased by 13.1% and 12.9% to $53.6 million and $107.9 million respectively, compared to last year, but were actually lower by 15.4% in the second quarter and 8.5% in the first six-month period, when excluding the sales of Eagle and E2. Year-to-date sales were impacted by reduced throughput and reduced customer requirements in repair and overhaul work this quarter, by the negative impact of currency exchange rates, and also by reduced engineering sales as related projects have been completed. However, and compared to last year, new business on the A-320, B-787 and Fokker commercial programs more than offset the reduction in sales in certain other large commercial programs, following production rate reductions from customers.

Second quarter sales for Aerostructure were comparable to last year. At year-to-date, the Aerostructure sales decreased 10.1% to $45.0 million, when compared to the same period last year, as a result of lower sales in the first quarter, explained by reduced F-16 aftermarket sales and F-22 sales, as well as reduced Joint Strike Fighter ("JSF") sales mostly driven by altered scheduling. The stronger Canadian dollar also had a negative impact on this product line's US denominated sales, when compared to last year. These negative variances were partially offset by increased F-18 sales as well as increased commercial business jet (Challenger 605 and 850) and regional jet/turboprops (Dash 8) sales.

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

Sector	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Military *(1)*	47,806	43,468	4,338	10.0	94,175	91,354	2,821	3.1
Commercial	29,161	27,443	1,718	6.3	58,834	54,740	4,094	7.5
Total Aerospace	**76,967**	**70,911**	**6,056**	**8.5**	**153,009**	**146,094**	**6,915**	**4.7**

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

Excluding the Eagle and E2 acquisition, military sales were 18.5% lower this quarter and 17.8% lower year-to-date than last year, while Commercial sales were 2.3% and 4.7% respectively higher for the same corresponding period last year. As mentioned above, new business on the A-320, B-787 and Fokker programs along with improved regional/turboprops and business jet sales boosted Commercial sales volume, while military sales were somewhat impacted by lower customer requirements and throughput in repair and overhaul work, reduced sales generated by the engineering programs, and by lower F-16, F-22 and JSF program sales, as explained above.

Industrial Segment

Sales for the Industrial segment were as follows:

Product	Quarters ended September 30				Six months ended September 30			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Gas Turbine	2,419	3,083	(664)	(21.5)	5,654	7,046	(1,392)	(19.8)
Other Industrial	3,808	2,576	1,232	47.8	7,072	5,590	1,482	26.5
Total	**6,227**	**5,659**	**568**	**10.0**	**12,726**	**12,636**	**90**	**0.7**

Second quarter sales for the Industrial segment were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry, while the Gas Turbine sector was still impacted by lower power generation demand. Overall, at year-to-date, our sales in the Industrial segment were comparable to last year, as reduced Gas Turbine sales were compensated by the increase in Other Industrial sales, for the same reasons mentioned above.

Sales by Destination

The Company's sales by destination were as follows:

Destination	Quarters ended September 30		Six months ended September 30	
	2010	**2009**	**2010**	**2009**
Canada	28%	30%	29%	29%
US	68%	69%	67%	69%
International	4%	1%	4%	2%
	100%	**100%**	**100%**	**100%**

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

Gross Profit

For the second quarter ended September 30, 2010, consolidated gross profit as a percentage of sales was 13.1%, down 2.2% from 15.3% last year and was 13.6%, down 2.2% from 15.8% last year on a year-to-date basis.

When excluding the impact of the Eagle and E2 acquisition, this year's gross profit as a percentage of sales would have been slightly higher by 0.4% for the quarter and 0.3% for the first six months.

This quarter and on a year-to-date basis, excluding the acquisition, gross profit in Landing Gear was essentially impacted by lower sales and by reduced throughput in repair and overhaul work, resulting in a higher under-absorption of manufacturing overhead costs, when compared to last year.

This quarter, the Aerostructure product line generated improved gross profit margin, compared to last year and the first quarter this year, due to a higher production volume in light of the upcoming increase in sales expected over the second semester of the current fiscal year, resulting in a better absorption of manufacturing overhead costs.

The Industrial product line improved its gross profit, compared to last year, for both this quarter and for the first six months. This is the result of the marginal increase in sales and the continued improvement in manufacturing efficiency experienced in this segment, when compared to last year.

For the quarter ended September 30, 2010, the Canadian dollar fluctuations relative to the US dollar had a minimal favourable impact on gross profit in dollars of $0.2 million or 0.6% on gross profit margin expressed as a percentage of sales, compared to the same corresponding period last year. However, for the first six months this year, the unfavourable impact of currency fluctuation on gross profit in dollars was $0.9 million, but represented a favourable impact of 0.1%, when expressed as a percentage of sales.

Besides the natural hedging from the purchase of raw materials in US dollars, the Company mitigates the currency impact by the use of forward foreign exchange contracts.

Selling and Administrative Expenses

Selling and administrative expenses were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Selling and administrative expenses ($'000)	5,932	5,376	11,956	11,244
% of sales	7.1	7.0	7.2	7.1

Selling and administrative expenses were $5.9 million or 7.1% of sales and $12.0 million or 7.2% of sales respectively for the quarter and for the six-month period ended September 30, 2010. The increase in selling and administrative expenses is mainly attributable to the impact from the acquisition of Eagle and E2. Effectively, as a percentage of sales, selling and administrative expenses are comparable to last year. This quarter, selling and administrative expenses include a loss on currency translation on net monetary assets of $0.3 million compared to a $0.7 million loss last year. At year-to-date, the loss on currency translation on net monetary assets was $0.4 million, compared to a $1.0 million loss last year.

Operating Income

Consolidated operating income stood at $4.9 million or 5.9% of consolidated sales for the quarter ended September 30, 2010, and was $1.4 million lower than the $6.3 million or 8.3% operating income for the same period last year. Year-to-date, operating income was $10.5 million or 6.3% of consolidated sales compared to $13.8 million or 8.7% for the same period last year. The lower operating income this year, compared to last year, is essentially explained by the lower gross profit, as mentioned above.

Aerospace Segment

Aerospace operating income was $4.1 million or 5.4% of sales this year, compared to $5.6 million or 7.9% of sales last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $3.3 million or 5.2% of sales for the quarter ended September 30, 2010.

For the six-month period ended September 30, 2010, the Aerospace segment operating income stood at $9.1 million or 5.9% of sales, compared to $12.3 million or 8.4% last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $7.8 million or 5.9% of sales for the six-month period ended September 30, 2010.

This quarter and at year-to-date, the reduction in operating income in this segment essentially reflects the impact on gross profit as explained above.

Industrial Segment

This quarter, operating income slightly increased to $0.8 million or 12.7% of sales this year from $0.7 million or 13.1% of sales last year, reflecting the 10.0% sales increase in this segment. At year-to-date, operating income stood at $1.5 million this year and last year, in line with basically the same comparable sales level in this segment.

Financial Expenses

Financial expenses for the quarter stood at $1.2 million and $2.2 million for the first six-month period ended September 30, 2010. This compares to $1.2 million and $2.3 million respectively, for the same period last year. The year-to-date financial expenses this year, when compared to last year, reflect the impact from the increased drawings against the Company’s Credit Facilities to finance the acquisition of Eagle and E2. This factor was more than offset by the impact from the lower Canadian versus US dollar on the Company’s financial expenses on debt in US dollars and from the lower capital lease debt bearing higher interest rates.

Restructuring Charges

On May 13, 2010, the Company announced that it was launching initiatives to optimize and consolidate production capacity in its Aerospace segment, while further enhancing productivity at its Québec-based facilities. Consequently, the Company’s Rivière-des-Prairies, Québec, facility was closed in September 2010 and its production was transferred to the Company’s other facilities in the Greater Montreal area. During the three- and six-month periods ended September 30, 2010, the Company recorded restructuring charges of $0.3 million ($0.2 million, net of income taxes) and $0.6 million ($0.4 million, net of income taxes) respectively, and does not expect any significant additional restructuring charges. Effectively, this restructuring initiative was properly planned and executed, which resulted in lower than expected restructuring charges initially estimated at $0.8 million, net of income taxes.

Income Tax Expense

The Company had an income tax expense of $1.0 million for the quarter ended September 30, 2010, compared to an expense of $1.7 million last year. At year-to-date, the Company posted an income tax expense of $1.9 million for the first six months this year, compared to an expense of $3.4 million for the same period last year.

The Company’s effective income tax rate for the six-month period ended September 30, 2010 was 25.0% compared to its Canadian blended statutory rate of 28.3%. The difference can be explained by the favourable impact on the Company’s effective income tax rate coming from permanent differences ($0.3 million) and by a favourable tax adjustment following the conclusion of a prior year tax audit ($0.2 million), somewhat offset by the negative impacts of a higher US income tax rate for the Company's US subsidiaries ($0.1 million) and changes in the Canadian income tax rate ($0.1 million).

For the six-month period ended September 30, 2009, the Company's effective income tax rate was 29.9%, compared to its Canadian blended statutory rate of 31.1%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.4 million) but offset mainly by the negative impact of a higher US income tax rate for the Company's US subsidiaries.

Net Income

For the three- and six-month periods ended September 30, 2010, the Company posted net income of $2.6 million and $5.7 million respectively, compared to net income of $3.5 million and $8.1 million for the same periods last year. This essentially reflects the decrease in operating income from the Company's Aerospace segment and the restructuring charges, as explained above.

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
Net income ($'000)	2,556	3,518	5,739	8,060
Earnings per share – basic ($)	0.09	0.11	0.19	0.26
Earnings per share – diluted ($)	0.08	0.11	0.19	0.26

Basic earnings per share figures are based on year-to-date weighted-averages of 30,121,872 common shares outstanding for the six-month period ended September 30, 2010, and 30,795,183 common shares for the same period last year. The diluted earnings per share figures are based on year-to-date weighted-averages of 30,353,077 for the three-month period this year and 30,816,711 for the same period last year. The reduction in the average number of shares is mainly attributable to the normal course issuer bids (NCIB) launched by the Company in November 2008 and November 2009 (see Normal Course Issuer Bid section).

On October 28, 2010, the date of this MD&A, the Company had 30,069,181 common shares and 1,481,000 stock options outstanding with a weighted-average of 4.0 years to maturity.

LIQUIDITY AND CAPITAL RESOURCES

In general terms, the Company has a healthy financial situation and is well positioned to face its financing needs. The Company has Senior Secured Syndicated Revolving Credit Facilities ("Credit Facilities") through a syndicate of four Canadian Banks and their US affiliates or branches. These Credit Facilities can extend up to $125 million, either in Canadian or US currency equivalent. To September 30, 2010, only $61.2 million (US$59.5 million) had been drawn against these Credit Facilities, including US$16.5 million in April 2010 to finance the acquisition described earlier. These Credit Facilities will mature in October 2011. The Company's Management is working on the renewal of these Credit Facilities. Considering the Company's cash and cash equivalent position, its available Credit Facilities and level of expected capital investments, Company Management does not expect any liquidity risk in the foreseeable future. At September 30, 2010, the Company had cash and cash equivalents of $29.4 million, compared to $46.6 million as at March 31, 2010, of which $16.3 million ($32.4 million as at March 31, 2010) had been invested in short-term deposits. It is worth mentioning that the Company also utilized approximately $12 million of its cash to finance the Eagle and E2 acquisition in the first quarter of this year.

Operating Activities

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

	Quarters ended September 30		Six months ended September 30	
	2010	2009	2010	2009
	($'000)	($'000)	($'000)	($'000)
Cash flows from operations	8,978	11,657	19,245	23,487
Net change in non-cash working capital items related to operations	(702)	364	(9,302)	(25,080)
Cash flows relating to operating activities	8,276	12,021	9,943	(1,593)

For the three- and six-month periods ended September 30, 2010, the decrease of $2.7 million and $4.2 million in cash flows from operations, compared to last year, mainly resulted this quarter from the reduction in net income of $1.0 million ($2.3 million year-to-date) and the variation in future income tax expense of $2.6 million ($3.5 million year-to-date), partially offset by the increase in amortization expense of $0.5 million ($1.1 million year-to-date).

For the six months ended September 30, 2009, the $25.1 million outflow of non-cash related items can be explained mainly by the lower accounts payable and accrued liabilities ($19.5 million) when compared with March 31, 2009, and the lower income tax payable ($3.1 million) following the payment of income taxes from the prior year. It also reflects the negative net impact on working capital items coming from the currency conversion ($4.3 million) of self-sustaining US subsidiaries somewhat offset by the favourable impact of the lower accounts receivable ($9.2 million), in line with the sales volume and lower Canadian/US currency rate for Canadian operations.

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

	Quarters ended September 30		Six months ended September 30	
	2010	**2009**	**2010**	**2009**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Accounts payable, accrued liabilities and other liabilities, mainly in line with the reduction in the number of days in payables	1,174	(5,544)	(7,786)	(22,145)
Accounts receivable – in line with the increase in sales in 2010 and lower business activity in 2009	(2,200)	2,900	(1,725)	9,216
Effect of exchange rate on working capital items, for the US subsidiaries	(2,155)	(1,952)	(453)	(4,312)
Inventory decrease (increase)	513	6,014	(506)	(1,293)
Payment of income taxes, for 2009	93	(255)	312	(3,110)
All others	1,873	(799)	856	(3,436)
	(702)	**364**	**(9,302)**	**(25,080)**

Investing Activities

The Company's investing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010 ($'000)	**2009 ($'000)**	**2010 ($'000)**	**2009 ($'000)**
Additions to property, plant and equipment	(5,898)	(971)	(9,093)	(5,200)
Net increase in finite-life intangible assets	(1,579)	(833)	(3,729)	(1,378)
Proceeds on disposal of property, plant and equipment	45	7	70	9
Business acquisition	-	-	(28,813)	-
Cash flows relating to investing activities	**(7,432)**	**(1,797)**	**(41,565)**	**(6,569)**

This quarter, additions to property, plant and equipment totalled $5.9 million, compared to $1.0 million last year, and was $9.1 million, compared to $5.2 million last year, for the first six months ended September 30, 2010. The year-to-date additions include the costs associated to the JSF building extension at the Company's Arlington, Texas plant.

The net increase in finite intangible assets of $1.6 million this quarter and $3.7 million year-to-date represents mainly the increase in capitalized development costs for the Aerospace segment long-tem contracts.

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

Capital expenditures for fiscal 2011 are expected to be about $31 million including normal maintenance projects and the extension of the facility dedicated to the JSF program. This amount also includes certain capital investments required following the acquisition concluded on April 28, 2010 of Eagle and E2.

Financing Activities

The Company's financing activities were as follows:

	Quarters ended September 30		Six months ended September 30	
	2010 ($'000)	2009 ($'000)	2010 ($'000)	2009 ($'000)
Increase in long-term debt	1,309	5,663	18,875	5,663
Repayment of long-term debt	(939)	(1,165)	(2,559)	(2,999)
Repurchase of common shares	(330)	(1,042)	(3,498)	(2,879)
Issuance of common shares	688	79	917	159
Cash flows relating to financing activities	**728**	**3,535**	**13,735**	**(56)**

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

The year-to-date repayment of long-term debt of $2.6 million ($3.0 million last year) is mainly for capital leases and governmental authorities' loans, those being essentially for the financing of capital expenditures. It also includes the scheduled repayments of the promissory note, following the acquisition of Eagle and E2.

During the three- and six-month periods ended September 30, 2010, the Company issued 15,771 and 32,956 common shares under its stock purchase and ownership incentive plan for a cash consideration of $82,949 and $169,611, respectively. During the same periods, the Company repurchased 59,100 and 605,100 common shares under the normal course issuer bid, launched in

November 2009 ("NCIB" - see Normal Course Issuer Bid below and Note 12 to the interim consolidated financial statements) for a total cash consideration of $0.3 million and $3.5 million respectively. For the three- and six-month periods ended September 30, 2010, the Company also issued 122,221 and 157,221 common shares, respectively, following the exercise of stock options.

During the three- and six-month periods ended September 30, 2009, the Company redeemed 239,400 and 646,400 common shares under the normal course issuer bid launched in November 2008 at an average price of $4.35 and $4.45, respectively.

At September 30, 2010, the Company was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants over the next twelve months.

Normal Course Issuer Bid

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

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

To September 30, 2010, the Company had repurchased 698,500 common shares at an average net price of $5.69 per share for a total of $4.0 million (see Note 12 to the interim consolidated financial statements).

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

At September 30, 2010, the Company had 30,070,552 common shares outstanding (30,485,475 as at March 31, 2010).

During the three-month period ended September 30, 2010, the Company issued 15,771 common shares at a weighted-average price of $5.26 for a total cash consideration of $82,949, under the Company's stock purchase plan. Year-to-date, 32,956 common shares were issued at a weighted-average price of $5.15 for a total cash consideration of $169,611.

This quarter, the Company also issued 122,221 common shares pursuant to the exercise of stock options at an average price of $4.95 for a total cash consideration of $604,516. At year-to-date, the Company issued 157,221 common shares pursuant to the exercise of stock options at an average price of $4.75 for a total cash consideration of $746,516.

During the three- and six-month periods ended September 30, 2010, 27,000 and 55,000 stock options, respectively, were cancelled.

At September 30, 2010, 1,481,000 stock options were issued and outstanding with a weighted-average of 4.0 years to maturity and a weighted-average exercise price of $5.91 (see Note 12 to the interim consolidated financial statements), but will expire over the next six years.

Consolidated Balance Sheets

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

Item	Change ($ million)	Explanation
Cash and cash equivalents	(17.2)	See consolidated statements of cash flows. As already mentioned, the Company utilized $12.1 million from its cash to finance the Eagle and E2 acquisition.
Accounts receivable	7.1	Increase comes mainly from the inclusion in the consolidated figures of the acquisition made in the first quarter ($5.4 million) and the impact of the weakening of the Canadian dollar compared to March 31, 2010, on US-denominated accounts receivable ($0.5 million).
Inventories	18.6	This increase includes the impact from the acquisition ($18.1 million) and from the weaker Canadian dollar on the Company's US self-sustaining subsidiaries ($0.5 million).
Derivative financial instruments (short-term assets)	0.5	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.
Property, plant and equipment, net	7.6	Due to: • Acquisition of Eagle and E2 ($8.5 million); • Purchases of capital assets ($9.1 million); • A higher US/CAD exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.6 million). Net of: • Amortization expense ($10.6 million).

Item	Change ($ million)	Explanation
Finite-life intangible assets, net (includes a $4.4 million net backlog)	3.9	Mainly due to: • An increase in finite-life intangible assets ($3.7 million), representing essentially the increase in capitalized development costs for Aerospace long-term contracts; • Backlog associated to the acquisition of Eagle and E2 ($1.4 million); Net of: - Amortization expense on the underlying value of the backlog ($0.7 million). - Amortization of the other finite-life intangible assets ($0.5 million).
Goodwill	6.2	Includes $5.8 million of goodwill associated to the acquisition made in the first quarter of the current fiscal year. It also represents the higher US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining US subsidiaries.
Derivative financial instruments (long-term assets)	(3.7)	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	2.3	Includes $7.4 million coming from the Eagle and E2 acquisition and the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which increased accounts payable and accrued liabilities by $0.4 million. These increases were partially offset by the lower payables, in line with the lower inventory purchases compared to the fourth quarter ended March 31, 2010 and the reduction in number of days in payables.

Item	Change ($ million)	Explanation
Long-term debt (including current portion)	20.9	Due to: • Drawing of US$16.5 million against the Company's US Credit facility to finance the Eagle and E2 acquisition ($17.6 million); • Promissory note, following the acquisition, repayable to the seller ($3.7 million); • Governmental authorities loan received in the second quarter to support development program investments ($1.3 million) • Interest accretion on governmental authorities loans ($0.6 million); • A higher US/CAD exchange rate used to convert the long-term debt of self-sustaining US subsidiaries ($0.3 million); Net of: • Capital repayment of long-term debt ($2.6 million).
Capital stock	(1.0)	Represents the common shares issued under the Company's stock purchase and ownership plan and following the exercise of stock options ($0.9 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($1.9 million).
Retained earnings	4.2	See consolidated statements of changes in shareholders' equity.

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

	September 30, 2010	March 31, 2010
Working capital ratio	2.73:1	2.66:1
Cash and cash equivalents	$29.4 million	$46.6 million
Long-term debt-to-equity ratio	0.44:1	0.35:1
Net debt-to-equity ratio[(1)]	0.33:1	0.16:1

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

Government assistance

During the second quarter ended September 30, 2010, the Company recorded as a reduction of cost of sales an amount of $0.4 million ($1.1 million in the second quarter of last year), and as a reduction of the related capital expenditures or development costs an amount of $1.0 million ($0.5 million last year) for government assistance. Year-to-date, the Company recorded $1.0 million ($2.4 million last year) as a reduction of cost of sales and $1.5 million ($0.7 million last year) as a reduction of the related capital expenditures or development costs for government assistance.

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

Derivatives, Off-Balance-Sheet Items and Commitments

The Company had entered into operating leases amounting to $7.8 million as at September 30, 2010, mainly for machinery and equipment. All these amounts are repayable over the next seven years. At September 30, 2010, the Company also had building, machinery and equipment purchase commitments totalling $4.5 million.

At September 30, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$151.1 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.1342. These contracts relate mainly to its export sales, and mature at various dates between October 2010 and March 2015 but mainly over the next two fiscal years (US$150.0 million at a weighted-average rate of 1.1436 at March 31, 2010, and US$166.4 million at a weighted-average rate of 1.1427 at September 30, 2009).

At September 30, 2010, the Company had also entered into forward foreign exchange contracts totalling US$9.3 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2372

($US11.3 million at a weighted-average rate of 1.2396 at both March 31, 2010 and September 30, 2009) maturing over the next four fiscal years, to cover foreign exchange risk related to certain embedded derivatives.

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

Impact of Financial and Economic Situation

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

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

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

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

International Financial Reporting Standards (IFRS)

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

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

There have been no significant changes to our IFRS changeover plan and our project is progressing according to plan. There has been no significant modification in key differences in accounting treatment and potential key impacts as assessed in our Annual Report for fiscal year 2010.

At September 30, 2010, based on the Company's non-exhaustive preliminary assessment of the main differences that may have some impact on its consolidated financial statements, following the change from Canadian GAAP to IFRS, the Company's management estimated the potential effect to represent a negative impact of about 3% on the Company's consolidated equity as at April 1, 2010 and, a favourable but marginal impact on the Company's consolidated net income and EBITDA for the first six months of the current fiscal year.

However, these impacts from the transition from Canadian GAAP to IFRS could change, as a result of changes to international standards currently in development, or in light of new information or other internal or external factors that could arise from now until this changeover has been completed.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

INTERNAL CONTROLS AND PROCEDURES

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

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

RISKS AND UNCERTAINTIES

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

- Reliance on large customers
- Availability and cost of raw materials
- Operational risks
- Impact of terrorist activity
- General economic conditions
- Military spending
- Foreign currency fluctuations
- Liquidity and access to capital resources
- Restrictive debt covenants
- Changing interest rates
- External business environment
- Warranty casualty claim losses
- Environmental matters
- Collective bargaining agreements
- Skilled labour

Outlook

Conditions continue to improve in the commercial aerospace market. In the large commercial aircraft market, Boeing and Airbus have announced production rate increases for calendar 2011, 2012 and 2013[1] on leading programs and new orders have increased substantially in the first nine months of calendar 2010. The business jet market appears to have bottomed out and the industry is seeing positive signs, as fewer aircraft are for sale and hours flown have increased [2].

The military aerospace market, while still healthy, is stabilizing as governments address their deficits. As to the JSF program, the ramp-up continues, albeit at a slightly more moderate pace over the near term. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

The North American power generation industry appears to have bottomed out, as leading

(1) Sources : Boeing press releases Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases July 30, 2010; March 9, 2010.

(2) Sources : Bombardier Business Aircraft Market Forecast 2010-2029, JETNET, FAA, Eurocontrol.

equipment manufacturers have reported rising new orders. While no significant recovery is expected in the short-term, renewable energy sources, including wind, still hold considerable potential over the mid-term.

Capital expenditures for fiscal 2011 are expected to be about $31 million including normal maintenance projects and the extension of the facility, and purchase of equipment, dedicated for the JSF program in Texas. This amount includes any capital investments that could be required in regards to the acquisition concluded on April 28, 2010 of Eagle and E2.

As at September 30, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $574 million, including the backlog of Eagle and E2, up from $545 million three months ago, and remains well diversified. Despite this solid backlog and strong customer relationships, the Company must seek further productivity gains and continue to streamline its cost base to remain globally competitive in light of the volatility of the Canadian dollar and the uncertainty surrounding its continuous fluctuation versus the US currency.

The integration of Eagle and E2 remains a main priority for Héroux-Devtek in fiscal 2011 and the Company is expecting an accretion to earnings per share of up to 10% in the first year. The Company also anticipates a stronger second half for fiscal 2011 with sales being 15% to 20% higher when compared with the first half of the year, given the acquisition and assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on October 28, 2010. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.