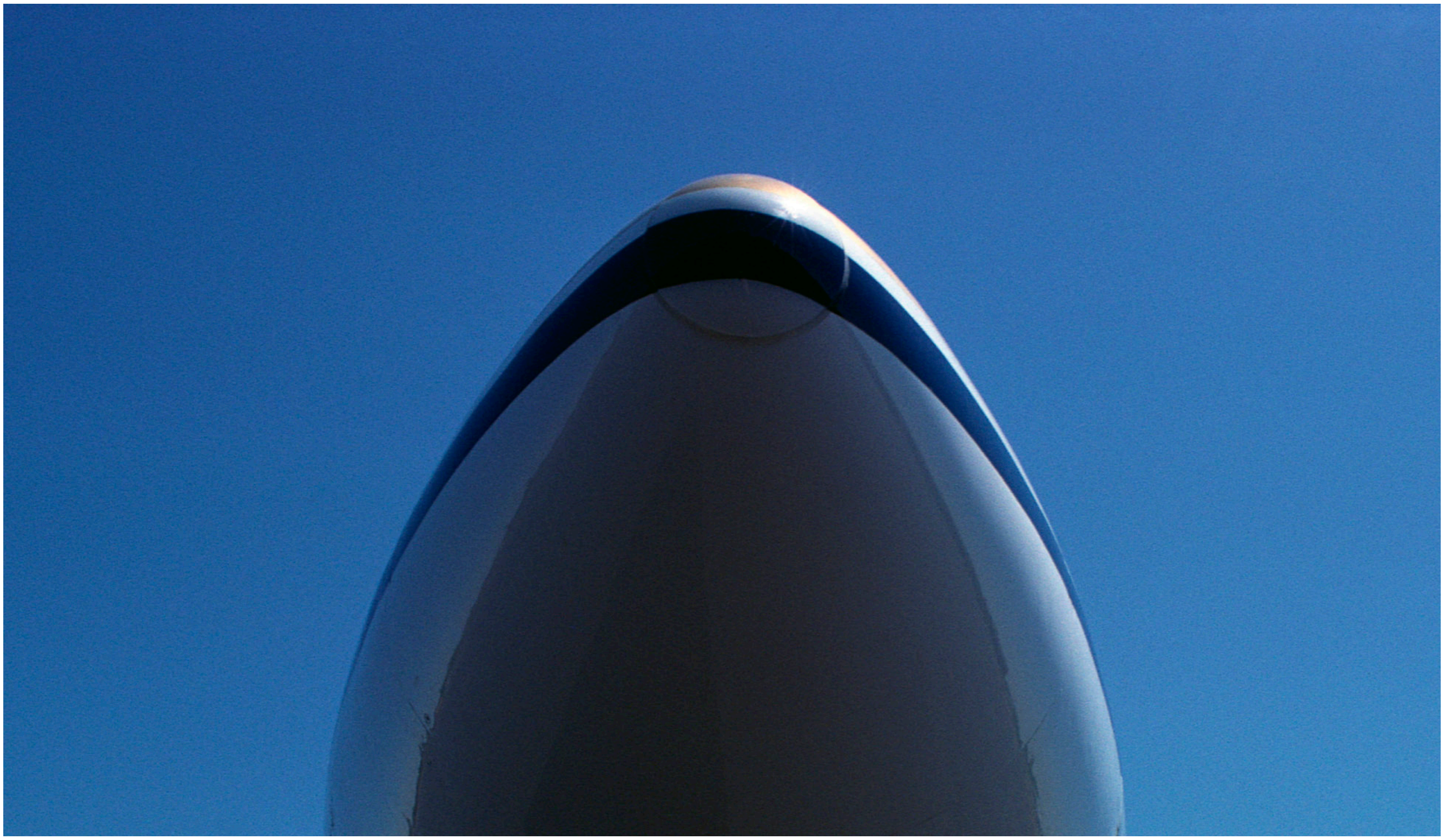

ON STRONGER GROUND

HÉROUX-DEVTEK QUARTERLY REPORT
THIRD QUARTER ENDED December 31, 2010

MESSAGE TO SHAREHOLDERS
Third quarter ended December 31, 2010

On behalf of the Board of Directors, I am pleased to present the financial results for Héroux-Devtek's third quarter ended December 31, 2010.

Improved conditions in the commercial aerospace and industrial markets had a favourable impact on third-quarter results, which more than offset lower military sales, excluding our recent acquisition, mainly in the Landing Gear product line. The resurgence in commercial aerospace is broad based, as we recorded higher sales in the business jet and commercial helicopter markets. More importantly, this greater business activity and further efficiency gains yielded better profit margins. Our newly-acquired U.S. Landing Gear operations also performed well and remain on track to achieve the financial objectives we had set out.

Consolidated sales for the third quarter were $85.8 million, an increase of 12.0% over sales of $76.7 million for the same period last year. Excluding an $11.7 million sales contribution from Eagle Tool & Machine Co. ("Eagle") and of its subsidiary All Tools, Inc. ("E2"), acquired on April 28, 2010, sales declined slightly mainly due to longer-than-anticipated product introduction for certain landing gear military manufacturing contracts and unfavourable currency impact, partially offset by higher Industrial sales. Aerospace sales reached $79.5 million in the third quarter of fiscal 2011, up 9.4% from $72.6 million a year earlier. Sales of the Landing Gear product line increased 14.8% to $55.4 million, reflecting the contribution of Eagle and E2. Excluding the acquisition, sales decreased 9.4% due to the aforementioned longer product introduction and currency impact that more than offset new business on the A-320, B-787 and Fokker programs. Aerostructure product sales remained essentially stable at $23.9 million, as reduced JSF sales, resulting from a different sales mix, and unfavourable currency fluctuations, were offset by the ramp-up of the Bell 429 commercial helicopter program and increased business jet sales. Industrial sales rose to $6.4 million in the third quarter of fiscal 2011, up significantly from $4.1 million a year earlier. This increase reflects solid demand for heavy equipment from the mining industry and, to a lesser extent, a modest recovery in demand for industrial gas turbine components.

Fluctuations in the value of the Canadian dollar versus the US currency decreased third quarter sales by $1.4 million compared with last year, but had a minimal impact on gross profit given the Company's hedging policy. 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") grew 21.5% to $14.2 million, or 16.5% of sales, compared with $11.7 million, or 15.2% of sales, last year. This improvement essentially reflects higher repair and overhaul throughput, greater profitability for the Industrial segment due to a higher absorption of manufacturing overhead costs and further efficiency gains. Operating income stood at $8.5 million, or 9.9% of sales, compared with $6.1 million, or 7.9% of sales, last year. Net income reached $5.1 million, or $0.17 per share, fully diluted, compared with net income of $3.5 million, or $0.12 per share, fully diluted, a year ago.

For the first nine months of fiscal 2011, consolidated sales reached $251.6 million, including a $32.3 million contribution from Eagle and E2, up from $235.4 million in fiscal 2010. Aerospace sales rose 6.3% to $232.5 million, while Industrial sales grew 14.5% to $19.1 million. EBITDA was $36.5 million, or 14.5% of sales, excluding restructuring charges of $637,000 due to the closure of the Rivière-des-Prairies facility during the second quarter, versus $36.2 million, or 15.4% of sales, a year earlier. Operating income stood at $19.0 million, or 7.5% of sales, compared with $19.9 million, or 8.4% of sales, last year. Net income totalled $10.8 million, or $0.36 per share, fully diluted, versus $11.6 million, or $0.38 per share, fully diluted, in the prior year. Restructuring charges, net of income taxes, reduced net income by $0.02 per share in the first nine months of fiscal 2011.

As at December 31, 2010, Héroux-Devtek's funded (firm orders) backlog was $586 million, up from $574 million three months ago and $423 million at the beginning of the fiscal year, excluding the backlog of Eagle and E2 at the time. The backlog also remains well diversified.

During the third quarter, French aircraft manufacturer Dassault Aviation awarded the Landing Gear product line operations a contract to provide the landing gear for a new business jet program. Under the terms of the long-term agreement, Héroux-Devtek will design, develop, fabricate, assemble, qualify and participate in the certification of the landing gear and actuation system for the new aircraft. This life-cycle mandate also includes the provision of spare parts.

Subsequent to the end of the third quarter, an agreement in principle was reached with a syndicate of banks to renew and increase the Company's Credit Facilities from $125 million to $150 million, on a secured basis, for a period of 5 years. Management anticipates closing this transaction successfully before the end of the current fiscal year as at March 31, 2011. Existing Credit Facilities mature on October 4, 2011.

Conditions are further improving in the commercial aerospace market. In the large commercial aircraft segment, production rate increases on leading programs are scheduled for calendars 2011, 2012 and 2013, new orders increased significantly in calendar 2010 and both Boeing and Airbus are forecasting higher deliveries for calendar 2011. The business jet market is seeing positive signs, such as greater aircraft utilization and fewer used aircraft for sale, but a significant recovery in build rates is not expected until calendar 2012. The military aerospace market is stabilizing as governments address their deficits. As to the JSF program, the U.S. government has put the short take-off and vertical landing (STOVL) variant on a two-year probation period, but the ramp-up of other variants 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. Finally, the North American power generation industry appears to have bottomed out, as leading equipment manufacturers continue to report rising new orders.

Over the next quarters, Héroux-Devtek is poised to benefit from scheduled production rate increases on key large commercial aircraft programs. The ramp-up of other strategic commercial aerospace programs in which we are actively involved should also strongly contribute to our results going forward. However, the two-year probation on the STOVL variant of the JSF should result in the production of a slightly lower number of shipsets for Héroux-Devtek in fiscal 2012, compared to fiscal 2011. Nonetheless, as the fourth quarter has historically been a strong period, we continue to anticipate our fiscal 2011 second-half sales to be approximately 15% higher than in the first half, given the acquisition and assuming no major change in the average exchange rate.

Gilles Labbé
President and Chief Executive Officer
February 4, 2011

Héroux-Devtek Inc.

Notice of Disclosure of Non-Auditor Review of Interim Financial Statements for the quarters ended December 31, 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 December 31, 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 4th day of February, 2011.

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

	Notes	December 2010	March 2010
Assets	3, 10		
Current assets			
Cash and cash equivalents		$ 40,290	$ 46,591
Accounts receivable		37,672	39,085
Income tax receivable		1,774	1,349
Other receivables	7, 15	12,612	11,174
Inventories	8	105,644	84,408
Prepaid expenses		2,596	2,151
Future income taxes		6,014	5,124
Derivative financial instruments – forward foreign exchange contracts		8,928	7,568
		215,530	197,450
Property, plant and equipment, net	5	142,666	137,670
Finite-life intangible assets, net	5	17,253	11,698
Derivative financial instruments – forward foreign exchange contracts		10,087	12,408
Goodwill		41,018	35,621
		$ 426,554	$ 394,847
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		$ 62,949	$ 58,069
Accounts payable – other	9	2,929	4,591
Income tax payable		762	138
Future income taxes		5,881	7,161
Current portion of long-term debt	10	5,279	4,250
		77,800	74,209
Long-term debt	10	96,817	76,807
Other liabilities	11	9,336	10,948
Future income taxes		18,253	15,791
		202,206	177,755
Shareholders' equity			
Capital stock	12	99,663	100,641
Contributed surplus	12	1,896	1,615
Accumulated other comprehensive (loss)		(5,877)	(4,618)
Retained earnings		128,666	119,454
		224,348	217,092
		$ 426,554	$ 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 December 31, 2010 and 2009
(In thousands of Canadian dollars, except share and per share data) (Unaudited)

	Notes	Quarters ended December 31 2010	Quarters ended December 31 2009	Nine months ended December 31 2010	Nine months ended December 31 2009
	3				
Sales		$ 85,843	$ 76,659	$ 251,578	$ 235,389
Cost of sales, including amortization expense	5, 8	70,798	64,776	214,060	198,433
Gross profit		15,045	11,883	37,518	36,956
Selling and administrative expenses	12	6,586	5,822	18,542	17,066
Operating income		8,459	6,061	18,976	19,890
Financial expenses, net	10	1,300	1,187	3,533	3,520
Income before income tax expense and restructuring charges		7,159	4,874	15,443	16,370
Restructuring charges	6	-	-	637	-
Income before income tax expense		7,159	4,874	14,806	16,370
Income tax expense		2,095	1,336	4,003	4,772
Net income		$ 5,064	$ 3,538	$ 10,803	$ 11,598
Earnings per share – basic		$ 0.17	$ 0.12	$ 0.36	$ 0.38
Earnings per share – diluted		$ 0.17	$ 0.12	$ 0.36	$ 0.38
Weighted-average number of shares outstanding during the periods		30,070,815	30,552,388	30,104,849	30,714,152

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the periods ended December 31, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

For the quarter ended December 31, 2010

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at September 30, 2010		$99,621	$1,847	$(5,849)	$123,632	$ -
Common shares:	12					
Issued under the stock purchase and ownership incentive plan		84	-	-	-	-
Repurchased under the Company's normal course issuer bid		(42)	-	-	(30)	-
Stock-based compensation expense	12	-	49	-	-	-
Net income		-	-	-	5,064	5,064
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $1,497		-	-	4,442	-	4,442
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 $659		-	-	(1,815)	-	(1,815)
Cumulative translation adjustment		-	-	(2,655)	-	(2,655)
Balance at December 31, 2010		$99,663	$1,896	$(5,877)	$128,666	$5,036

For the nine-month period ended December 31, 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		254	-	-	-	-
Repurchased under the Company's normal course issuer bid		(1,979)	-	-	(1,591)	-
Stock-based compensation expense	12	-	281	-	-	-
Net income		-	-	-	10,803	10,803
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $1,515		-	-	4,583	-	4,583
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 $1,594		-	-	(4,389)	-	(4,389)
Cumulative translation adjustment		-	-	(1,453)	-	(1,453)
Balance at December 31, 2010		$99,663	$1,896	$(5,877)	$128,666	$9,544

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (CONTINUED)
For the periods ended December 31, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

For the quarter ended December 31, 2009

	Notes	Capital stock	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Comprehensive income (loss)
Balance at September 30, 2009		$100,856	$1,382	$(5,833)	$111,724	$ -
Common shares:	12					
Issued under the stock purchase and ownership incentive plan		81	-	-	-	-
Repurchased under the Company's normal course issuer bid		(246)	-	-	(141)	-
Stock-based compensation expense	12	-	117	-	-	-
Net income		-	-	-	3,538	3,538
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $381		-	-	909	-	909
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $110		-	-	259	-	259
Cumulative translation adjustment		-	-	(985)	-	(985)
Balance at December 31, 2009		$100,691	$1,499	$(5,650)	$115,121	$3,721

For the nine-month period ended December 31, 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		240	-	-	-	-
Repurchased under the Company's normal course issuer bid		(2,371)	-	-	(895)	-
Stock-based compensation expense	12	-	124	-	-	-
Net income		-	-	-	11,598	11,598
Net gains (losses) on derivative financial instruments designated as cash flow hedges, net of taxes of $7,713		-	-	18,224	-	18,224
Net (gains) losses on derivative financial instruments designated as cash flow hedges in prior years transferred to net income in the current period, net of taxes of $997		-	-	2,300	-	2,300
Cumulative translation adjustment		-	-	(14,050)	-	(14,050)
Balance at December 31, 2009		$100,691	$1,499	$(5,650)	$115,121	$18,072

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the periods ended December 31, 2010 and 2009
(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended December 31 2010	Quarters ended December 31 2009	Nine months ended December 31 2010	Nine months ended December 31 2009
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 5,064	$ 3,538	$ 10,803	$ 11,598
Items not requiring an outlay of cash:					
Amortization		5,745	5,624	17,489	16,279
Future income taxes		1,239	506	1,850	4,573
Loss (gain) on sale of property, plant and equipment		229	(2)	306	23
Amortization of deferred financing costs	10	42	42	126	126
Accretion expense on asset retirement obligations and governmental authorities loans	10	405	304	1,163	894
Stock-based compensation expense	12	49	117	281	124
Cash flows from operations		12,773	10,129	32,018	33,617
Net change in non-cash working capital items related to operations	14	4,286	2,455	(5,016)	(22,625)
Cash flows related to operating activities		17,059	12,584	27,002	10,992
Investing activities					
Additions to property, plant and equipment	5	(4,731)	(2,034)	(13,824)	(7,234)
Net increase in finite-life intangible assets	5	(2,393)	(808)	(6,122)	(2,186)
Proceeds on disposal of property, plant and equipment		71	15	141	24
Business acquisition	3	-	-	(28,813)	-
Cash flows related to investing activities		(7,053)	(2,827)	(48,618)	(9,396)
Financing activities					
Increase in long-term debt	3	3,041	856	21,916	6,519
Repayment of long-term debt		(940)	(5,645)	(3,499)	(8,644)
Repurchase of common shares	12	(72)	(387)	(3,570)	(3,266)
Issuance of common shares	12	84	81	1,001	240
Cash flows related to financing activities		2,113	(5,095)	15,848	(5,151)
Effect of changes in exchange rates on cash and cash equivalents		(1,196)	(1,685)	(533)	(6,015)
Change in cash and cash equivalents during the periods		10,923	2,977	(6,301)	(9,570)
Cash and cash equivalents at beginning of periods		29,367	27,212	46,591	39,759
Cash and cash equivalents at end of periods		$ 40,290	$ 30,189	$ 40,290	$ 30,189
Supplemental information:					
Interest paid		$ 663	$ 622	$ 2,062	$ 2,200
Income taxes paid (recovered)		$ (450)	$ 155	$ 406	$ 4,199

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

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
For the periods ended December 31, 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.

HÉROUX DEVTEK

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:

	December 31, 2010 Carrying value				Fair Value	March 31, 2010 Carrying value				Fair Value
	HFT	L&R	Hedging items	Total (1)		HFT	L&R	Hedging items	Total (1)	
Financial assets										
Cash and cash equivalents	$40,290	$ -	$ -	$40,290	$40,290	$46,591	$ -	$ -	$46,591	$46,591
Accounts receivable(2)	-	37,672	-	37,672	37,672	-	39,085	-	39,085	39,085
Other receivables(3)	-	670	-	670	670	-	540	-	540	540
Derivative financial instruments – forward foreign exchange contracts	-	-	19,015	19,015	19,015	-	-	19,976	19,976	19,976
	$40,290	$38,342	$19,015	$97,647	$97,647	$46,591	$39,625	$19,976	$106,192	$106,192

	December 31, 2010 Carrying value				Fair Value	March 31, 2010 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)	$ -	$45,747	$ -	$45,747	$45,747	$ -	$44,493	$ -	$44,493	$44,493
Accounts payable – other (4)	-	-	1,506	1,506	1,506	-	613	2,021	2,634	2,634
Long-term debt, including current portion	-	102,320	-	102,320	103,332	-	81,407	-	81,407	82,988
Long-term liabilities – Other liabilities(6)	-	-	1,003	1,003	1,003	-	-	1,716	1,716	1,716
	$ -	$148,067	$2,509	$150,576	$151,588	$ -	$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 December 31, 2010, the Company had entered into forward foreign exchange sales contracts to sell US$143.1 million at a weighted-average exchange rate of 1.1288 (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 $151.1 million at a weighted-average exchange rate of 1.1459 cad/usd as at December 31, 2009) for the purpose of foreign exchange risk management, essentially related to its export sales. These contracts mature at various dates between January 2011 and March 2015, with the majority maturing in fiscal years 2012 and 2013.

At December 31, 2010, the Company had also entered into forward foreign exchange sales contracts totalling US$8.5 million at a weighted-average exchange rate of 1.2359 cad/usd (US$11.3 million at a weighted-average rate of 1.2396 cad/usd at March 31, 2010 and December 31, 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, capitalized development costs, inventory or expenses when there is reasonable assurance that the assistance will be received.

During the three- and nine-month periods ended December 31, 2010, the Company recorded as a reduction of cost of sales an amount of $867 and $1,854 respectively, and as a reduction of the related capital expenditures or capitalized development costs an amount of $1,578 and $3,049 respectively, for government assistance.

During the three- and nine-month periods ended December 31, 2009, the Company recorded as a reduction of cost of sales an amount of $1,704 and $4,327 respectively, and as a reduction of the related capital expenditures or capitalized development costs an amount of $1,137 and $1,981 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 first six-month period this year, the Company recorded restructuring charges of $637 and $454 net of income taxes. The Company did not incur any restructuring charges this quarter and does not expect any significant additional restructuring charges related to the closure of this facility.

Note 7. Other receivables

Other receivables consist of:

	December 31, 2010	March 31, 2010
Investment and other tax credits receivable	$8,099	$8,096
Sales tax receivable	1,375	1,195
Deposits on machinery and equipment (Note 15)	1,323	772
Others	1,815	1,111
	$12,612	$11,174

Note 8. Inventories

Inventories consist of:

	December 31, 2010	March 31, 2010
Raw materials	$56,014	$47,327
Work in progress and finished goods	88,648	69,413
Less: Progress billings	39,018	32,332
	$105,644	$84,408

The amount of inventories recognized as cost of sales for the three- and nine-month periods ended December 31 is detailed as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Aerospace segment	$59,294	$55,104	$178,466	$164,524
Industrial segment	4,499	4,238	13,290	12,331
	$63,793	$59,342	$191,756	$176,855

The change in write-downs related to inventories for the three- and nine-month periods ended December 31 is detailed as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Write-downs recognized as cost of sales	$1,380	$2,025	$4,702	$4,631
Reversal of write-downs recognized as a reduction of cost of sales	$892	$526	$3,232	$2,601

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:

	December 31, 2010	March 31, 2010
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	$1,021	$ 1,180
Derivative financial instruments – interest-rate swap agreements	485	841
Machinery and equipment	-	613
Customers' advances	1,423	1,957
	$2,929	$ 4,591

Note 10. Long-term debt

	December 31, 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 December 31, 2010 (representing an effective interest rate of 2.2%; 1.4% as at March 31, 2010) and at Libor plus 1.0% at December 31, 2010 for the U.S. Credit Facilities (representing an effective interest rate of 1.3%; 1.2% as at March 31, 2010). At December 31, 2010, the Company used US$59,500 on the Credit Facilities (US$43,000 at March 31, 2010).	$59,179	$43,679
Governmental authorities loans, repayable in variable annual instalments, with various expiry dates until 2026.	25,696	21,040
Obligations under capital leases bearing fixed interest between 4.2% and 9.3% maturing from November 2012 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 $1,756 ($2,428 at March 31, 2010).	14,570	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).	2,875	-
Deferred financing costs, net	(224)	(350)
	102,096	81,057
Less: current portion	5,279	4,250
	$96,817	$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), 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.).

Subsequent to the quarter ended December 31, 2010, an agreement in principle was reached with a syndicate of banks to renew and increase from $125 million to $150 million the Credit Facilities, on a secured basis, for a period of 5 years. The closing of this transaction is expected to occur before the end of the current fiscal year.

Financial expenses, for the three- and nine-month periods ended December 31, comprise the following:

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Interest	$ 848	$ 750	$ 2,202	$ 2,374
Interest accretion on governmental authorities loans	352	247	990	723
Amortization of deferred financing costs	42	42	126	126
Standby fees	23	97	66	141
Accretion expense on asset retirement obligations	53	57	173	171
Gain on financial instruments classified as HFT - Interest income	(18)	(6)	(24)	(15)
Financial expenses, net	$ 1,300	$ 1,187	$ 3,533	$ 3,520

Note 11. Other liabilities

The Company's other liabilities are summarized as follows:

	December 31, 2010	March 31, 2010
Pension plan and other post-retirement benefits	$ 3,468	$ 4,381
Derivative financial instruments – interest rate swap agreements	-	280
Derivative financial instruments – forward foreign exchange contracts and embedded derivatives	1,003	1,436
Asset retirement obligations	4,713	4,653
Other	152	198
	$9,336	$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:

	December 31, 2010	March 31, 2010
30,073,237 common shares at December 31, 2010 (30,485,475 at March 31, 2010)	$99,663	$100,641

Issuance of common shares

During the three- and nine-month periods ended December 31, 2010, the Company issued 15,285 and 205,462 common shares respectively, at weighted-average prices of $5.55 and $4.87, for a total cash consideration of $84 and $1,001. This includes 157,221 common shares for the nine-month period (all in the first semester) which were issued, following the exercise of stock options, for a total cash consideration of $747. The remainder of 15,285 and 48,241 common shares for the three- and nine-month periods ended December 31, 2010 respectively, were issued under the Company's stock purchase and ownership incentive plan for a total cash consideration of $84 and $254.

During the three- and nine-month periods ended December 31, 2009, the Company issued 17,010 and 57,331 common shares respectively, at weighted-average prices of $4.76 and $4.16, for a total cash consideration of $81 and $240. 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 ("NCIB") 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 terminated on November 24, 2010.

During the quarter ended December 31, 2010, the Company repurchased 12,600 common shares at an average price of $5.82 for a total cash consideration of $72 under the NCIB. The excess ($30) of the cost of the common shares over their average book value ($42) was accounted for as a reduction of the Company's retained earnings.

During the nine-month period ended December 31, 2010, the Company repurchased 617,700 common shares at an average price of $5.78 for a total cash consideration of $3,570 under the NCIB. The excess ($1,591) of the cost of the common shares over their average book value ($1,979) was accounted for as a reduction of the Company's retained earnings.

The Company repurchased a total of 711,100 common shares at an average price of $5.68 under the new NCIB which terminated on November 24, 2010.

During the quarter ended December 31, 2009, the Company repurchased 75,300 common shares at an average price of $5.12, for a total cash consideration of $385 under the NCIBs launched in November 2009 and the previous year. The excess ($141) of the cost of the common shares over their average book value ($246) was accounted for as a reduction of the Company's retained earnings.

During the nine-month period ended December 31, 2009, the Company repurchased 721,700 common shares at an average price of $4.52, for a total cash consideration of $3,264 under the NCIBs launched in November 2009 and the previous year. The excess ($895) of the cost of the common shares over their average book value ($2,371) 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 December 31, 2010 amounting to $49 ($117 for the same period last year) and to $281 for the nine-month period ended December 31, 2010 ($124 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.

During the quarters ended December 31, 2010 and 2009, no stock options were granted, exercised or cancelled.

During the nine-month period ended December 31, 2010, 138,000 stock options were granted at a granted value of $5.94, 157,221 stock options were exercised, and 55,000 stock options were cancelled.

During the nine-month period ended December 31, 2009, 246,000 stock options were granted at a granted value of $4.56 and 75,000 stock options were cancelled.

At December 31, 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 seven 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 nine-month periods ended December 31, 2010, 15,285 and 48,241 common shares were issued respectively (297,463 since the beginning of the plan) and 6,132 and 19,176 common shares attributed to the participating employees (125,977 since the beginning of the plan). The expense related to the attributed common shares amounting to $37 and $112 respectively, is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and nine-month periods ended December 31, 2009, 17,010 and 57,331 common shares were issued respectively (231,170 since the beginning of the plan) and 7,317 and 24,539 common shares attributed to the participating employees (99,164 since the beginning of the plan). The expense related to the attributed common shares amounting to $81 and $240 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 nine-month periods ended December 31, 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 nine-month periods ended December 31, 2010, $(30) and $83 respectively is recorded as compensation expense and is included in the Company's selling and administrative expenses.

During the three- and nine-month periods ended December 31, 2009, no SARs and 35,000 SARs respectively, were granted (all in the second quarter of the last fiscal year) at a granted value of $4.56, no SARS were exercised and 7,500 SARs were cancelled (all in the second quarter of the last fiscal year). During the three- and nine-month periods ended December 31, 2009, no expense was recorded for SARs.

At December 31, 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 December 31, 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 nine-month periods ended December 31 are as follows:

	Quarters ended December 31				Nine months ended December 31			
		2010		2009		2010		2009
Defined benefit pension costs	$	355	$	293	$	848	$	916
Defined contribution pension costs		553		485		1,672		1,511
	$	908	$	778	$	2,520	$	2,427

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 nine-month periods ended December 31 are detailed as follows:

	Quarters ended December 31				Nine months ended December 31			
		2010		2009		2010		2009
Accounts receivable	$	8,489	$	(53)	$	6,764	$	9,163
Income tax receivable		315		(1,245)		(425)		(3,903)
Other receivables		(1,732)		2,121		(199)		881
Inventories		(2,652)		2,691		(3,158)		1,398
Prepaid expenses		(410)		(374)		(327)		96
Other current assets		-		8		(20)		-
Accounts payable and accrued liabilities and, other liabilities		1,432		(4,566)		(6,346)		(24,080)
Accounts payable – other		(1,129)		3,516		(1,137)		885
Income tax payable		312		1,432		624		(1,678)
Effect of changes in exchange rate(1)		(339)		(1,075)		(792)		(5,387)
	$	4,286	$	2,455	$	(5,016)	$	(22,625)

(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 December 31, 2010 amounted to $4,791 ($5,205 – March 31, 2010) for which an amount of $1,323 ($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 December 31
Activity segments

	2010 Aerospace	2010 Industrial	2010 Total	2009 Aerospace	2009 Industrial	2009 Total
Sales	$ 79,463	$ 6,380	$ 85,843	$ 72,607	$ 4,052	$ 76,659
Operating income	7,423	1,036	8,459	6,101	(40)	6,061
Financial expenses, net			1,300			1,187
Income before income tax expense and restructuring charges			7,159			4,874
Assets	404,002	22,552	426,554	362,512	23,824	386,336
Goodwill	40,097	921	41,018	35,308	958	36,266
Additions to property, plant and equipment	4,225	506	4,731	1,955	79	2,034
Net increase in finite-life intangible assets	2,393	-	2,393	808	-	808
Amortization of property, plant and equipment	4,710	520	5,230	4,951	599	5,550

Geographic segments

	2010 Canada	2010 U.S.	2010 Total	2009 Canada	2009 U.S.	2009 Total
Sales	$ 54,135	$ 31,708	$ 85,843	$ 58,607	$ 18,052	$ 76,659
Property plant and equipment, net	89,368	53,298	142,666	88,668	48,344	137,012
Finite-life intangible assets, net	13,374	3,879	17,253	7,299	4,185	11,484
Goodwill	17,534	23,484	41,018	17,534	18,732	36,266
Export sales (1)	$ 34,486			$ 34,462		

70% of the Company's sales (62% in 2009) were to U.S. customers.

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

Note 16. Segmented information

Nine months ended December 31
Activity segments

	2010 Aerospace	2010 Industrial	2010 Total	2009 Aerospace	2009 Industrial	2009 Total
Sales	$ 232,472	$ 19,106	$ 251,578	$ 218,707	$ 16,682	$ 235,389
Operating income	16,475	2,501	18,976	18,394	1,496	19,890
Financial expenses, net			3,533			3,520
Income before income tax expense and restructuring charges			15,443			16,370
Assets	404,002	22,552	426,554	362,512	23,824	386,336
Goodwill	40,097	921	41,018	35,308	958	36,266
Additions to property, plant and equipment	12,863	961	13,824	6,092	1,142	7,234
Net increase in finite-life intangible assets	6,122	-	6,122	2,186	-	2,186
Amortization of property, plant and equipment	14,094	1,762	15,856	14,034	1,888	15,922

Geographic segments

	2010 Canada	2010 U.S.	2010 Total	2009 Canada	2009 U.S.	2009 Total
Sales	$ 159,172	$ 92,406	$ 251,578	$ 169,020	$ 66,369	$ 235,389
Property plant and equipment, net	89,368	53,298	142,666	88,668	48,344	137,012
Finite-life intangible assets, net	13,374	3,879	17,253	7,299	4,185	11,484
Goodwill	17,534	23,484	41,018	17,534	18,732	36,266
Export sales (1)	$ 94,142			$ 98,718		

68% of the Company's sales (67% 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 December 31, 2009 and March 31, 2010 have been reclassified to conform to the December 31, 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 December 31, 2010. It also compares the operating results and cash flows for the three- and nine-month periods ended December 31, 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, September 30, 2010 and December 31, 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 military 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 nine-month periods ended December 31, 2010, consolidated sales, excluding the acquisition concluded on April 28, 2010 (see below), were slightly lower than for the same periods last year, exclusive of the currency impact. As a result, the Company does not see any major revenue increase in fiscal 2011 when compared with fiscal 2010, again excluding the acquisition made in April 2010. However, with ongoing improvements in the commercial aerospace market and solid purchase orders for the final quarter of fiscal 2011, the Company anticipates that second half sales should be approximately 15% higher that in the first half, given the acquisition and assuming no significant change in the average exchange rate, exclusive of forward foreign exchange contracts.

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 nine-month periods ended December 31, 2010 which include the results of Eagle and E2. For all significant elements explained, Management has singled out the acquisition impact on the third 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 third quarter and year-to-date results for Eagle and E2 are for the period following the acquisition which is April 28, 2010, to December 31, 2010, which is not a full nine-month period.

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

1$ Canadian/US$ equivalent	Quarter ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Average rates	1.0128	1.0563	1.0265	1.1070
Closing rates to December 31, 2010/March 31, 2010			0.9946	1.0158

The value of the Canadian dollar, for the three- and nine-month periods ended December 31, 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 December 31, 2010, the Company had US$143.1 million of forward foreign exchange contracts at a weighted-average of 1.1288 compared to US$151.1 million at 1.1342 at September 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 December 31, 2010, the Company had also entered into forward foreign exchange contracts totalling US$8.5 million at a weighted-average rate of 1.2359 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

While the general economic climate is becoming more favourable, the Company has not yet experienced the growing impact on its sales volume. Total sales for the third quarter ended December 31, 2010 stood at $85.8 million, up from $76.7 million for the same period last year. Excluding the $11.7 million sales coming from the Eagle and E2 acquisition, consolidated sales were actually $74.1 million or 3.4% lower than last year for the third quarter, mainly from the negative US/CAD currency impact of $1.4 million and as a result of lower military sales in the Aerospace segment partially offset by higher sales in the Industrial segment.

To date, consolidated sales totalled $251.6 million or 6.9% higher than last year's sales of $235.4 million. Excluding the $32.3 million sales of Eagle and E2 since the acquisition, consolidated sales were down by $16.1 million or 6.8%. For the first nine months, the Canadian dollar, when compared to its US counterpart, had a $9.0 million or 3.8% unfavourable impact, when compared to the same period last year. The remaining difference is explained by lower military sales in the Aerospace segment partially offset by higher sales in the Industrial segment.

The Company's sales by segment were as follows:

Segment	Quarters ended December 31				Nine months ended December 31			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Total Aerospace	79,463	72,607	6,856	9.4	232,472	218,707	13,765	6.3
Total Industrial	6,380	4,052	2,328	57.5	19,106	16,682	2,424	14.5
Total	**85,843**	**76,659**	**9,184**	**12.0**	**251,578**	**235,389**	**16,189**	**6.9**

This year's Aerospace sales, excluding the acquisition of Eagle and E2 whose sales are included in the Aerospace segment, declined $4.8 million or 6.6% this quarter and $18.5 million or 8.5% year-to-date, compared to the same period last year essentially for the same reason mentioned above.

For the third quarter and for the nine-month period, this year's Industrial sales, despite the lower exchange rate, increased by $2.3 million and $2.4 million respectively, compared to last year, 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 December 31				Nine months ended December 31			
	2010	2009	Variance		2010	2009	Variance	
	($'000)	($'000)	($'000)	%	($'000)	($'000)	($'000)	%
Landing Gear	55,370	48,227	7,143	14.8	163,226	143,720	19,506	13.6
Aerostructure	23,872	24,036	(164)	(0.7)	68,886	74,121	(5,235)	(7.1)
Other	221	344	(123)	(35.8)	360	866	(506)	(58.4)
Total	**79,463**	**72,607**	**6,856**	**9.4**	**232,472**	**218,707**	**13,765**	**6.3**

For the third quarter and nine-month period, this year's Landing Gear sales increased by 14.8% and 13.6% to $55.4 million and $163.2 million, respectively, compared to last year, but were actually lower by 9.4% in the third quarter and 8.9% in the first nine-month period, when excluding the sales of Eagle and E2. Third quarter and year-to-date sales were impacted by reduced military manufacturing sales, as a result of longer than anticipated product introduction, the negative impact of currency exchange rates, and also 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 and higher business jet requirements more than offset the reduction in sales in certain other large commercial programs, following production rate reductions from customers, mainly on the B-777 program.

Third quarter sales for Aerostructure were comparable to last year. At year-to-date, the Aerostructure sales decreased 7.1% to $68.9 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 resulting from a different sales mix, despite a slight increase in the number of shipsets. 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 increased commercial helicopter sales, as a result of the Bell 429 program ramping up.

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

Sector	Quarters ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%	Nine months ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Military *(1)*	49,496	43,944	5,552	12.6	143,671	135,634	8,037	5.9
Commercial	29,967	28,663	1,304	4.5	88,801	83,073	5,728	6.9
Total Aerospace	**79,463**	**72,607**	**6,856**	**9.4**	**232,472**	**218,707**	**13,765**	**6.3**

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

Excluding the Eagle and E2 acquisition, military sales were 9.5% lower this quarter and 15.3% lower year-to-date than last year, while Commercial sales were 2.2% lower this quarter than last year, but 2.7% higher year-to-date than last year. As mentioned above, new business on the A-320, B-787, Fokker and Bell 429 programs along with improved business jet sales, boosted Commercial sales volume. On the other hand, military sales were somewhat impacted by lower military manufacturing sales, as a result of longer than anticipated product introduction, reduced sales generated by the engineering programs, and 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 December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%	Nine months ended December 31 2010 ($'000)	2009 ($'000)	Variance ($'000)	%
Gas Turbine	2,526	2,266	260	11.5	8,180	9,385	(1,205)	(12.8)
Other Industrial	3,854	1,786	2,068	115.8	10,926	7,297	3,629	49.7
Total	**6,380**	**4,052**	**2,328**	**57.5**	**19,106**	**16,682**	**2,424**	**14.5**

Third quarter sales for the Industrial segment were higher than last year, boosted by higher demand for Heavy Equipment in the mining industry and in the Gas Turbine sector. Overall, at year-to-date, our sales in the Industrial segment were higher than 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 December 31		Nine months ended December 31	
	2010	**2009**	**2010**	**2009**
Canada	24%	35%	27%	31%
US	70%	62%	68%	67%
International	6%	3%	5%	2%
	100%	**100%**	**100%**	**100%**

The third quarter and the year-to-date changes in the sales-by-destination mix reflect the impact of increased sales in the U.S., following the Eagle and E2 acquisition, combined with the increased sales in the Industrial segment, and also reflect the impact of shipments to a new European customer (Stork – Fokker program).

Gross Profit

For the third quarter ended December 31, 2010, consolidated gross profit as a percentage of sales was 17.5%, up 2.0% from 15.5% last year and was 14.9%, down 0.8% from 15.7% 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 higher by 0.8% for the quarter and 0.5% for the first nine months.

This quarter, excluding the acquisition of Eagle and E2, gross profit in Landing Gear was essentially impacted by lower sales; the said impact was more than offset by the increased efficiency and throughput in repair and overhaul, resulting in a higher total gross profit in nominal value and percentage. However, for the first nine months this year, excluding the acquisition, gross profit in Landing Gear was lower than last year, as a result of lower sales and its related impact on the under-absorption of manufacturing overhead costs.

This quarter, the Aerostructure product line generated similar gross profit margin, compared to last year. However, gross profit was lower than last year for the first nine months, as a result of lower sales and higher under-absorption of manufacturing overhead costs in the first quarter.

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

For the quarter ended December 31, 2010, the Canadian dollar fluctuations relative to the US dollar had a minimal unfavourable impact on gross profit in dollars of $0.1 million but represented a favourable impact of 0.2% on gross profit margin expressed as a percentage of sales, compared to the corresponding period last year. However, for the first nine months this year, the unfavourable impact of currency fluctuation on gross profit in dollars was $1.0 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 December 31		Nine months ended December 31	
	2010	2009	2010	2009
Selling and administrative expenses ($'000)	6,586	5,822	18,542	17,066
% of sales	7.7	7.6	7.4	7.3

Selling and administrative expenses were $6.6 million or 7.7% of sales and $18.5 million or 7.4% of sales respectively for the quarter and for the nine-month period ended December 31, 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 $0.1 million, compared to a $0.2 million loss last year. At year-to-date, the loss on currency translation on net monetary assets was $0.5 million, compared to a $1.2 million loss last year.

Operating Income

Consolidated operating income stood at $8.5 million or 9.9% of consolidated sales for the quarter ended December 31, 2010, and was $2.4 million higher than the $6.1 million or 7.9% operating income for the same period last year. The higher operating income this quarter, compared to last year, is explained by higher sales and gross profit, including the acquisition impact of Eagle and E2, as explained above. Year-to-date, operating income was $19.0 million or 7.5% of consolidated sales compared to $19.9 million or 8.4% for the same period last year. The lower operating income for the nine-month period ended December 31, 2010, compared to last year, is essentially explained by the lower gross profit, as mentioned above.

Aerospace Segment

This quarter, the Aerospace segment operating income was $7.4 million or 9.3% of sales, compared to $6.1 million or 8.4% of sales last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $6.6 million or 9.8% of sales for the quarter ended December 31, 2010.

For the nine-month period ended December 31, 2010, the Aerospace segment operating income stood at $16.5 million or 7.1% of sales, compared to $18.4 million or 8.4% last year. Excluding the acquisition of Eagle and E2, the Aerospace segment operating income was $14.4 million or 7.2% of sales for the nine-month period ended December 31, 2010.

The increased operating income this quarter and the reduction in operating income at year-to-date in this segment, compared to last year, both reflect the impact on gross profit already explained above.

Industrial Segment

This quarter, operating income increased significantly to $1.0 million or 16.2% of sales this year from essentially a break-even last year, reflecting the 57.5% or $2.3 million sales increase in this segment. At year-to-date, operating income stood at $2.5 million or 13.1% of sales, compared to $1.5 million or 9.0% of sales last year, as a result of higher sales and gross profit in that segment, as explained above.

Financial Expenses

Financial expenses for the quarter stood at $1.3 million and $3.5 million for the nine-month period ended December 31, 2010. This compares to $1.2 million and $3.5 million respectively, for the same periods last year. The financial expenses this quarter and for the nine-month period ended December 31, 2010, 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 partially offset by the impact from the stronger 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 first six-month period this year, the Company recorded restructuring charges of $0.6 million ($0.4 million, net of income taxes). The Company did not incur any additional restructuring charges this quarter and does not expect any significant additional restructuring charges related to the closure of this facility.

Income Tax Expense

The Company had an income tax expense of $2.1 million for the quarter ended December 31, 2010, compared to an expense of $1.3 million last year. At year-to-date, the Company posted an income tax expense of $4.0 million for the first nine months this year, compared to an expense of $4.8 million for the same period last year.

The Company's effective income tax rate for the nine-month period ended December 31, 2010 was 27.0% compared to its Canadian blended statutory rate of 28.7%. The difference can be explained by the favourable impacts on the Company's effective income tax rate coming from permanent differences ($0.3 million) and by a tax adjustment following the conclusion of a prior year tax audit ($0.2 million), somewhat offset by the negative impact of a higher U.S. income tax rate for the Company's U.S. subsidiaries ($0.2 million).

For the nine-month period ended December 31, 2009, the Company's effective income tax rate was 29.2%, compared to its Canadian blended statutory rate of 30.1%. The difference can be explained by the favourable impact on the Company's effective income tax rate coming from permanent differences ($0.5 million) which was essentially offset by the negative impact of a higher U.S. income tax rate for the Company's U.S. subsidiaries.

Net Income

The Company posted net income of $5.1 million for the third quarter ended December 31, 2010, compared to net income of $3.5 million for the corresponding quarter last year. This essentially reflects the increase in operating income from both segments of the Company, as explained above. Year-to-date, net income stood at $10.8 million, compared to $11.6 million last year. This reduction in net income reflects the decrease in operating income from the Company's Aerospace segment along with the restructuring charges incurred in the first six months of this year, somewhat offset by the increase in operating income of the Industrial segment.

	Quarters ended December 31		Nine months ended December 31	
	2010	2009	2010	2009
Net income ($'000)	5,064	3,538	10,803	11,598
Earnings per share – basic ($)	0.17	0.12	0.36	0.38
Earnings per share – diluted ($)	0.17	0.12	0.36	0.38

Basic earnings per share figures are based on year-to-date weighted-averages of 30,104,849 common shares outstanding for the nine-month period ended December 31, 2010, and 30,714,152 common shares 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 February 3, 2011, the date of this MD&A, the Company had 30,078,238 common shares and 1,481,000 stock options outstanding with a weighted-average of 4.4 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 December 31, 2010, only $59.2 million (US$59.5 million) had been drawn against these Credit Facilities, including US$16.5 million in April 2010 to finance the acquisition of Eagle and E2 described earlier. These Credit Facilities will mature in October 2011. Subsequent to the quarter ended December 31, 2010, an agreement in principle was reached with a syndicate of banks to renew and increase from $125 million to $150 million these Credit Facilities, on a secured basis, for a period of 5 years. The Company's Management anticipates closing this transaction successfully before the end of the current fiscal year. 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 December 31, 2010, the Company had cash and cash equivalents of $40.3 million, compared to $46.6 million as at March 31, 2010, of which $24.4 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 December 31		Nine months ended December 31	
	2010 ($'000)	**2009 ($'000)**	**2010 ($'000)**	**2009 ($'000)**
Cash flows from operations	12,773	10,129	32,018	33,617
Net change in non-cash working capital items related to operations	4,286	2,455	(5,016)	(22,625)
Cash flows relating to operating activities	**17,059**	**12,584**	**27,002**	**10,992**

This quarter, the increase of $2.6 million in cash flows from operations, when compared to last year, mainly resulted from the increase in net income of $1.5 million and from the variation in future income tax expense of $0.7 million. At year-to-date, cash flows from operations were lower by $1.6 million, as a result of the lower net income of $0.8 million and lower future income tax expense of $2.7 million, partially offset by the increase in amortization expense of $1.2 million and in accretion expense of $0.2 million, combined with a loss on sale of property, plant and equipment of $0.3 million.

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

	Quarters ended December 31		Nine months ended December 31	
	2010 ($'000)	2009 ($'000)	2010 ($'000)	2009 ($'000)
Accounts payable, accrued liabilities and other liabilities, mainly in line with the inventory decrease and the reduction in the number of days in payables for 2009	1,432	(4,566)	(6,346)	(24,080)
Accounts receivable – in line with the lower sales (for 2009 only) and with the reduction in number of days in receivables due to improved accounts receivable collection	8,489	(53)	6,764	9,163
Effect of exchange rate on working capital items, for the U.S. subsidiaries	(339)	(1,075)	(792)	(5,387)
Inventory decrease (increase)	(2,652)	2,691	(3,158)	1,398
Net payment of income taxes, mainly for 2009	627	187	199	(5,581)
All others, including $3.5 million customer advances received in 2009 for Aerospace long-term contracts	(3,271)	5,271	(1,683)	1,862
	4,286	**2,455**	**(5,016)**	**(22,625)**

Investing Activities

The Company's investing activities were as follows:

	Quarters ended December 31		Nine months ended December 31	
	2010 ($'000)	2009 ($'000)	2010 ($'000)	2009 ($'000)
Additions to property, plant and equipment	(4,731)	(2,034)	(13,824)	(7,234)
Net increase in finite-life intangible assets	(2,393)	(808)	(6,122)	(2,186)
Proceeds on disposal of property, plant and equipment	71	15	141	24
Business acquisition	-	-	(28,813)	-
Cash flows relating to investing activities	**(7,053)**	**(2,827)**	**(48,618)**	**(9,396)**

This quarter, additions to property, plant and equipment totalled $4.7 million, compared to $2.0 million last year, and represented $13.8 million, compared to $7.2 million last year, for the nine-month period ended December 31, 2010. The year-to-date additions for this year include the costs associated to the JSF building extension at the Company's Arlington, Texas plant and the new test laboratory facility for Landing Gear in St-Hubert, Quebec.

The net increase in finite intangible assets of $2.4 million this quarter and $6.1 million year-to-date represents mainly the increase in capitalized development costs for the Aerospace segment's long-term 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 $28 million including normal maintenance projects and the extension of a facility and the new facility mentioned above. 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 December 31		Nine months ended December 31	
	2010	**2009**	**2010**	**2009**
	($'000)	**($'000)**	**($'000)**	**($'000)**
Increase in long-term debt	3,041	856	21,916	6,519
Repayment of long-term debt	(940)	(5,645)	(3,499)	(8,644)
Repurchase of common shares	(72)	(387)	(3,570)	(3,266)
Issuance of common shares	84	81	1,001	240
Cash flows relating to financing activities	**2,113**	**(5,095)**	**15,848**	**(5,151)**

During the third quarter ended December 31, 2010, the increase in long-term debt reflects a new governmental authorities loan received to support the Company's development costs for new Aerospace segment programs. The year-to-date increase in long-term debt also includes the drawings of US$16.5 million from the Company's Credit Facilities to finance the acquisition of Eagle and E2 made in the first quarter.

The year-to-date repayment of long-term debt of $3.5 million is mainly for capital leases and certain 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. Last year's repayment of long-term debt in the third quarter included a repayment of $5.0 million on the Credit Facilities.

During the three- and nine-month periods ended December 31, 2010, the Company issued 15,285 and 48,241 common shares under its stock purchase and ownership incentive plan for a cash consideration of $0.1 million and $0.3 million, respectively. During the same periods, the Company repurchased 12,600 and 617,700 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 $0.1 million and $3.6 million, respectively. For the nine-month period ended December 31, 2010, the Company issued 157,221 common shares (all in the first semester), following the exercise of stock options, for a cash consideration of $0.7 million.

During the three- and nine-month periods ended December 31, 2009, the Company redeemed 75,300 and 721,700 common shares under the normal course issuer bids launched in November 2009 and 2008 at an average price of $5.12 and $4.52, representing a total cash consideration of $0.4 million and $3.3 million, respectively.

At December 31, 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 terminated on November 24, 2010. During that year, the Company repurchased 711,100 common shares at an average net price of $5.68 per share for a total of $4.0 million (see Note 12 to the interim consolidated financial statements).

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

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

At December 31, 2010, the Company had 30,073,237 common shares outstanding (30,485,475 as at March 31, 2010).

During the three-month period ended December 31, 2010, the Company issued 15,285 common shares at a weighted-average price of $5.55 for a total cash consideration of $84,768, under the Company's stock purchase plan. Year-to-date, 48,241 common shares were issued at a weighted-average price of $5.27 for a total cash consideration of $254,379.

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 nine-month period ended December 31, 2010, 55,000 stock options were cancelled.

At December 31, 2010, 1,481,000 stock options were issued and outstanding with a weighted-average of 4.4 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 seven years.

Consolidated Balance Sheets

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

Item	Change ($ million)	Explanation
Cash and cash equivalents	(6.3)	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	(1.4)	Decrease resulting from improved accounts receivable collection, lower third quarter sales compared to last year's fourth quarter sales when excluding the sales of Eagle and E2, and the impact of the stronger Canadian dollar, compared to March 31, 2010, on US-denominated accounts receivable ($0.6 million). This decrease was partially offset with the inclusion in the consolidated figures of the Eagle and E2 acquisition made in the first quarter ($5.4 million).
Inventories	21.2	This increase includes the impact from the Eagle and E2 acquisition ($18.1 million) reduced by the impact of the stronger Canadian dollar on the Company's U.S. self-sustaining subsidiaries' inventories ($0.4 million). The remaining increase in inventories is consistent with the expected sales increase in the fourth quarter of the current fiscal year.
Derivative financial instruments (short-term assets)	1.4	Reflects the variation in the Company's balance sheets of short-term derivative financial instruments measured at fair value.

Item	Change ($ million)	Explanation
Property, plant and equipment, net	5.0	Due to: • Acquisition of Eagle and E2 ($8.5 million); • Purchases of capital assets ($13.8 million); Net of: • Amortization expense ($15.9 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($1.0 million); • Disposal of capital assets ($0.4 million).
Finite-life intangible assets, net (includes a $3.9 million net backlog)	5.6	Mainly due to: • An increase in finite-life intangible assets ($6.1 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 ($1.0 million); • Amortization of the other finite-life intangible assets ($0.6 million); • A lower US/CAD exchange rate used to convert the net assets of self-sustaining U.S. subsidiaries ($0.3 million).
Goodwill	5.4	Includes $5.8 million of goodwill associated to the acquisition made in the first quarter of the current fiscal year. It also includes the impact from the lower US/CAD exchange rate used to convert the goodwill included in the Company's self-sustaining U.S. subsidiaries.
Derivative financial instruments (long-term assets)	(2.3)	Reflects the variation in the Company's balance sheets of long-term derivative financial instruments measured at fair value.
Accounts payable and accrued liabilities	4.9	Includes $7.4 million coming from the Eagle and E2 acquisition. This increase was partially offset by the impact of the fluctuation of the Canadian dollar since March 31, 2010, on US-denominated payables which decreased accounts payable and accrued liabilities by $0.4 million and by the reduction in number of days in payables.

Item	Change ($ million)	Explanation
Long-term debt (including current portion)	21.0	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 loans received in the second and third quarters to support Aerospace development program investments ($4.3 million); • Interest accretion on governmental authorities loans ($1.0 million); Net of: • Capital repayments of long-term debt ($3.5 million); • A lower US/CAD exchange rate used to convert the long-term debt of self-sustaining U.S. subsidiaries ($2.1 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 ($1.0 million), net of the book value of the common shares repurchased under the Company's Normal Course Issuer Bid ($2.0 million).
Retained earnings	9.2	See consolidated statements of changes in shareholders' equity.

At December 31, 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:

	December 31, 2010	March 31, 2010
Working capital ratio	2.77:1	2.66:1
Cash and cash equivalents	$40.3 million	$46.6 million
Long-term debt-to-equity ratio	0.43:1	0.35:1
Net debt-to-equity ratio(1)	0.28:1	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 third quarter ended December 31, 2010, the Company recorded as a reduction of cost of sales an amount of $0.9 million ($1.7 million in the third quarter of last year), and as a reduction of the related capital expenditures or capitalized development costs an amount of $1.6 million ($1.1 million last year) for government assistance. Year-to-date, the Company recorded $1.9 million ($4.3 million last year) as a reduction of cost of sales and $3.0 million ($2.0 million last year) as a reduction of the related capital expenditures or capitalized development costs for government assistance.

These government assistances include mainly the investment tax and other credits and the discounted portion of the governmental authorities loans.

Derivatives, Off-Balance-Sheet Items and Commitments

The Company is committed under operating leases for machinery and equipment totalling $7.1 million as at December 31, 2010, payment of which will be made over the next six fiscal years. At December 31, 2010, the Company also had building, machinery and equipment purchase commitments totalling $4.8 million.

At December 31, 2010, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US$143.1 million at a weighted-average exchange rate (Canadian dollar over US dollar) of 1.1288. These contracts relate mainly to its export sales, and mature at various dates between January 2011 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$151.1 million at a weighted-average rate of 1.1459 at December 31, 2009).

At December 31, 2010, the Company had also entered into forward foreign exchange contracts totalling US$8.5 million at a weighted-average rate (Canadian dollar over U.S. dollar) of 1.2359 ($US11.3 million at a weighted-average rate of 1.2396 at March 31, 2010 and December 31, 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 in 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 throughout fiscal 2011.

For the twelve months ended March 31, 2010, and to a lesser extent for the first nine months of the current fiscal year, the Company's results were impacted by certain decelerations of production schedules, push-outs on commercial Aerospace segment programs as well as by the impact from softer conditions in certain industrial markets. However, steady improvements in the economy are progressively reversing these trends, as large commercial aircraft manufacturers have announced production rate increases for calendars 2011, 2012 and 2013, and certain industrial markets are gathering momentum.

While the Company's backlog remains strong, especially considering the $125 million funded 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.

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. Subsequent to the quarter ended December 31, 2010, an agreement in principle was reached with a syndicate of banks to renew and increase from $125 million to $150 million the Credit Facilities, on a secured basis, for a period of 5 years. The Company's Management anticipates closing this transaction successfully before the end of the current fiscal year.

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. While we have not yet fully completed our conversion plan, we are not aware, at this present time, of any matter that would prevent the Company from meeting its filing requirements for its first IFRS interim consolidated financial report. 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 December 31, 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 nine 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 nine-month period ended December 31, 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 are further improving in the commercial aerospace market. In the large commercial aircraft segment, production rate increases on leading programs are scheduled for calendar 2011, 2012 and 2013(1), new orders increased significantly in calendar 2010 and both Boeing and Airbus are forecasting higher deliveries for calendar 2011. The business jet market is seeing positive signs, such as greater aircraft utilization and fewer used aircraft for sale, but a significant recovery in build rates is not expected until calendar 2012(2).

The military aerospace market is stabilizing as governments address their deficits. As to the JSF program, the U.S. government has put the short take-off and vertical landing (STOVL) variant on a two-year probation period, but the ramp-up of other variants continues, albeit at a slightly more moderate pace over the near term. This probation should result in the production of a slightly lower number of shipsets for Héroux-Devtek in fiscal 2012, compared to fiscal 2011. In Canada, the Government's decision to purchase 65 JSF aircraft should benefit the Canadian aerospace industry.

Finally, the North American power generation industry appears to have bottomed out, as leading equipment manufacturers continue to report rising new orders(3).

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

The three-year collective labour agreement of the unionized employees at the Longueuil Landing Gear products plant will expire on April 30, 2011. The Longueuil operations consist of two facilities that manufacture as well as repair and overhaul landing gears for the military and

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1 Sources: Boeing press releases Dec. 20, 2010; Sept. 16, 2010; June 15, 2010; May 17, 2010; March 19, 2010. Airbus press releases July 30, 2010; March 9, 2010.

2 Sources: Forecast International, JETNET, FAA, Eurocontrol.

3 Source: GE press release Jan. 21, 2011.

commercial aerospace markets. The Company enjoys good relations with its employees and expects a successful renewal of the agreement.

As at December 31, 2010, Héroux-Devtek's funded (firm orders) backlog stood at $586 million, including the backlog of Eagle and E2, up from $574 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. As the fourth quarter has historically been a strong period, the Company continues to anticipate that fiscal 2011 second-half sales should be approximately 15% higher than in the first half, 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 February 3, 2011. Updated information on the Company can be found on the SEDAR website, at www.sedar.com.