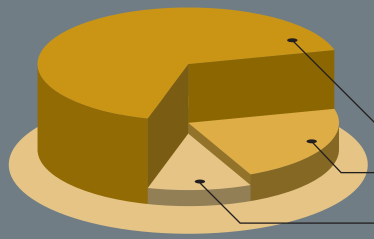
HÉROUX DEVTEK

A FOUNDATION FOR SUSTAINABLE GROWTH

05 | 06 ANNUAL REPORT



AEROSPACE

INDUSTRIAL

LANDING GEAR

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

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

Manufacture of critical parts such as helicopter rotors

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

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

PRINCIPAL CLIENTS

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

Military
Canadian Forces, US Air Force, US Navy

AEROSTRUCTURE

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

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

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

PRINCIPAL CLIENTS

Civilian
Boeing, Bombardier, General Dynamics, Lockheed-Martin, Northrop-Grumman

Military
US Air Force, US Navy

GAS TURBINE COMPONENTS

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

Manufacture of precision components for the aerospace and industrial sectors

Manufacture of engine parts for aircraft

PRINCIPAL CLIENTS

Aerospace
GE Aircraft Engines

Military
US Air Force, US Navy

Industrial
GE Power Systems (and GE Wind), Caterpillar, Milacron, F.M.C.

FINANCIAL HIGHLIGHTS

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

	2006	2005	2004 Restated [1]	2003 Restated [1]	2002 Restated [1]
Sales	**$256,197**	$ 232,998	$ 192,678	$ 237,724	$ 287,408
Gross profit	**$ 19,237**	$ 13,421	$ 14,448	$ 27,276	$ 50,842
Gross profit margin	**7.5 %**	5.8 %	7.5 %	11.5 %	17.7 %
EBITDA	**$ 20,907**	$ 14,623	$ 9,249	$ 22,635	$ 39,930
EBITDA margin	**8.2 %**	6.3 %	4.8 %	9.5 %	13.9 %
Net income (loss) from continuing operations	**$ (406)**	$ (4,291)	$ (3,972)	$ (1,855)	$ 15,513
Net income (loss) from continuing operations margin	**(0.2)%**	(1.8)%	(2.1)%	(0.8)%	5.4 %
Earnings (loss) Per Share-Basic and diluted from continuing operations	**$ (0.01)**	$ (0.16)	$ (0.17)	$ (0.08)	$ 0.64
Net income from discontinued operations	**$ 8,661**	$ 2,162	$ 1,637	$ 1,372	$ 1,347
Earnings per Share-Basic from discontinued operations	**$ 0.30**	$ 0.08	$ 0.07	$ 0.06	$ 0.06
Earnings per Share-Diluted from discontinued operations	**$ 0.30**	$ 0.08	$ 0.07	$ 0.06	$ 0.05
Net income (loss)	**$ 8,255**	$ (2,129)	$ (2,335)	$ (483)	$ 16,860
Net income (loss) margin	**3.2 %**	(0.9)%	(1.2)%	(0.2)%	5.9 %
Earnings (loss) Per Share-Basic	**$ 0.29**	$ (0.08)	$ (0.10)	$ (0.02)	$ 0.70
Earnings (loss) Per Share-Diluted	**$ 0.29**	$ (0.08)	$ (0.10)	$ (0.02)	$ 0.69

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

	2006	2005	2004	2003	2002
Total assets	**$315,673**	$ 312,130	$ 282,958	$ 289,067	$ 300,428
Working capital	**$ 70,330**	$ 47,068	$ 73,861	$ 82,326	$ 85,427
Long-term debt to equity	**0.33**	0.51	0.49	0.51	0.45
Book value per common share	**$ 4.84**	$ 4.81	$ 5.15	$ 5.32	$ 5.39
Cash flow from operations	**$ 20,007**	$ 11,934	$ 8,386	$ 14,057	$ 30,015
Average number of shares outstanding ('000)	**28,727.4**	26,932.7	23,437.9	24,212.9	24,063.0
Shares outsdanding at year-end ('000)	**31,488.6**	26,954.6	23,401.6	23,544.7	24,443.9
Fully diluted shares (used for diluted EPS) ('000)	**28,727.4**	26,932.7	23,437.9	24,212.9	24,345.5

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

IT IS SATISFYING to report that there have been definite signs of progress during the past year, both in the markets we serve and throughout the Héroux-Devtek organization. Héroux-Devtek has weathered the turbulent conditions created following the infamous events of 9/11 and is ready to benefit from the many opportunities ahead. Senior management and the Board have worked together diligently to develop a strategy which, we believe, will enhance shareholder value. Héroux-Devtek, with operations strategically located in both Canada and the United States, has made important changes as the Company seeks constant improvement. While the challenges of the economy and our industry have eased somewhat, there can be no complacency and we can take nothing for granted.

There is new, focused leadership at our three divisions. We are reinforcing a position within the aerospace industry as a reliable, value-added supplier. Héroux-Devtek has gained the respect of world class aerospace manufacturers and will increasingly work with them to enhance our quality and technology on their behalf. We have also broadened our horizons with our industrial markets and have made important inroads in such areas as heavy equipment and wind power. I invite you to review our President and CEO's comments and insights on the following pages of this annual report.

WE HAVE WORKED TOGETHER DILIGENTLY TO DEVELOP A STRATEGY WHICH, WE BELIEVE, WILL ENHANCE SHAREHOLDER VALUE.

CHAIRMAN'S MESSAGE

As the Chairman of the Board, I am proud and encouraged to work with my fellow colleagues on the Board of Directors. The Board is comprised of a majority of independent members with various skill sets. The Board is committed to ensuring that Héroux-Devtek's governance framework supports the Company's key objective: to grow shareholder value by continuing to build a growing and profitable business.

I applaud the dedication of our employees and thank our shareholders for their patience over the past few years. We are indeed encouraged with the signs for 2006-2007.

(Signed by)
Helmut Hofmann
Chairman of the Board

HÉROUX-DEVTEK HAS WORKED TO SOLIDIFY THE FOUNDATIONS OF ITS BUSINESSES AND PREPARE FOR RENEWED GROWTH.

MANAGEMENT TEAM

(Left to Right)
Gabriel Duval – Vice-President, Corporate Affairs
Michael L. Meshay – Vice-President, General Manager, Gas Turbine Components Division
Richard Rosenjack – Vice-President, General Manager, Aerostructure Division
Martin Brassard – Vice-President, General Manager, Landing Gear Division
Gilles Labbé – President and Chief Executive Officer
Jean-François Boursier – Corporate Controller
Patrice Gauvin – Vice-President, Organizational and Business Development
Réal Bélanger – Executive Vice-President and Chief Financial Officer

REPORT TO SHAREHOLDERS

Over the past three years, with all our major markets in a downturn, Héroux-Devtek has worked to solidify the foundations of our businesses and prepare for renewed growth. In fiscal 2006, we diligently pursued this strategy, which has positioned the Company for a return to profitability in the second half of this past fiscal year.

KEY MARKETS STRENGTHEN

The commercial aerospace industry continued to strengthen in fiscal 2006, confirming that it has entered a new growth cycle. Sales of large commercial aircraft, business jets and turboprops (commuters) all increased during the year, although regional jet sales slowed. The military aerospace sector remained strong throughout the year, the joint strike fighter (JSF) development program being a particularly exciting aspect of this market.

On the industrial side, power generation began to show signs of a turnaround after a three-year slump, and windpower made further inroads into the mainstream energy market. At the same time, markets for precision components began to open up in the expanding natural resource sectors.

In step with the evolution of its markets, Héroux-Devtek continued to assume its place as a supplier to world-class aerospace manufacturers by winning major contracts worth approximately $220 million, including contracts to supply components for the Boeing 777. These last contracts were signed both with Boeing directly as well as with one of Boeing's key suppliers.

We also signed contracts during the year to provide Lockheed Martin with additional aerostructure parts for the short take-off and vertical landing (STOVL) and conventional take-off and landing (CTOL) versions of the JSF. Considered to be the largest on-going military program over the next 20 years, the JSF program is still in the development phase, with the first aircraft set for an inaugural flight later this year. Through our Progressive business unit, Héroux-Devtek is particularly well positioned to grow with the JSF program, scheduled to ramp-up over a seven-year period beginning in calendar 2008.

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Aerospace

LANDING GEAR DIVISION

THE NEW MANAGEMENT TEAM, THE FOCUS ON PROGRAM MANAGEMENT AND HUMAN RESOURCES, AND CLOSE MONITORING OF THE SUPPLY CHAIN ALL PROVED KEY TO IMPROVED DIVISION'S PERFORMANCE AND RESULTS.

FOCUS ON HUMAN RESOURCES

In-house, Héroux-Devtek placed renewed emphasis on human resources in fiscal 2006. We introduced new management with solid industry experience into all three divisions, and focused on transmitting our corporate values to employees and harnessing their skills, ideas, energy and feedback to improve performance.

Progress was achieved at the Landing Gear division in particular. The new management team, the focus on program management and human resources, and close monitoring of the supply chain all proved key to resolving the division's delivery issues of the first quarter. Evidence of success came with the delivery of the landing gear for the first X-45 to Boeing, on time, despite a very challenging development schedule. While special recognition for this achievement goes to the engineering team, every employee in the division knows and takes pride in the placement of Héroux-Devtek's logo on top of this futuristic, cutting-edge aircraft.

FISCAL 2006 FINANCIAL RESULTS

The turnaround at the Landing Gear division led the trend toward overall improved results for Héroux-Devtek in fiscal 2006, particularly in the second half of the year, with consolidated sales for the period running over 13% higher than the same period of the previous fiscal year. Sales for the full year were up 10% at $256.2 million, which contributed to a better absorption of manufacturing overhead costs. In combination with improved pricing on certain civil aerospace contracts, this helped boost gross margin for fiscal 2006 to 7.5% from 5.8% last year. For the year as a whole, we posted a net loss from continuing operations of $0.4 million, a considerable improvement over the $4.3 million loss for fiscal 2005.

Net income for the year were $8.3 million or $0.29 per share, primarily due to the sale of the Logistics and Defence Division (Diemaco), compared to a net loss of $2.1 million or $0.08 per share for fiscal 2005.

Despite ongoing improvements to operations, significant economic challenges remained. The strength of the Canadian currency once again eroded competitiveness and profits in fiscal 2006, trimming sales by nearly $16 million and gross profits by 1.4%. The availability and prices of raw materials were also an ongoing issue, increasing lead times and generating upward pricing pressures.

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56.0%
OF SALES

Aerospace

AEROSTRUCTURE DIVISION

THE AEROSTRUCTURE PLANT IN QUEBEC IS CONTINUING TO BUILD SYNERGY WITH THE PROGRESSIVE OPERATIONS IN TEXAS.

BUILDING A LONG-TERM SUSTAINABLE BUSINESS

Héroux-Devtek is focused on building a business that is sustainable over the longer term and resistant to market down cycles. Central to achieving this objective is the widening of our customer base and expansion into new markets, products and services.

In the aerospace segment, our Landing Gear and Aerostructure divisions are both well-positioned for increasing Unmanned Air Vehicle (UAV) and JSF business, which will extend well beyond the next aerospace market downturn. Ten-year contracts to supply parts for the B777 and repair and overhaul services for the US Air Force (USAF) further support the sustainability in our Landing Gear business.

Our Gas Turbine Components division is developing in the direction of new industrial markets. In the past two years, this division has signed new customers in the natural resource sector, and now produces precision components for earth-moving and oil and gas drilling equipment, both new markets for Héroux-Devtek. We are also well-placed to participate in the nascent, fast-growing field of wind energy due to our strong relationship with GE Power (Wind).

In our plants, we are supporting the sustainability of our business by minimizing costs through lean manufacturing techniques and improving flexibility, particularly through automation. A new expansion at our Landing Gear plant in Kitchener, built to accommodate the B777 business and scheduled to be fully operational by December 2006, will be outfitted with state-of-the-art equipment, machinery and tooling to maximize automation. Our Aerostructure plant in Quebec is continuing to build synergy with the Progressive operations in Texas, with common equipment platforms being developed at all division sites to optimize flexibility and efficiency and leverage capacity. An additional 12,500 square feet have also been added to our facility in Texas to accommodate new, specialized titanium cutting machines which will permit Héroux-Devtek to manufacture larger aerostructure components on behalf of our customers. As the use of titanium is increasing in new aircraft program, we will be able to participate in this growing market.

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29.3%
OF SALES

Aerospace – Industrial

GAS TURBINE COMPONENTS DIVISION

THE GAS TURBINE COMPONENTS DIVISION IS WELL-PLACED TO PARTICIPATE IN THE NASCENT, FAST-GROWING FIELD OF WIND ENERGY DUE TO THE STRONG RELATIONSHIP WITH GE POWER (WIND).

OUTLOOK

Héroux-Devtek will remain in a transition period through fiscal 2007. Our markets are generally strengthening. Renewed growth in the civil aerospace market should continue to translate into more business for suppliers such as ourselves, and the military sector remains robust. On the industrial side, the gas turbine market is beginning to improve, and wind energy is expected to gain rapid momentum over the next few years.

We must continue our efforts internally to deal with raw material availability and prices and the strong Canadian dollar and further increase our productivity. Overall, we have a good platform for growth, and now need to work on taking greater shares of our markets. We have made important progress during the past year, but additional efforts will be made to accelerate the pace of progress still further. Business should continue to improve. With the continued execution of the business plan and based on recent backlog levels, internal sales growth of approximately 10% per year over the next three years is anticipated, with a return to profit in the current fiscal year.

ACKNOWLEDGEMENTS

Fiscal 2006 was a year during which employees and management pulled together to meet key operational challenges and generate substantial productivity improvements. We thank our employees for their special efforts. We also fully appreciate the trust that our customers, suppliers and you, our shareholders, continued to demonstrate over the past year. We pledge to continue working hard to continue to enhance shareholder value.

(Signed by)
Gilles Labbé
President and Chief Executive Officer

14.7%
OF SALES

HOW DO YOU VIEW THE AEROSPACE AND INDUSTRIAL MARKET TRENDS IN THE NEAR FUTURE?

All our markets are moving in the right direction. The military aerospace market is robust and is expected to remain so for the next three years. With the exception of regional jets, there is good demand for all civil aircraft, particularly 100+ seaters. Repair and maintenance business for both civil and military aircraft is expected to increase. We still see limited demand in industrial gas turbines, but wind power is a fast-growing sector, and the natural resource sectors are strong.

HOW DO YOU INTEND TO OFFSET THE STRONG CANADIAN DOLLAR?

We have been working consistently to offset the higher Canadian dollar, by improving our performance through a variety of measures. We will continue to tighten our operations and trim our costs through lean manufacturing, just-in-time delivery, decreased cycle times, tighter supply-chain management and greater plant automation in order to stay competitive given the new economic reality of a stronger Canadian dollar. With improving markets, we can also now more realistically price our products and thus achieve better margins. Furthermore, our new contracts and contract renewals are priced at the current US/CAN dollar exchange rate.

RAW MATERIAL PRICES AND AVAILABILITY WILL LIKELY CONTINUE TO BE AN ISSUE THROUGH THE CURRENT FISCAL YEAR. HOW IS THIS BEING ADDRESSED?

We expect the availability of aluminium to be better in fiscal 2007. Nevertheless, the primary manner in which we are addressing this issue is by including provisions in our new contracts to share the risk of raw material price increases and availability with our customers.

WHAT ARE HÉROUX-DEVTEK'S GROWTH PROSPECTS?

In the near term, we are looking for internal growth, and we consider the outlook to be quite positive. We have a good backlog, our markets are in the early phase of a growth cycle and we are increasing market share in our various sectors. Our Landing Gear Division has numerous programs in progress and several others in negotiation. The Aerostructure Division is working on diversifying its customer base and expanding the scope of its sub-assemblies. Finally, our Gas Turbine Components Division is broadening its scope to wind energy, a rapidly-growing sector, and to the construction and resource sectors, both growth markets as well.

IN THE NEAR TERM, WE ARE LOOKING FOR INTERNAL GROWTH, AND WE CONSIDER THE OUTLOOK TO BE QUITE POSITIVE.

QUESTIONS & ANSWERS

Gilles Labbé | President and CEO

Certainly for the current year, we foresee solid growth. In fiscal 2007, we will begin to see the impact of major contracts signed in the past 18 months. For instance, the $180 million USAF repair and overhaul contract signed in December 2004 began to produce a revenue stream about halfway through last year, so we will see the full effect in fiscal 2007. Add to this the Boeing 777 contract signed in August 2005, the B-777 contract in October 2005 and the Lockheed-Martin JSF contracts signed in the second half of fiscal 2006.

We are also presently in negotiation on additional supply contracts attributable to the growing Aerospace and Industrial markets. It is expected that we will be able to return to our traditional 10% levels of growth this year.

WHAT IS THE COMPANY'S STRATEGY; SHORT-TERM AND LONG-TERM?

Short-term our first goal is a return to profitability. We intend to focus on continuous improvement in quality and deliveries and trimming waste and costs through lean manufacturing methods. We will continue to develop our sites into centers of excellence with the goal of becoming recognized as a second-to-none manufacturer of complex components and specialty replacement parts and a second-tier sub-assemblies integrator. In order to ensure full use of our total capacity and capabilities, we are standardizing our information systems across our business units and our machinery platforms in our plants so as to be able to efficiently transfer products and best practices across our sites.

We intend to build a long-term sustainable business in three core areas: Landing Gear, Aerostructure and Industrial, with a balanced mix of civil, military and industrial products. We plan to grow internally and through strategic alliances, and to participate in the North American consolidation of our industry. At the same time, we will maintain our focus on human resources, and build on our culture of entrepreneurship by fostering the participation, dedication and commitment of our employees.

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WILL HÉROUX-DEVTEK BE AN INDUSTRY CONSOLIDATOR? WHEN CAN WE EXPECT THE NEXT ACQUISITION?

Yes, we intend to participate in the North American market consolidation of our industry. However, our primary and clear focus is a return to profitability. While we stay abreast of the business opportunities in our industry, we are concentrating all of our energies on achieving this primary goal before turning our focus to possible acquisitions.

WHAT ARE YOUR VIEWS ON THE FUTURE SHORTAGE OF SKILLED LABOUR IN YOUR INDUSTRY?

At Héroux-Devtek, first and foremost, we are working to retain the skilled people that we currently employ, and to develop our human resource strengths internally. We also aim to be an employer of choice, so as to be able to attract the best talent. That being said, we do not anticipate a substantial increase in our manpower requirements over the next few years. We expect to be able to meet our medium-term growth forecasts with essentially the same number of employees that we have now. Montreal is an aerospace centre, and therefore has good training programs already in place in our high schools, and universities. We do, however, need to promote our sector so as to attract students who may have been discouraged by industry layoffs during the recent downturn.

DO YOU EXPECT TO BE PROFITABLE IN FISCAL 2007?

Heroux-Devtek will remain in a transition period through fiscal 2007. However, we expect that sales volumes will increase in fiscal 2007, which means that our plants will operate at a higher capacity utilization rate and we will better absorb our fixed overhead costs. Increased market activity also means that pricing pressures have eased, and we anticipate that some of the contracts signed during more difficult times will be renewed at improved margins. In addition, new contracts now provide for the risk associated with raw materials price increases to be shared with the customer. And finally, the lean manufacturing initiatives that we have introduced in recent years are producing improved results in terms of productivity.

WHAT MAKES HÉROUX-DEVTEK A SUSTAINABLE INVESTMENT?

In the past 18 months, we have signed numerous long-term contracts with better profit margins that will provide us with sustainable revenue for the next seven to ten years.

We have invested in large programs that will extend well beyond that period, such as the JSF and Unmanned Air Vehicle (UAV). At the same time, we have diversified and will continue to diversify our Industrial business into wind energy and natural resources, and the gas turbine market will eventually enter a new growth cycle.

Héroux-Devtek enjoys an enviable financial position, with low debt. We also have a solid management team and skilled manpower in place. Together, these elements provide us with the stability we need to support sustainable growth.

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, 2005 and March 31, 2006. It also compares the operating results and cash flows for the year ended March 31, 2006 to those for the previous year.

This analysis should be read in conjunction with the audited consolidated financial statements dated March 31, 2006. Héroux-Devtek's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The Company reports its results in Canadian dollars. All amounts in this MD&A are in Canadian dollars unless otherwise indicated.

FORWARD-LOOKING STATEMENTS

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

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

Although the Company believes that the expectations conveyed by the forward-looking statements are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Company or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements.

OVERVIEW

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

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

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

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

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

The Company's sales by segment are as follows:

	2006	2005
Aerospace	**91 %**	91 %
Industrial	**9 %**	9 %
	100 %	**100 %**

Héroux-Devtek sells mainly to original equipment manufacturers (OEMs) such as GE, Lockheed Martin, Bombardier and Boeing, and into the aftermarket, where its main customers are the U.S. Air Force (USAF) and U.S. Navy. In fiscal 2006, sales to these customers represented approximately 64% of total sales.

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

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

BUSINESS STRATEGY

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

In practice, this translates into:

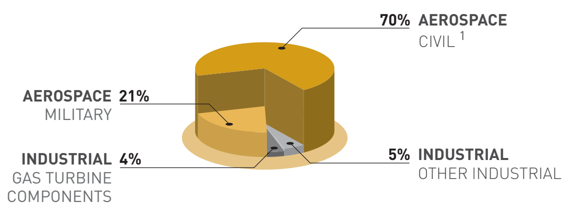
- A focused factory approach, with each plant specializing in a specific type of component;
- Standard, compatible information systems across the Company;
- Migration of technical and managerial know-how between divisions;
- A lean manufacturing approach in all its plants;
- Revenue stability through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

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

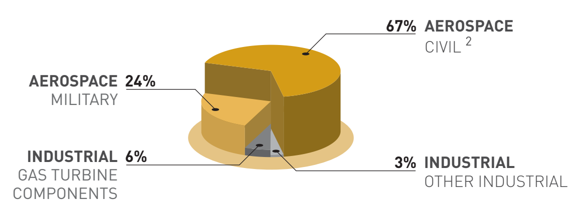
- Develop valued-added, proprietary products through design engineering;
- Establish or enhance its presence in certain product markets, such as the after-market repair and overhaul of commercial and military landing gear, design and manufacturing of small landing gear, and large structural assemblies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

BREAKDOWN OF SALES BY SECTOR

2006 → Aerospace 91% - Industrial 9%



2005 → Aerospace 91% - Industrial 9%



[1] 43% commercial products, 27% military products sold to civil customers
[2] 39% commercial products, 28% military products sold to civil customers

KEY PERFORMANCE INDICATORS

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

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

MARKET TRENDS

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

The commercial aerospace market, which started a turnaround last year, showed a steady growth this year with, Boeing[1] and Airbus[2] deliveries increasing by 10%.

As indicated last year, the regional jet market is shrinking, with reduced demand for 50-seaters[3]. However, the outlook for 70- to 90-seaters looks promising for the next three years should the financial situation of the airlines improve[4].

Deliveries of business jets are up 20%, with 754 units[5] delivered in calendar 2005 compared to 591 units in 2004. The outlook for the next four to five years is positive.

The military market remains solid again this year. This market is adapting to unconventional war with helicopters and small weapons. This opens new possibilities in this market. Furthermore, there is continued interest in unmanned aircraft vehicles ("UAV").

After a major decline in the last couple of years, the power generation market has stabilized somewhat and is expected to experience slight growth in fiscal 2007[6].

In fiscal 2006, the Company made inroads into the new and promising wind energy market. This source of "green" energy is very promising, with growth expected for the next 10 years[7].

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

MAJOR ACHIEVEMENTS OF FISCAL 2006

Closing of the sale of the Logistics and Defence Division, Diemaco

The Company entered into an agreement with Colt Defence LLC, a U.S. company, for the sale of its Logistics and Defence Division, Diemaco, in February 2005. The sale transaction closed on May 20, 2005 (see Note 4 to the consolidated financial statements).

Successful public offering

In November 2005, 4.5 million common shares were sold at a price of $3.75 per share for gross proceeds of $16,875,000.

[1] Source: Boeing press releases
[2] Source: Airbus press releases
[3] Source: Forecast International
[4] Source: Forecast International
[5] Source: GAMA (General Aviation Manufacturer Association)
[6] Source: GEPS (General Electric Power System)
[7] Source: EWEA (European Wind Energy Association)

Extension of credit facilities

The Company's credit facilities, allowing it to borrow up to $80 million, were extended to March 21, 2007.

Financial turnaround

The Company posted profits in the last two quarters of fiscal 2006.

Major contracts awarded or renewed in fiscal 2006

- →→→ $125 million contract to supply landing gear components for the Boeings' B-777 aircraft over the next 10 years;
- →→→ $62.6 million contracts for the provision of the following:
  - Major structural machined components and assemblies for the F-35 Joint Strike Fighter (JSF) Short-Take-Off / Vertical Landing (STOVL) aircraft currently in the development phase. Deliveries will run through fiscal 2008;
  - Major components for the B-777 aircraft to Boeing. The work will be performed over 3 years and commenced in fiscal 2006;
  - Landing Gear components and complete assemblies for the F-15 and F-16 fighter aircraft, and B-1B aircraft to be delivered over 3 years and commenced in fiscal 2006;
- →→→ Additional contracts for over $20 million with the USAF and the U.S. Navy for the production of landing gear components for the KC135R, C-130, B1B aircraft and the P-3, to be delivered over the next four years;
- →→→ $12 million in new contracts with Lockheed Martin for work on the Conventional Take-Off and Landing (CTOL) versions of the F-35 Joint Strike Fighter (JSF), currently in the development phase.

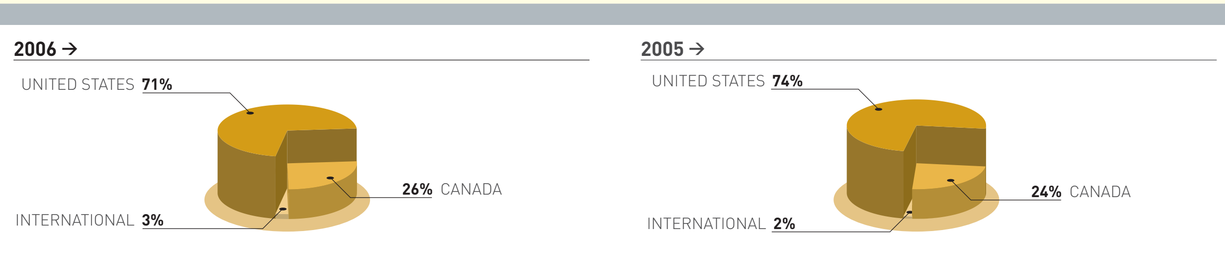
Kitchener plant expansion

Work began on expanding the Kitchener landing gear plant by 27,000 square feet to accommodate new work on the B-777. The $12 million expansion will be completed by December 2006.

Progressive plant expansion

The Company announced a 12,500 square feet extension to its main plant in Arlington, Texas, to support work on the JSF and other aircraft programs, extension which should be operational by the end of the second quarter of the current fiscal year.

GEOGRAPHIC SALES BREAKDOWN



SELECTED ANNUAL FINANCIAL INFORMATION

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

Years ended March 31 ($'000, except per share data)	**2006**	**2005**	**2004** Restated [1]
Sales	**256,197**	232,998	192,678
Restructuring charges, net of income tax recovery	**–**	–	(694)
EBITDA	**20,907**	14,623	9,249
Net loss from continuing operations	**(406)**	(4,291)	(3,972)
Net income from discontinued operations	**8,661**	2,162	1,637
Net income (loss)	**8,255**	(2,129)	(2,335)
Loss per share from continuing operations ($) – basic and diluted	**(0.01)**	(0.16)	(0.17)
Earnings per share from discontinued operations ($) – basic and diluted	**0.30**	0.08	0.07
Earnings (loss) per share ($) – basic and diluted	**0.29**	(0.08)	(0.10)
Total assets from continuing operations	**315,673**	295,197	262,948
Long-term debt	**50,637**	65,660	59,464
Cash and cash equivalents	**20,863**	9,550	53,599

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

Years ended March 31 ($'000)	**2006**	**2005**	**2004** restated [1]
Net loss from continuing operations	**(406)**	(4,291)	(3,972)
Income tax recovery	**(425)**	(2,043)	(3,041)
Restructuring charges	**–**	–	1,052
Financial expenses	**4,221**	4,009	1,920
Amortization	**17,517**	16,948	13,290
EBITDA	**20,907**	**14,623**	**9,249**

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

The Company's results improved in fiscal 2006 due to an improved performance by the Landing Gear Division. Sales and EBITDA continued to increase, and the net loss from continuing operations was significantly reduced. These improved results were somewhat tempered by a low production volume at the Gas Turbine Components Division and the even stronger Canadian dollar.

RESULTS OF OPERATIONS

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

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

CONSOLIDATED SALES

Consolidated sales for the year ended March 31, 2006 rose 10.0% to $256.2 million from $233.0 million last year, essentially due to the increase in landing gear sales for large civil aircraft and business jets. However, sales were negatively affected by the strength of the Canadian dollar relative to the U.S. dollar, which reduced sales figures by $15.7 million or 6.7%.

The Company's sales by segment were as follows:

	2006 ($'000)	2005 ($'000)	% Change
Aerospace	**233,752**	211,689	10.4
Industrial	**22,445**	21,309	5.3
Total	**256,197**	**232,998**	**10.0**

Aerospace Segment

Sales for the Aerospace segment were as follows:

	2006 ($'000)	2005 ($'000)	% Change
Landing Gear	**143,476**	116,864	22.8
Aerostructure	**75,129**	75,913	(1.0)
Aircraft Engine Components	**15,147**	18,912	(19.9)
Total	**233,752**	**211,689**	**10.4**

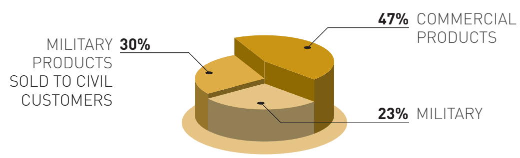
Aerospace sales rose by 10.4% to $233.7 million from $211.7 million last year. The increase was primarily due to the improved results at our Landing Gear Division. This improved performance comes from the continued growth in large civil and business jet sales and, military sales to civil customers, along with the impact in the last two quarters of the year of the supply of materials under the USAF repair and overhaul contract, which started last August.

Aerostructure sales were almost flat, year-over-year, with an increased built rate on business jet and turbo prop (commuter) contracts offset by reduced regional jets sales.

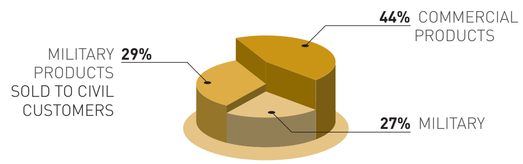
Aircraft engine components sales declined almost 20% to $15.1 million. These sales were impacted this year by the completion of a military contract and by certain delivery and quality issues at our Gas Turbine Division, which caused a customer to terminate the manufacturing of certain commercial parts. Aircraft Engine Component sales totalled $1.9 million in the last quarter of fiscal 2006.

AEROSPACE SALES

2006 →



2005 →



Industrial Segment

Sales for the Industrial segment were as follows:

	2006 ($'000)	2005 ($'000)	% Change
Gas Turbine	**11,117**	13,206	(15.8)
Other Industrial	**11,328**	8,103	39.8
Total	**22,445**	**21,309**	**5.3**

Industrial sales increased by 5.3% to $22.4 million from $21.3 million last year, driven by the wind energy market, which added $1.7 million to other industrial sales.

Sales by Destination

With the Company's improved commercial sales to Canadian customers, sales by destination changed as shown below:

	2006 (%)	2005 (%)
Canada	**27**	24
U.S.	**71**	74
International	**2**	2
Total	**100**	**100**

GROSS PROFIT

Consolidated gross profit improved from 5.8% to 7.5% of sales in fiscal 2006 in spite of a 1.4% negative impact attributable to the continued strength of the Canadian dollar relative to the US currency. The increase reflects the overall increase in sales, which contributed to a better absorption of manufacturing overhead costs, as well as some improved productivity and pricing on certain civil aerospace contracts.

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

SELLING AND ADMINISTRATIVE EXPENSES

Selling and administrative expenses were as follows:

	2006	2005
Selling and administrative expenses ($'000)	**15,847**	15,746
% of sales	**6.2 %**	6.8 %

Selling and administrative expenses were almost flat in dollars but were actually 0.6% lower as a percentage of sales. The increased variable costs associated with the Company's higher sales were substantially offset by the favourable impact of the stronger Canadian dollar on these expenses.

Selling and administrative expenses include a gain on currency translation of $646,000 this year compared to $916,000 last year.

OPERATING INCOME (LOSS)

Aerospace Segment

Aerospace operating income was $6.2 million or 2.7% of sales this year, compared to $1.0 million or 0.1% of sales last year, reflecting higher sales and the improved performance of the Landing Gear Division.

Industrial Segment

The operating loss of $2.9 million or (12.7)% of sales in the industrial segment, compares to last year's figures of $3.3 million or (15.5)% of sales, and reflects the slight increase in industrial segment sales. The negative operating margins for the industrial segment are essentially caused by the overall low business volume and the related high unabsorbed manufacturing overhead costs.

Financial Expenses	2006 ($'000)	2005 ($'000)
Interest	**3,707**	4,112
Amortization of deferred financing costs	**388**	307
Standby fees	**261**	181
Gain on financial derivative instrument	**-**	(528)
Amortization of net deferred loss related to a financial derivative instrument	**138**	148
Interest revenue	**(273)**	(211)
Financial expenses	**4,221**	**4,009**

The increase in financial expenses can be explained by the $528,000 gain on financial derivative instrument recorded in fiscal 2005 and the general increase in interest rates this year, mainly in the US. The reduction in interest expenses is mainly due to the $22.7 million in net capital repayments on the Company's long-term debt since the beginning of the current fiscal year following the sale of Diemaco in the first quarter and the closing of the 4.5 million common shares offering in November.

On May 20, 2004, the Company designated its interest rate swap agreement as a hedging instrument to be recorded under the hedge accounting rules. This resulted in a gain of $528,000, representing the change in the fair value of the interest rate swap agreement between April 1, 2004 and May 20, 2004.

DISCONTINUED OPERATIONS

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

A significant portion of the net proceeds from the sale of Diemaco was used to repay $15.3 million on the Company's Secured Syndicated Revolving Credit Facilities.

INCOME TAX RECOVERY, INCOME TAX RECEIVABLE AND FUTURE INCOME TAX ASSETS

Income Tax Recovery

The income tax recovery for fiscal 2006 amounted to $0.4 million compared to $2.0 million for the previous year. Although the reduced recovery amount is primarily a function of the significant reduction in the loss from continued operations on a year-over-year basis, certain items particular to fiscal 2006 had a direct impact on the income tax recovery for the year.

The combined Canadian federal and provincial income tax rate, given the mix by jurisdiction as well as the combination of profitable and unprofitable business units, was 28.6% for fiscal 2006 compared to 32.6% last year. The aforementioned mix caused a reduction of the combined income tax rate from 32.5% to 28.6% for fiscal 2006. When applied to the consolidated loss before income tax recovery and discontinued operations for the fiscal year 2006, this rate resulted in an income tax recovery of $0.2 million. The actual recovery was increased by $1.2 million due to favorable permanent differences ($1.5 million last year) and by $0.5 million as a result of re-evaluating the relevant net future tax assets in line with Quebec provincial income tax rate increases from 8.9% to 11.9% over a three-year period, enacted during the year. The main offset to the foregoing is the valuation allowance of $0.5 million this year ($1.5 million last year) taken by means of non-recognition of certain income tax benefits in relation to the pre-tax loss of a Canadian subsidiary (see Note 17 to the consolidated financial statements).

Income Tax Receivable

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

Future Income Tax Assets

The current future income tax assets amounted to $8.9 million at March 31, 2006, in comparison to $7.2 million a year ago. The main difference is the $0.8 million increase in tax benefits related to certain non deductible inventory provisions this year.

Long-term future income tax assets amounted to $6.5 million at March 31, 2006, a reduction of $1.1 million in comparison to last year. This reduction is mainly attributable to the use of previously recorded tax loss benefits in the amount of $1.6 million this year (see Note 17 to the consolidated financial statements).

NET LOSS

For fiscal year 2006, the Company posted a net loss from continuing operations of $0.4 million compared to a net loss of $4.3 million last year, as shown below:

	2006	**2005**
Net loss from continuing operations ($'000)	**(406)**	(4,291)
Net income from discontinued operations ($'000)	**8,661**	2,162
Net income (loss) ($'000)	**8,255**	(2,129)
Loss per share from continuing operations ($) – basic and diluted	**(0.01)**	(0.16)
Earnings per share from discontinued operations ($) – basic and diluted	**0.30**	0.08
Earnings (loss) per share ($) – basic and diluted	**0.29**	(0.08)

Earnings (loss) per share figures are based on weighted-averages of 28,727,386 common shares outstanding for fiscal 2006 and 26,932,650 for the previous year. The increase is essentially due to the 4.5 million common share offering completed last November, and the issuance of 34,047 common shares pursuant to the Company's stock purchase and ownership incentive plan (see Note 15 to the consolidated financial statements).

On May 31, 2006, the date of this MD&A, the Company had 31,493,546 common shares and 873,021 stock options outstanding.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2006, the Company had cash and equivalents amounting to $20.9 million, compared to $9.6 million a year earlier.

Operating Activities

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

	2006 ($'000)	2005 ($'000)
Cash flows from continuing operations	**20,007**	11,934
Net change in non-cash items related to operations	**(3,130)**	(17,908)
Cash and cash equivalents provided by (used for) operating activities	**16,877**	**(5,974)**

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

For fiscal 2005, the net change in non-cash items reduced cash flows from continuing operations by $17.9 million. The main reasons for this were the following: accounts receivable increased by $4.1 million due to higher fourth quarter sales; other receivables rose by $3.3 million, reflecting mainly tooling costs invoiced to customers; inventories grew by $3.6 million, primarily on the strength of higher business volume at the Landing Gear Division at fiscal year-end 2005; other current assets were up $2.3 million because of deposits for the purchase of machinery and equipment included in this item; and finally, customer advances at the Landing Gear Division declined by $5.0 million during the course of fiscal 2005 since they were liquidated as deliveries were made on the related sales contracts. All these net uses of cash flows were somewhat offset by a $2.8 million increase in accounts payable and accrued liabilities at March 31, 2005 (see Note 18 to the consolidated financial statements).

Investing Activities

The Company's investing activities were as follows:

	2006 ($'000)	2005 ($'000)
Purchase of property, plant and equipment and finite-life intangible assets	**(13,391)**	(13,370)
Proceeds on disposal of property, plant and equipment	**305**	1,388
Business acquisition, net of cash acquired	**(3,425)**	(67,349)
Proceeds from the sale of Logistics and Defence Division, Diemaco	**19,035**	–
Cash and cash equivalents provided by (used for) investing activities	**2,524**	**(79,331)**

The Company's investing activities provided cash and cash equivalents of $2.5 million, having used $79.3 million last year.

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

Investments in business acquisition represent essentially the acquisition of Progressive on April 1, 2004 and additional payments of $3.4 million made in 2006 related to profitability performance at Progressive for fiscal 2005. The last additional payment to be made related to profitability performance for fiscal 2006 was estimated at US $1 million ($1.2 million) and was accrued for at March 31, 2006 (see Note 3 to the consolidated financial statements).

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

Investments in capital expenditures for fiscal 2007 are expected to be close to $25 million.

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

Financing Activities

The Company's financing activities were as follows:

	2006 ($'000)	2005 ($'000)
Increase in long-term debt	**17,590**	51,488
Repayment of long-term debt	**(40,287)**	(24,335)
Issuance of common shares	**15,790**	16,386
Other	**(210)**	(530)
Cash and cash equivalents provided by (used for) financing activities	**(7,117)**	**43,009**

During the first quarter of fiscal year 2006, subsequent to the sale of the Logistics and Defence Division, Diemaco, the Company repaid $15.3 million on its Secured Syndicated Revolving Term Credit Facilities.

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

In fiscal 2005, in order to finance the acquisition of Progressive, the Company used $36.4 million from its Secured Syndicated Revolving Credit Facilities and issued 3.5 million common shares for proceeds of $16.2 million. The Company also drew an additional $15.1 million and repaid a total of $20.6 million on its credit facilities.

At the end of the third quarter ended December 31, 2005, the Company concluded the annual extension of its credit facilities from March 21, 2006 to March 21, 2007.

The Company was in compliance with all its restrictive debt covenants at March 31, 2006, and expects to continue to comply with these restrictive financial covenants in fiscal 2007.

PENSION PLANS

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

	2006 ($'000)	**2005** ($'000)
Deficit	**14,662**	14,285
Accrued liabilities (included in other liabilities)	**6,716**	6,949

The pension plan deficit of $14.7 million at March 31, 2006 includes $9.5 million in pension plan obligations related to unregistered pension plans, primarily for ex-executives of Devtek Corporation which was acquired by the Company in June 2000, that do not require funding of the deficit. Funding occurs as pension benefits are paid to the retired executives.

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

At March 31, 2006, the Company had 31,488,599 common shares outstanding (26,954,552 in 2005).

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

In fiscal 2005, the Company issued 3.55 million common shares for a total net cash consideration of $16.4 million. Of these, 3.5 million common shares were issued at a price of $4.90 for a net cash consideration of $16.2 million in conjunction with the financing and closing of the Progressive acquisition. The remaining 52,993 common shares were issued under the Stock Purchase Plan (17,993 common shares) and pursuant to the exercise of stock options (35,000 common shares) for a total cash consideration of $0.2 million.

As of March 31, 2006, 873,021 stock options were issued and outstanding with weighted-average maturity of 4.2 years and a weighted-average exercise price of $5.72 (see Note 15 to the consolidated financial statements).

Changes to the Company's Stock Option Plan

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

These changes are subject to the approval of the Toronto Stock Exchange and by the shareholders of the Company at the next annual general meeting on August 3, 2006.

FOREIGN EXCHANGE

The Company is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its self-sustaining foreign operations and from transactions denominated in foreign currency. The year-end and average exchange rates were as follows at March 31, 2006 and 2005 and for the fiscal years then ended:

Canada / US Exchange Rates		2006	2005
Year-end exchange rates used to translate assets and liabilities	1$ Canadian/US $ equivalent	**1.1680**	1.2096
	US $ equivalent	**0.856**	0.827
Average exchange rates used to translate revenues (sales) and expenses	1$ Canadian/US $ equivalent	**1.1982**	1.3079
	US $ equivalent	**0.835**	0.765

The Company makes use of derivative contracts to hedge foreign currency fluctuation exposure or risks in an effort to mitigate these risks. At March 31, 2006, the Company had forward foreign exchange contracts totalling US $146.5 million at an average exchange rate of 1.2617 (US$ 128.0 million at an average exchange rate of 1.3308 at March 31, 2005) maturing over the next four fiscal years, the majority of which mature over the next two fiscal years. (See off-balance sheet items and commitments below).

CONSOLIDATED BALANCE SHEETS

The following table itemizes and explains the significant changes in the consolidated balance sheets between March 31, 2005 and March 31, 2006:

Item	Change ($ Million)	Explanation
Cash and cash equivalents	11.3	See consolidated statements of cash flows
Accounts receivable	8.0	Increase consistent with the higher year-over-year fourth quarter sales
Income tax receivable	3.4	Increase due primarily to the realization of certain income tax attributes of a Canadian subsidiary wound-up into the Company prior to year-end
Property, plant and equipment, net	(4.3)	Due to: Purchase of capital assets ($12.5 million) Net of: Amortization ($15.1 million) Net proceeds ($0.3 million) A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.4 million)
Finite-life intangible assets, net	(1.8)	Represents mainly the amortization of the underlying value of the net backlog acquired as part of the acquisition of Progressive
Goodwill	2.6	Due to the variation in additional payments to the sellers related to the profitability performance of Progressive ($3.1 million), net of the lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($0.5 million)
Accounts payable and accrued liabilities	10.9	Consistent with the higher level of activity and to the increase in raw material purchases in the fourth quarter
Income tax payable	1.9	Due mainly to the tax impact related to the gain on sale of the Logistics and Defence Division, Diemaco
Long-term debt (including current portion)	(24.1)	Mainly due to: Increase in non-interest bearing loans ($3.1 million) Net of: Net capital repayments of long-term debt ($25.8 million) mainly on the Secured Syndicated Revolving Credit Facilities; and A lower US exchange rate used to convert the net assets of self-sustaining US subsidiaries ($1.4 million)
Future income taxes (long-term liabilities)	3.6	Increase represents mainly the counter-part of the realization of the income tax attributes explained above.
Capital stock	16.2	Due to: Net proceeds from the 4.5 million common share issue ($15.7 million) Future income tax impact relating to common share issue fees and expenses ($0.4 million) Net proceeds related to the Company's stock purchase and ownership incentive plan ($0.1 million)
Cumulative translation adjustment	(2.0)	Represents the counterpart of the impact of foreign exchange rate fluctuations on the net assets of self-sustaining US subsidiaries
Retained earnings	8.3	See consolidated statements of retained earnings

The Company's working capital ratio was 1.76:1 on March 31, 2006 compared to 1.48:1 on March 31, 2005, while the long-term debt-to-equity ratio was 0.33:1 on March 31, 2006 compared to 0.51:1 on March 31, 2005. At March 31, 2006, the balance sheet included cash and cash equivalents of $20.9 million. At March 31, 2005, cash and cash equivalents stood at $9.6 million.

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

		Payments due by period			
Contractual Obligations ($'000)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Non-interest-bearing loans	**17,268**	2,638	5,126	3,395	6,109
Capital leases (including interest expenses)	**9,595**	3,079	5,922	594	–
Operating leases – Machinery and equipment	**10,688**	2,955	3,936	2,165	1,632
Operating leases – Buildings	**1,003**	451	499	53	–
Sub-total, contractual obligations	**38,554**	**9,123**	**15,483**	**6,207**	**7,741**
Secured Syndicated Revolving Credit Facilities, if not extended next year					
Operating credit facilities	**5,840**	5,840	–	–	–
Term credit facilities	**29,966**	–	11,988	17,978	–
Total contractual obligations	**74,360**	**14,963**	**27,471**	**24,185**	**7,741**

Off-Balance Sheet Items and Commitments

The Company had entered into operating leases amounting to $11.7 million as at March 31, 2006, mainly for machinery and equipment. All these amounts are repayable over the next seven years (see Note 20 to the consolidated financial statements). At March 31, 2006, the Company also had machinery and equipment purchase commitments totalling $7.4 million (see Note 20 to the consolidated financial statements).

At March 31, 2006, the Company had forward foreign exchange contracts with Canadian chartered banks totalling US $146.5 million at an average exchange rate of 1.2617. These contracts relate mainly to its export sales, and mature at various dates between April 2006 and December 2009 (see Note 5 to the consolidated financial statements). This compares to US $128.0 million in forward foreign exchange contracts held at March 31, 2005 at an average exchange rate of 1.3308.

CRITICAL ACCOUNTING ESTIMATES

Design-to-manufacture contracts and major assembly manufacturing contracts

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

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

→→→ Estimated average production unit cost; and

→→→ Production accounting quantities.

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

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

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

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

Goodwill

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

Pension plans and other employee post-retirement benefits

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

A lower discount rate increases benefit costs and obligations. A 1% change in the discount rate would have an impact of approximately $0.2 million and $4.0 million, respectively, on the Company's pension plan expense and accrued benefit obligation.

A lower expected rate of return on pension plan assets also increases benefit costs. A 1% change in the return assumption would have an impact of approximately $156,000 on the Company's pension plan expense.

Income taxes

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

FUTURE CHANGES IN ACCOUNTING POLICIES

The following standards may, when adopted, have a material impact on the Company consolidated financial statements:

- Financial instruments – Recognition and measurement;
- Hedges; and
- Comprehensive income.

These standards will be effective for the Company for the first quarter of fiscal year 2008. The principal impacts of the standards are summarized below:

Financial instruments – Recognition and measurement

- All derivative financial instruments, including embedded derivatives that are not closely related to the host contract, must be recorded on the balance sheet and measured at fair value.
- All financial assets must be classified as held for trading, available for sale, held to maturity or as loans and receivables, and measured either at fair value, cost or amortized cost.
- Gains and losses on financial instruments measured at fair value must be recognized in the income statement or in their comprehensive income.

Hedges

Hedges can be designed as either fair value hedges, cash flow hedges or hedges of a net investment in a self sustaining foreign operation. Gains and losses as a result of changes in the fair value of hedging instruments which qualify for hedge accounting must be recognized to income, together with the offsetting gains or losses on the hedged risk in the change period or to other comprehensive income if certain criteria are met, with subsequent reclassification to income when the hedged item affects income.

Comprehensive income

Comprehensive income is the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. Comprehensive income and its components must be presented in the consolidated financial statements with the same prominence as other financial statements that constitute the complete set of consolidated financial statements.

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

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

At March 31, 2006 and 2005, Company management proceeded with the certification on disclosure controls and procedures by its Chief Executive Officer (CEO) and Chief Financial Officer (CFO).

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

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

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

At March 31, 2006 an evaluation was carried out, under the supervision of the CEO and the CFO of the effectiveness of the Company's disclosure controls and procedures as defined in Multilateral Instruments 52-109. Based on this evaluation, the Company's CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective.

The required certification on disclosure controls and procedures and their effectiveness will be filed on SEDAR on or before June 28, 2006.

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

RISKS AND UNCERTAINTIES

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

Reliance on Large Customers

The Company has exposure due to its reliance on certain large contracts and customers. The Company's six largest customers account for approximately 64% of its sales. Any loss or delay in certain orders from any of these customers could have a negative impact on the Company's results.

Availability and Cost of Raw Materials

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

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

Operational Risks

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

General Economic Conditions

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

Military Spending

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

Foreign Currency Fluctuations

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

Liquidity and Access to Capital Resources

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

Restrictive Debt Covenants

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

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

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

Changing Interest Rates

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

External Business Environment

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

Warranty Casualty Claim Losses

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

Environmental Matters

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

Collective Bargaining Agreements

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

Skilled Labour

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

Héroux-Devtek does not anticipate a substantial increase in its manpower requirements over the next few years. The Company is therefore addressing this risk by developing its human resource strengths internally and by working to retain the skilled employees that it currently has and attract the best talent by fostering a strong sense of corporate culture. In 2006, management filled a senior position that includes responsibility for the Company's human resources.

SELECTED QUARTERLY FINANCIAL INFORMATION

($'000 except per share data)	Total	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
For the fiscal year ended March 31, 2006					
Sales	**256,197**	53,917	62,303	66,853	73,124
Net income (loss) from continuing operations	**(406)**	(2,432)	(256)	743	1,539
Net income (loss) from discontinued operations	**8,661**	8,844	–	–	(183)
Net income (loss)	**8,255**	6,412	(256)	743	1,356
Earnings (loss) per share from continuing operations ($) – basic and diluted	**(0.01)**	(0.09)	(0.01)	0.03	0.05
Earnings (loss) per share from discontinued operations ($) – basic and diluted	**0.30**	0.33	–	–	(0.01)
Earnings (loss) per share ($) – basic and diluted	**0.29**	0.24	(0.01)	0.03	0.04
For the fiscal year ended March 31, 2005					
Sales	**232,998**	52,318	57,165	57,101	66,414
Net income (loss) from continuing operations	**(4,291)**	(1,440)	(1,734)	(1,631)	514
Net income from discontinued operations	**2,162**	124	173	744	1,121
Net income (loss)	**(2,129)**	(1,316)	(1,561)	(887)	1,635
Earnings (loss) per share from continuing operations ($) – basic and diluted	**(0.16)**	(0.05)	(0.06)	(0.06)	0.02
Earnings per share from discontinued operations ($) – basic and diluted	**0.08**	–	–	0.03	0.04
Earnings (loss) per share ($) – basic and diluted	**(0.08)**	(0.05)	(0.06)	(0.03)	0.06

After a slow start in the first half of the year, sales picked up in the last two quarters of fiscal 2006. The improved results of the Landing Gear Division helped generate positive figures in the last two quarters.

Fourth Quarter 2006 Results

Traditionally a strong period, the fourth quarter of fiscal 2006 was yet again strong for the Company, with both Landing Gear and Aerostructure showing improved net earnings over last year's fourth quarter due to increased sales and performance.

The adjustment of $(0.2) million in the fourth quarter to the net income from discontinued operations represents the final adjustment at year-end to the provision for income taxes estimated at time of sale related to the gain on sale of Diemaco.

OUTLOOK

The military aerospace market is expected to remain solid for the next three years. The Joint Strike Fighter (JSF) program, considered to be the largest on-going military program over the next 20 years, is still in the development phase, with the first aircraft set for an inaugural flight later this year. Through our Aerostructure Division, the Company is particularly well positioned to grow with the JSF program, scheduled to ramp-up over a seven-year period beginning in calendar 2008.

Aircraft engine component sales have been impacted by delivery and quality issues at the Gas Turbine Components Division, and while improvements have been made, these sales are expected to decline further in the current fiscal year.

With the exception of regional jets, there is good demand for all civil aircraft, particularly for the 100+ seaters. Repair and maintenance business for both civil and military aircraft is expected to increase.

The Gas Turbine Components Division has experienced low business volume, which negatively impacted its overall results. However, modest sales growth is expected in industrial gas turbines, while wind power represents a fast growing sector where the Company is well positioned to benefit in the coming year.

The Company continues to work on managing the negative impact of the low US/Canada exchange rate and high raw materials prices. Based on the actual backlog, the Company's management is expecting an internal sales growth of approximately 10% per year over the next 3 years and an increase in the Company's overall performance with a return to profit in the current fiscal year.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee on May 30, 2006 and by the Board of Directors on May 31, 2006. Updated information on the Company, including the annual information form, can be found on the SEDAR web site at www.sedar.com.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") of Héroux-Devtek Inc. (the "Company") and all other information in this Annual Report are the responsibility of Management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles. The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements.

Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Company has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have also evaluated the effectiveness of such disclosure controls and procedures as of the end of fiscal year 2006. As of March 31, 2006, Management believes that the disclosure controls and procedures effectively provide reasonable assurance that material information related to the Company has been disclosed in the consolidated financial statements and MD&A. Héroux-Devtek Inc.'s Chief Executive Officer and Chief Financial Officer have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Multilateral Instrument 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that Management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and is comprised entirely of independent and financially literate directors.

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

The consolidated financial statements as at March 31, 2006 and 2005 have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

(Signed by)
Gilles Labbé
President and Chief Executive Officer

May 5, 2006

(Signed by)
Réal Bélanger
Executive Vice-President and Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Héroux-Devtek Inc.:

We have audited the consolidated balance sheets of Héroux-Devtek Inc. as at March 31, 2006 and 2005 and the consolidated statements of income (loss), retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed by)
Ernst & Young LLP
Chartered Accountants

Montréal, Québec
May 5, 2006

CONSOLIDATED BALANCE SHEETS

As at March 31, 2006 and 2005

(In thousands of dollars)	Notes	2006	2005
Assets	13		
Current assets			
Cash and cash equivalents		**$ 20,863**	$ 9,550
Accounts receivable		**43,964**	35,955
Income tax receivable		**6,014**	2,660
Other receivables		**7,950**	6,671
Inventories	8	**71,785**	71,726
Prepaid expenses		**1,739**	828
Future income taxes	17	**8,883**	7,211
Other current assets	20	**1,146**	2,339
Discontinued operations	4	**–**	7,834
		162,344	144,774
Property, plant and equipment, net	9	**98,973**	103,294
Finite-life intangible assets, net	3, 10	**9,243**	11,023
Other assets	11	**758**	1,092
Future income taxes	17	**6,476**	7,572
Goodwill	3, 12	**37,879**	35,276
Discontinued operations	4	**–**	9,099
		$315,673	**$312,130**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	20	**$ 76,812**	$ 65,932
Income tax payable		**2,899**	994
Future income taxes	17	**1,239**	1,329
Current portion of long-term debt	13	**11,064**	20,185
Discontinued operations	4	**–**	9,266
		92,014	97,706
Long-term debt	13	**50,637**	65,660
Other liabilities	14	**7,340**	7,613
Future income taxes	17	**13,398**	9,820
Discontinued operations	4	**–**	1,650
		163,389	182,449
Shareholders' Equity			
Capital stock	15	**103,447**	87,269
Contributed surplus	15	**544**	340
Cumulative translation adjustment	16	**(7,372)**	(5,338)
Retained earnings		**55,665**	47,410
		152,284	129,681
		$315,673	**$312,130**

Commitments and contingencies (Notes 20, 21)

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

On behalf of the Board of Directors

(Signed by)
Christian Dubé
Director

(Signed by)
Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

For the years ended March 31, 2006 and 2005

(In thousands of dollars, except per share data)

	Notes	2006	2005
Sales		**$256,197**	$232,998
Cost of sales	6	**219,443**	202,629
Amortization		**17,517**	16,948
Gross profit		**19,237**	13,421
Selling and administrative expenses	7	**15,847**	15,746
Operating income (loss)		**3,390**	(2,325)
Financial expenses, net	13	**4,221**	4,009
Loss before income tax recovery and discontinued operations		**(831)**	(6,334)
Income tax recovery	17	**(425)**	(2,043)
Net loss from continuing operations		**(406)**	(4,291)
Net income from discontinued operations	4	**8,661**	2,162
Net income (loss)		**$ 8,255**	**$ (2,129)**
Loss per share from continuing operations – basic and diluted		**$ (0.01)**	$ (0.16)
Earnings per share from discontinued operations – basic and diluted		**$ 0.30**	$ 0.08
Earnings (loss) per share – basic and diluted		**$ 0.29**	**$ (0.08)**
Weighted-average number of shares outstanding during the year		**28,727,386**	26,932,650

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended March 31, 2006 and 2005

(In thousands of dollars)

	Notes	2006	2005
Balance at beginning of year – as previously reported		**$ 47,410**	$ 49,361
Change in accounting policies	2	**–**	178
Balance at beginning of year – restated		**47,410**	49,539
Net income (loss)		**8,255**	(2,129)
Balance at end of year		**$ 55,665**	**$ 47,410**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2006 and 2005

(In thousands of dollars)	Notes	2006	2005
Cash and cash equivalents provided by (used for):			
Operating activities			
Net loss from continuing operations		**$ (406)**	$ (4,291)
Items not requiring an outlay of cash:			
Amortization		**17,517**	16,948
Future income taxes	17	**1,997**	(1,022)
Loss (gain) on sale of property, plant and equipment		**(18)**	59
Amortization of deferred financing costs		**388**	307
Gain on financial derivative instrument	13	**–**	(528)
Amortization of net deferred loss related to a financial derivative instrument	2, 13	**138**	148
Accretion expense of asset retirement obligations	2	**187**	200
Stock-based compensation	15	**204**	113
Cash flows from continuing operations		**20,007**	11,934
Net change in non-cash items related to operations	18	**(3,130)**	(17,908)
Cash and cash equivalents provided by (used for) operating activities		**16,877**	**(5,974)**
Investing activities			
Purchase of property, plant and equipment and finite-life intangible assets		**(13,391)**	(13,370)
Proceeds on disposal of property, plant and equipment		**305**	1,388
Business acquisition, net of cash acquired	3	**(3,425)**	(67,349)
Proceeds from the sale of a business	4	**19,035**	–
Cash and cash equivalents provided by (used for) investing activities		**2,524**	**(79,331)**
Financing activities			
Increase in long-term debt	13	**17,590**	51,488
Repayment of long-term debt	13	**(40,287)**	(24,335)
Issuance of common shares	15	**15,790**	16,386
Other		**(210)**	(530)
Cash and cash equivalents provided by (used for) financing activities		**(7,117)**	**43,009**
Effect of changes in exchange rates on cash and cash equivalents		**(172)**	(1,483)
Cash and cash equivalents used for discontinued operations		**(799)**	(270)
Change in cash and cash equivalents during the year		**11,313**	**(44,049)**
Cash and cash equivalents at beginning of year		**9,550**	53,599
Cash and cash equivalents at end of year		**$ 20,863**	**$ 9,550**
Supplemental information:			
Interest paid		**$ 3,781**	$ 3,647
Income taxes paid		**$ 2,905**	$ 951

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2006 and 2005 (All dollar amounts in thousands, except share data)

NOTE 1. NATURE OF ACTIVITIES

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Basis of consolidation

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

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

Use of estimates

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

Inventory valuation, revenue recognition and cost of sales

a) Inventory valuation

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

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

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

b) Revenue recognition for all revenue contracts

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

c) Cost of sales

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

→→→ **Other sales contracts**

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

→→→ **Reviews of estimates**

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

Government assistance

Government assistance is recorded as a reduction of the related capital expenditure or expense. In fiscal 2006, the Company recorded as a reduction of cost of sales an amount of $930 ($472 in 2005) for government assistance.

Cash and cash equivalents

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

Long-lived assets

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

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

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

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

Goodwill

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

Translation of foreign currency

→→→ **Self-sustaining foreign operations**

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

→→→ **Foreign currency transactions**

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

Derivative financial instruments

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

→→→ **Forward foreign exchange contracts**

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

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

→→→ **Interest rate swaps**

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

Deferred financing costs

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

Pension Plans and Other Retirement Benefit Plans

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

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

→→→ Actuarial gains (losses) arise from the difference between the actual rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period and from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of active employees. The weighted-average remaining service period of the active employees is 17 years for 2006 and 2005.

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

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

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

Income taxes

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

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

Earnings per share

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Stock-based compensation and other stock-based payments

→→→ **Stock option plan**

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

→→→ **Stock purchase and ownership incentive plan**

The Company has a stock purchase and ownership incentive plan allowing key management employees to subscribe, by salary deduction, to a number of common shares issued by the Company. The common share issuance is accounted for in the Company's capital stock. Also, the Company matches 50% of the employee's contribution, which cannot exceed 10% of the employee's annual base salary, by attributing to the employee, additional common shares acquired on the TSX at market price. However, the Company's matching attribution cannot exceed 4% of the employee's annual base salary. Common shares purchased by the Company on behalf of the employee are accounted for as a compensation expense which is included in the Company's selling and administrative expenses.

→→→ **Stock appreciation right plan**

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

Environmental obligations

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

CHANGE IN ACCOUNTING POLICIES

Asset Retirement Obligations

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

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

The Company's asset retirement obligations represent essentially environmental rehabilitation costs related to the Company's manufacturing plant in Longueuil of which $4,771 is included in the Company's accounts payable and accrued liabilities at March 31, 2006 ($4,626 at March 31, 2005). These rehabilitation costs are expected to be paid over the next two fiscal years.

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

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

The impact of this change in accounting policy on the consolidated statements of income (loss) for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Increase in financial expenses	$ 187	$ 200
(Increase) in income tax recovery	(64)	(68)
Increase of net (income) loss	**$ 123**	**$ 132**

NOTE 3. BUSINESS ACQUISITION

Description of business

On April 1, 2004, the Company concluded the asset purchase agreement and plan for merger signed on February 24, 2004 to acquire all outstanding common shares of Progressive Incorporated (along with the net assets of Promilling LP), ("Progressive"), a Texas-based manufacturer of large structural components in the military sector with approximate annual sales of $50,000. This acquisition was accounted for using the purchase method. The earnings of Progressive have been accounted for in the Company's consolidated statement of income (loss) since the acquisition date and are included in the Aerospace segment. The total initial purchase price representing $74,193 (US$56,356) at the acquisition date (April 1, 2004) was adjusted upward by $247 to $74,440 at March 31, 2006 to reflect the adjustments to the initial estimated tax impacts on the acquisition transaction, net of the additional payments related to additional profitability performance made or provided for. At March 31, 2006, the total adjusted purchase price can be detailed as follows:

Basic purchase price	**$ 64,092**
Tax impacts	**3,421**
Acquisition of a large specialized manufacturing equipment	**4,246**
Transaction costs and other	**2,681**
	$ 74,440

As part of the asset purchase agreement and plan for merger, additional payments of up to $15,798 in total (US$6,000 for fiscal years 2004 and 2005 and US$6,000 for fiscal year 2006), could also be made based on additional profitability performance. At March 31, 2006, total estimated additional payments of $5,329 (US$4,337) were made or provided for. The Basic purchase price was adjusted accordingly.

Financing of the acquisition

In order to finance this acquisition, the Company used $36,409 of its existing Secured Syndicated Revolving Credit Facilities, issued 3,500,000 common shares through private placements for a total net cash consideration of $16,180 and used $21,851, net of the adjustments to the initial purchase price, of its available cash at March 31, 2006. The financing and the total outlay of cash and cash equivalents at March 31, 2006 can be broken down as follows:

Secured Syndicated Revolving Credit Facilities		**$ 36,409**
Issuance of common shares		**16,180**
Cash	**$ 14,610**	
Sale balance in escrow, at time of acquisition	**7,241**	**21,851**
		74,440
Less:		
Cash and cash equivalents acquired		**2,498**
Additional payments provided for		**1,168**
		$ 70,774

Purchase Price Allocation

The identifiable intangible asset related to the acquisition of Progressive, which amounted to $9,601, was attributed to the backlog. The backlog value was determined using a discounted cash flow method. The underlying value of the backlog, which relates to specific sales contracts, is amortized on a pro-rata basis over the life and units delivered of the related sales contracts. The excess of the purchase price over the fair value of the net tangible assets acquired and the acquired backlog amounted to $21,415, net of the adjustments to the initial purchase price. Backlog and goodwill are tax deductible, and the adjusted purchase price allocation at March 31, 2006 can be detailed as follows:

Cash		**$ 2,498**
Tangible assets		
Accounts receivable and other receivables	**3,913**	
Inventories	**14,739**	
Other current assets	**301**	
	18,953	
Property, plant and equipment	**25,983**	**44,936**
Backlog		**9,601**
Goodwill		**21,415**
Accounts payable and accrued liabilities		**(4,010)**
		$ 74,440

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

On February 10, 2005, the Company entered into an agreement with Colt Defence LLC, a U.S. Company, for the sale of its Logistics & Defence Division, Diemaco. Diemaco is a manufacturer of small arms for military forces and law enforcement agencies. The final sale price amounted to $19,035. The sale transaction closed on May 20, 2005. The gain on the sale transaction amounted to $8,385, net of income taxes of $2,521.

All assets and liabilities in the Company's consolidated balance sheets along with revenues and expenses in the Company's consolidated statements of income (loss) and the cash and cash equivalents in the Company's consolidated statements of cash flows related to the Logistics and Defence Division, Diemaco were segregated and presented as discontinued operations.

Sales, income before income taxes and net income related to Diemaco's operations for the period from April 1, 2005 to May 20, 2005, with comparative figures for fiscal year 2005, were as follows:

	2006	2005
Sales	**$ 2,440**	$ 21,530
Income before income taxes	**418**	3,441
Net income (including the gain on sale of Diemaco of $8,385 in 2006)	**8,661**	2,162

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

NOTE 5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Credit risk related to derivative financial instruments

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

Interest rate risk

In order to limit the effect of interest rate variations over the portion of its long-term debt in U.S. currency, the Company has entered into a five-year interest rate swap agreement for an amount of U.S.$10,000. This agreement, dated August 2, 2002, fixes the Libor rate at 4.1% and matures on August 2, 2007.

Foreign exchange risk

The Company entered into forward foreign exchange contracts whereby it will sell at an average exchange rate of 1.2617 an amount of U.S.$146,500 (U.S.$128,000 at an average rate of 1.3308 in 2005) for the purpose of foreign exchange risk management related to its export sales maturing at various dates between April 1, 2006 and December 31, 2009.

Credit concentration and credit risks

A significant portion of the Company's sales, approximately 64%, are made to a limited number (6) of customers (65% to six customers in 2005).

However, credit concentration risks are limited due to the fact that the Company deals generally with large corporations and government agencies, with the exception of sales made to non governmental agencies outside North America, which represent less than 3% of the Company's total sales.

Fair value of financial instruments

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

		2006		2005
	Book value	Fair value	Book value	Fair value
Current portion of long-term debt and long-term debt	**$ 61,701**	**$ 59,142**	$ 85,845	$ 84,339
Off-balance sheet derivative instruments:				
Forward foreign exchange contracts favorable position	**–**	**15,000**	–	16,252
Interest rate swap favorable position	**–**	**167**	–	5

NOTE 5. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONT'D)

The fair values are based on information available to management as at March 31, 2006 and 2005. The estimated fair value of certain financial instruments has been determined using available market information or other valuation methodologies that require considerable judgement in interpreting market data and developing estimates. Accordingly, the estimates presented herein are not necessary indicative of the amounts that the Company could realize in a current market exchange. The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair values.

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

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

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

NOTE 6. COST OF SALES

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

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

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

NOTE 7. SELLING AND ADMINISTRATIVE EXPENSES

Gains or losses on foreign exchange resulting from the conversion of monetary items denominated in foreign currencies are included in the Company's selling and administrative expenses. In fiscal year 2006, the foreign exchange currency gain included in the Company's selling and administrative expenses amounted to $646 ($916 in 2005).

NOTE 8. INVENTORIES

Inventories consist of:

	2006	**2005**
Raw materials	**$ 21,960**	$ 14,450
Work in process and finished goods	**66,623**	66,318
Less: Progress billings	**16,798**	9,042
	$ 71,785	**$ 71,726**

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

At March 31, 2006, the work in process and finished goods include non-recurring costs (development costs, pre-production costs and tooling costs) and the excess over average production costs (production costs incurred in the early stage of a contract, in excess of the average estimated unit cost for the entire contract) of $1,142 ($1,031 in 2005).

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of:

2006	**Cost**	**Accumulated Amortization**	**Net book Value**
Land	**$ 3,537**	**$ –**	**$ 3,537**
Buildings and leasehold improvements	**40,895**	**14,069**	**26,826**
Land and building held for resale	**5,387**	**3,191**	**2,196**
Machinery, equipment and tooling	**145,107**	**79,856**	**65,251**
Automotive equipment	**1,008**	**912**	**96**
Computer and office equipment	**8,172**	**7,105**	**1,067**
	$204,106	**$105,133**	**$ 98,973**

NOTE 9. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

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

The amortization expense of property, plant and equipment amounted to $15,065 in fiscal year 2006 ($14,640 in fiscal year 2005).

At March 31, 2006, cost of machinery, equipment and tooling includes assets acquired through capital leases amounting to $21,545 ($21,609 at March 31, 2005) with accumulated amortization of $6,344 ($4,665 at March 31, 2005).

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

NOTE 10. FINITE-LIFE INTANGIBLE ASSETS

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

	2006	2005
Balance at beginning of year	**$ 11,023**	$ 3,239
Acquisition of software related costs	**937**	1,231
Acquisition of backlog related to the acquisition of Progressive (see note 3)	**–**	9,601
Amortization	**(2,452)**	(2,308)
Effect of changes in exchange rate	**(265)**	(740)
	$ 9,243	$ 11,023

The Finite-life intangible assets consist of:

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

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

NOTE 11. OTHER ASSETS

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

	2006	2005
Deferred financing costs, net	**$ 570**	$ 758
Deferred loss related to financial derivative instrument, net	**188**	334
	$ 758	$ 1,092

NOTE 12. GOODWILL

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

	2006	2005
Balance at beginning of year – as previously reported	**$ 35,276**	$ 22,060
Logistics and Defence Division, Diemaco – discontinued operations (see Note 4)	**–**	(3,443)
Balance at beginning of year	**$ 35,276**	$ 18,617
Acquisition of Progressive, April 1, 2004 (see Note 3)	**–**	21,168
Progressive's acquisition purchase price adjustments (see Note 3)	**3,141**	(2,894)
Effect of changes in exchange rate	**(538)**	(1,615)
	$ 37,879	**$ 35,276**

NOTE 13. LONG-TERM DEBT

	2006	2005
Secured Syndicated Revolving Credit Facilities of up to $80,000 ($100,000 at March 31, 2005) (see below), either in Canadian or U.S. currency equivalent, maturing March 21, 2007 if not extended, extendible annually, which bear interest at Libor plus 1.5% for the U.S. operating and term facilities at March 31, 2006 (representing an effective interest rate of 6.2%) and, Bankers' acceptance plus 2% for the Canadian operating and term facilities at March 31, 2005 (representing an effective interest rate of 4.6%) and Libor plus 2% at March 31, 2005 for the U.S. operating and term facilities (representing an effective interest rate of 4.75%). At March 31, 2006 the Company used U.S.$5,000 ($10,000 and U.S.$5,000 at March 31, 2005) on operating facilities and used U.S.$25,656 ($5,000 and U.S.$32,656 at March 31, 2005) on term facilities.	**$ 35,806**	$ 60,549
Loans bearing no interest, repayable in variable annual instalments, with various expiry dates until 2013.	**17,268**	14,117
Obligations under capital leases bearing interest between 5.4% and 8.1% maturing between July 2006 and October 2009, with amortization periods varying between five to eight years, secured by the related property, plant and equipment, net of interest of $968 ($1,568 in 2005). During fiscal year 2006 and 2005, no capital lease obligations were contracted.	**8,627**	11,179
	61,701	**85,845**
Less: current portion	**11,064**	20,185
	$ 50,637	**$ 65,660**

Secured Syndicated Revolving Credit Facilities

The Secured Syndicated Revolving Credit Facilities ("Credit Facilities") allow the Company and its subsidiaries to borrow up to $80,000 (either in Canadian and U.S. currency equivalent) from a group of banks and their American subsidiaries or branches and are used for working capital, capital expenditures and other general corporate purposes and consist of revolving operating credit facilities of up to $30,000 ($30,000 at March 31, 2005) and revolving term credit facilities of up to $50,000 ($70,000 at March 31, 2005), each having up to a maximum of 21 month revolving period (2 years in fiscal 2005), extendible annually, secured by all assets of the Company, and its subsidiaries and are subject to certain restrictive covenants and corporate guarantees granted by the Company and its subsidiaries. At the end of the third quarter ended December 31, 2005, the Company concluded the annual extension of its Credit Facilities from March 21, 2006 to March 21, 2007.

In the event that the Credit Facilities are not extended at the end of the revolving period (March 21, 2007), the revolving operating credit facilities will mature. As to the revolving term credit facilities, they will convert at the end of the revolving period into a three-year term loan with an amortization period of five years. These Credit Facilities are extendible annually within the period from July 1st and October 31st of each year.

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

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

Loans bearing no interest

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

NOTE 13. LONG-TERM DEBT (CONT'D)

Restrictive covenants

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

At March 31, 2006, the Company had complied with all restrictive covenants.

Minimum repayments

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

Years ending March 31

Year	Repayments on capital leases	Repayments on loans bearing no interest	Repayments related to the earliest termination of revolving credit facilities	Total
2007	$ 3,079	$ 2,638	$ 5,840	$ 11,557
2008	2,915	3,441	5,994	12,350
2009	3,007	1,685	5,994	10,686
2010	594	1,651	17,978	20,223
2011	–	1,744	–	1,744

The minimum repayments include interest on obligations under capital leases of $968.

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

	2006	2005
Interest	**$ 3,707**	$ 4,112
Amortization of deferred financing costs	**388**	307
Standby fees	**261**	181
Gain on financial derivative instrument	**–**	(528)
Amortization of net deferred loss related to a financial derivative instrument	**138**	148
Interest revenue	**(273)**	(211)
Financial expenses	**$ 4,221**	**$ 4,009**

NOTE 14. OTHER LIABILITIES

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

	2006	2005
Pension plans and other post-retirement benefits (Note 19)	**$ 6,716**	$ 6,949
Others	**624**	664
	$ 7,340	**$ 7,613**

NOTE 15. CAPITAL STOCK

Authorized capital stock

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

An unlimited number of voting common shares, without par value;
An unlimited number of first preferred shares, issuable in series; and
An unlimited number of second preferred shares, issuable in series.

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

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

	2006	2005
31,488,599 common shares (26,954,552 at March 31, 2005)	**$103,447**	**$ 87,269**

Issuance of common shares

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

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

NOTE 15. CAPITAL STOCK (CONT'D)

Treasury common share issue

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

Stock option plan

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

The aggregate number of shares reserved for issuance under the plan is 2,187,118 of which 300,079 shares have not yet been granted at March 31, 2006.

During fiscal year 2006, the Company granted to key employees 200,000 (200,000 in 2005) stock options representing a total fair value of $247 ($314 in 2005) calculated using the Black-Scholes valuation model assuming a seven-year term, expected volatility of 35%, no expected dividend distribution and a compounded risk free interest rate of 4.3% (4.6% in 2005). Stock option cost is amortized over their earned period and the expense of $204 ($113 in 2005) was accounted for in selling and administrative expenses and, its counterpart, in the contributed surplus shown in the Company's shareholders' equity.

As of March 31, 2006, 873,021 options were issued and outstanding as follows:

			Outstanding options		Vested options
Range of exercise price	**Number**	**Weighted-average years of maturity**	**Weighted-average exercise price**	**Number**	**Weighted-average exercise price**
$3.50 to $4.99	**445,521**	**4.5**	**$ 4.43**	**143,374**	**$ 4.80**
$5.00 to $6.49	**250,000**	**4.6**	**5.17**	**50,000**	**5.85**
$8.00 to $10.00	**177,500**	**2.7**	**9.71**	**100,000**	**9.70**
	873,021	**4.2**	**$ 5.72**	**293,374**	**$ 6.65**

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

		2006		2005
	Weighted-average exercise price	**Number of stock options**	**Weighted-average exercise price**	**Number of stock options**
Balance at beginning of year	**$ 5.96**	**808,821**	$ 6.28	792,880
Granted	**3.98**	**200,000**	5.00	200,000
Exercised	**–**	**–**	3.79	(35,000)
Cancelled / forfeited	**4.61**	**(135,800)**	6.88	(149,059)
Balance at end of year	**$ 5.72**	**873,021**	**$ 5.96**	**808,821**

Stock purchase and ownership incentive plan

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

Under this plan, eligible employees can subscribe monthly, by salary deductions, up to 10% of their base salary, a number of common shares issued by the Company corresponding to their monthly contribution. The subscription price of the issued common shares represents 90% of the average closing price of the Company's common share on the TSX over the five trading days preceding the common share subscription. Also, the Company matches 50% of the employee's contribution by attributing to the employee, on a monthly basis, additional common shares acquired on the TSX at market price. However, the Company's matching attribution cannot exceed 4% of the employee's annual base salary. Common shares attributed to the employee, as well as the subscribed common shares, will be earned and released over a three-year period, the first period beginning July 1, 2005.

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

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

During fiscal year 2006, 34,047 common shares were issued for consideration of $120 (17,993 for consideration of $206 in 2005) and 15,424 common shares were attributed (8,034 in 2005) to the participating employees. Since the beginning of the plan, 52,040 common shares were issued and 23,458 common shares were attributed to the participating employees. The expense related to the attributed common shares amounting to $60 is recorded as compensation expense ($37 in 2005) and is included in the Company's selling and administrative expenses.

NOTE 15. CAPITAL STOCK (CONT'D)

Stock appreciation right plan

The Company has a stock appreciation right plan (SAR) under which rights are issued to its non-employee directors. The SAR enables the participants to receive by way of bonus, on the exercise date of a SAR, a cash amount equal to the excess of the market price of the Company's common share over the granted price of the SAR. The SARs are expensed on an earned basis and their costs are determined based on the Company's common shares quoted market value over their granted price. No expense was recorded for SAR in fiscal years 2006 and 2005.

In fiscal year 2006, the Company granted 15,000 SAR (15,000 in 2005) at a granted value of $3.84 ($5.00 in 2005) to its non-employee directors.

At March 31, 2006, on a cumulative basis, 60,000 SAR were still outstanding at a weighted-average granted value of $5.56 (45,000 SAR at a weighted average granted value of $6.13 at March 31, 2005) which expires at various dates between fiscal years 2009 and 2013.

Diluted earnings per share

For fiscal years 2006 and 2005, the effect of stock options potentially exercisable on the Company's loss per share from continuing operations was anti-dilutive. Therefore, the Company's basic and diluted loss per share from continuing operations are the same.

NOTE 16. CUMULATIVE TRANSLATION ADJUSTMENT

The decrease in the cumulative translation adjustment of $2,034 during the year ended March 31, 2006 (decrease of $5,191 in 2005) reflects the impact of the foreign exchange rate fluctuations on the net assets of self-sustaining foreign subsidiaries.

NOTE 17. INCOME TAXES

The computation of income tax recovery is as follows:

	2006	2005
Income taxes at combined federal and provincial tax rates	**$ (237)**	$ (2,059)
Large corporations' tax	**219**	176
Provincial tax rate increase impact:		
On net future tax assets	**(491)**	–
Due to winding-up of a subsidiary	**464**	–
Non-recognition of income tax benefits	**518**	1,473
Permanent differences	**(1,200)**	(1,481)
Income tax rate difference-U.S. subsidiaries	**140**	27
Other items	**162**	(179)
	$ (425)	**$ (2,043)**

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

	2006	2005
Future income tax assets		
Current		
Non-deductible reserves	**$ 4,906**	$ 4,397
Inventories	**3,637**	2,428
Receivables	**169**	386
Other	**171**	–
	$ 8,883	**$ 7,211**
Long-term		
Loans bearing no interest	**$ 634**	$ 636
Future tax benefits from tax loss utilization	**3,186**	4,803
Losses on contracts	**517**	486
Capital assets	**–**	439
Other	**2,139**	1,208
	$ 6,476	**$ 7,572**

NOTE 17. INCOME TAXES (CONT'D)

Future income tax liabilities

Current		
Inventories	**$ 1,045**	$ 996
Investment tax credits	**194**	333
	$ 1,239	**$ 1,329**

Long-term		
Capital assets	**$ 12,093**	$ 9,820
Goodwill	**1,305**	–
	$ 13,398	**$ 9,820**

Operating losses carried forward and other temporary differences which are available to reduce future taxable income of certain subsidiaries, for which no related income tax assets have been recognized in the consolidated financial statements, amounted to $10,900 as at March 31, 2006 ($8,175 as at March 31, 2005) of which approximately $9,900 have expiry periods between 3 and 10 years.

	2006	2005
Income tax recovery is as follows:		
Current	**$ (2,422)**	$ (1,021)
Future	**1,997**	(1,022)
	$ (425)	**$ (2,043)**

NOTE 18. NET CHANGE IN NON-CASH ITEMS RELATED TO OPERATIONS

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

	2006	2005
Accounts receivable	**$ (8,003)**	$ (4,135)
Income tax receivable	**(3,354)**	(1,108)
Other receivables	**(1,279)**	(3,335)
Inventories	**(59)**	(3,595)
Prepaid expenses	**(911)**	1,302
Other current assets	**1,193**	(2,339)
Accounts payable and accrued liabilities and other liabilities	**9,712**	2,759
Customers' advance	**–**	(5,030)
Income tax payable	**474**	(502)
Effect of changes in exchange rate	**(903)**	(1,925)
	$ (3,130)	**$(17,908)**

NOTE 19. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of defined benefit plans

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

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

Total cash payments

Total cash payments for employee future benefits for fiscal year 2006, consisting of cash contributed by the Company to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans were $1,986 ($1,382 in 2005) while the cash contributed to its defined contribution plans was $1,307 ($1,242 in 2005).

Defined benefit plans

The Company measures the fair value of plan assets for accounting purposes as at March 31 of each year while its accrued benefit obligations are valued as at December 31 of each year and projected to March 31 for all plans except one, for which the valuation is made as at March 31. The most recent actuarial valuations of the pension plans for funding purposes were as at December 31, 2004 and January 1, 2006. The next required actuarial valuation will be conducted as at December 31, 2007 and as at January 1, 2009.

Plan amendments

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

NOTE 19. PENSION AND OTHER RETIREMENT BENEFIT PLANS (CON'T)

Defined benefit pension plan obligations

Accrued benefit obligations	2006	2005
Balance at beginning of year	**$ 29,322**	$ 26,032
Current service cost	**888**	807
Employee contributions	**490**	496
Interest cost	**1,438**	1,268
Benefits paid	**(1,431)**	(1,347)
Actuarial losses	**649**	2,066
Plan amendments	**814**	–
Balance at end of year	**$ 32,170**	**$ 29,322**

Defined benefit pension plan assets

Fair value of plan assets	2006	2005
Balance at beginning of year	**$ 15,037**	$ 13,456
Actual return on plan assets	**1,426**	1,050
Employer contributions	**1,986**	1,382
Employee' contributions	**490**	496
Benefits paid	**(1,431)**	(1,347)
Balance at end of year	**$ 17,508**	**$ 15,037**

Plan assets consist of:

Asset category [1]	2006	2005
Equity securities	**59 %**	54 %
Debt securities	**34**	37
Real estate	**1**	1
Other	**6**	8
Total	**100 %**	**100 %**

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

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

	2006	2005
Fair value of plan assets	**$ 17,508**	$ 15,037
Accrued benefit obligations	**32,170**	29,322
Funded status – plans deficit	**(14,662)**	(14,285)
Unamortized net actuarial loss	**5,558**	5,437
Unamortized past service cost	**1,408**	711
Unamortized transitional obligation from acquisitions	**162**	295
Unamortized transitional obligation	**818**	893
Accrued benefit liability, net of valuation allowance	**$ (6,716)**	**$ (6,949)**

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

Plans with accrued benefit obligations in excess of plan assets

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

	2006	2005
Accrued benefit obligations	**$(32,170)**	$(29,322)
Fair value of plan assets	**17,508**	15,037
Funded status – plans deficit	**$(14,662)**	**$(14,285)**

NOTE 19. PENSION AND OTHER RETIREMENT BENEFIT PLANS (CON'T)

Elements of defined benefit pension costs recognized in the year

	2006	2005
Current service cost, net of employee contributions	**$ 888**	$ 807
Interest cost	**1,438**	1,268
Actual return on plan assets	**(1,426)**	(1,050)
Actuarial losses	**649**	2,066
Plan amendments	**814**	–
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefit costs	**$ 2,363**	$ 3,091
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets for the year	**337**	89
Difference between actuarial loss recognized for the year and actual actuarial loss on accrued benefit obligations for the year	**(458)**	(1,966)
Difference between amortization of past service costs for the year and actual plan amendments for the year	**(697)**	73
Amortization of the transitional obligations	**208**	208
Defined benefit pension costs recognized	**$ 1,753**	**$ 1,495**

Significant assumptions

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

	2006	2005
Accrued benefit obligations as at March 31:		
Discount rate	**4.95 %**	5.30 %
Rate of compensation increase	**3.50**	3.50
Defined benefit pension costs for years ended March 31:		
Discount rate	**5.30 %**	5.50 %
Expected long-term rate of return on plan assets	**7.00**	7.00
Rate of compensation increase	**3.50**	3.50

Defined contribution pension plans

The defined contribution pension costs are as follows:

	2006	2005
Defined contribution pension costs	**$ 1,307**	$ 1,242

NOTE 20. COMMITMENTS

Building lease contracts

The Company has entered into leases for buildings which are used for manufacturing operations and administration. The total commitments at March 31, 2006 amounted to $1,003 excluding escalation clauses. The minimum annual lease payments over the next five years are: $451 in 2007, $329 in 2008, $170 in 2009, $42 in 2010 and $11 in 2011.

Operating lease contracts - machinery and equipment

Under operating lease contracts for machinery and equipment used for its manufacturing operations, the Company has commitments at March 31, 2006 of $10,688 for which the minimum annual operating lease payments, over the next five years, are: $2,955 in 2007, $2,357 in 2008, $1,579 in 2009, $1,246 in 2010 and $919 in 2011.

Under these operating lease contracts, the Company has the option to purchase the related machinery and equipment at the end of the contract. These purchase option payments, if exercised, represent the following: $373 in 2007, $1,489 in 2008, $509 in 2009 and $245 in 2010.

Machinery and equipment acquisition commitments

The Company has released purchase orders relating to machinery and equipment which have not been delivered to the Company's facilities. These outstanding purchase orders at March 31, 2006 amounted to $7,386 ($10,146 in 2005) for which $933 ($2,339 in 2005) deposits on machinery and equipment were made and included in the Company's other current assets.

Guarantees

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

These indemnification undertakings and guarantees may require the Company to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property environmental liabilities, changes in or in the interpretation of

NOTE 20. COMMITMENTS (CONT'D)

laws and regulations (including tax legislation), valuation differences or as a result of litigation that may be suffered by the counterparties. In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Company may be subjected to indemnify against claims from its past conduct of the business. The nature of these indemnification agreements prevents the Company from estimating the maximum potential liability that could be required under guarantees, since these events have not materialized yet. These indemnifications agreements relate essentially to the acquisition of Devtek Corporation and its subsidiaries (in June 2000) and to the sale of Diemaco (see Note 4). The duration of these indemnification agreements could extend up to 2024. At March 31, 2006, an amount of $6,000 ($4,765 in 2005) was provided for in the Company's accounts payable and accrued liabilities in respect to these items.

NOTE 21. CONTINGENCIES

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

NOTE 22. SEGMENTED INFORMATION

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

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

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

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

Segmented information, consists of the following:

Activity Segments	**Aerospace**	**Industrial**	**2006 Total**	**Aerospace**	**Industrial**	**2005 Total**
Sales	**$233,752**	**$ 22,445**	**$256,197**	$ 211,689	$ 21,309	$ 232,998
Operating income (loss)	**6,246**	**(2,856)**	**3,390**	984	(3,309)	(2,325)
Financial expenses			**4,221**			4,009
Loss before income tax recovery and discontinued operations			**(831)**			(6,334)
Assets from continuing operations	**295,451**	**20,222**	**315,673**	276,667	18,530	295,197
Goodwill	**36,833**	**1,046**	**37,879**	34,193	1,083	35,276
Purchase of property, plant and equipment	**11,550**	**904**	**12,454**	11,016	2,354	13,370
Purchase of finite-life intangible assets	**937**	**–**	**937**	10,832	–	10,832
Goodwill acquired	**3,141**	**–**	**3,141**	18,274	–	18,274
Amortization	**15,288**	**2,229**	**17,517**	14,684	2,264	16,948

Geographic Segments	**Canada**	**U.S.**	**2006 Total**	**Canada**	**U.S.**	**2005 Total**
Sales	**$169,309**	**$ 86,888**	**$256,197**	$ 141,338	$ 91,660	$ 232,998
Property plant and equipment, net	**60,733**	**38,240**	**98,973**	61,284	42,010	103,294
Finite-life intangible assets, net	**2,047**	**7,196**	**9,243**	2,473	8,550	11,023
Goodwill	**18,702**	**19,177**	**37,879**	17,534	17,742	35,276
Export sales[1]	**104,027**			84,752		

71% of the Company's sales (74% in 2005) were to U.S. customers.

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

NOTE 23. RECLASSIFICATION

Comparative figures for the financial statements as at March 31, 2005 have been reclassified to comply with the March 31, 2006 presentation.

BOARD OF DIRECTORS

(Left to Right)
Christian Dubé
John Cybulski
Jean-Louis Fontaine
Helmut Hofmann
Gilles Labbé
Pierre Marcouiller
Brian A. Robbins
Claude Boivin

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CHAIRMAN OF THE BOARD
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TORONTO, ONTARIO

GILLES LABBÉ
PRESIDENT AND CHIEF EXECUTIVE OFFICER
HÉROUX-DEVTEK INC.
MONTRÉAL, QUÉBEC

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DIVERSIFIED MANUFACTURER OF TRANSPORTATION EQUIPMENT

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PIERRE MARCOUILLER †
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TORONTO, ONTARIO
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PRINCIPAL
AEROGLOBE LLC
CHARLOTTE, SOUTH CAROLINA (USA)
INTERNATIONAL BUSINESS CONSULTING FIRM

CHRISTIAN DUBÉ *
VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER
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CORPORATE MANAGEMENT OF HÉROUX-DEVTEK

GILLES LABBÉ
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MONTRÉAL, QUÉBEC

RÉAL BÉLANGER
EXECUTIVE VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER
MONTRÉAL, QUÉBEC

PATRICE GAUVIN
VICE-PRESIDENT, ORGANIZATIONAL AND BUSINESS DEVELOPMENT
MONTRÉAL, QUÉBEC

GABRIEL DUVAL
VICE-PRESIDENT, CORPORATE AFFAIRS
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JEAN-FRANÇOIS BOURSIER
CORPORATE CONTROLLER
MONTRÉAL, QUÉBEC

† Member of Human Resources and Corporate Governance Committee

* Member of Audit Committee

DIVISION MANAGERS

Landing Gear

MARTIN BRASSARD
VICE-PRESIDENT, GENERAL MANAGER
LONGUEUIL, QUÉBEC

GAETAN ROY
VICE-PRESIDENT, PLANT MANAGER
LONGUEUIL, QUÉBEC

NAGY HOMSY
VICE-PRESIDENT, ENGINEERING AND QUALITY ASSURANCE
LONGUEUIL, QUÉBEC

JACK CURLEY
GENERAL MANAGER
KITCHENER, ONTARIO

DANIEL NORMANDIN
PLANT MANAGER
LAVAL, QUÉBEC

FRÉDÉRIC LABARRE
OPERATIONS MANAGER
LES INDUSTRIES C.A.T.
MONTRÉAL, QUÉBEC

Aerostructure

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ARLINGTON, TEXAS

PATRICE GAUVIN
PLANT MANAGER (BY INTERIM)
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VICE-PRESIDENT, GENERAL MANAGER
CINCINNATI, OHIO

ALVIN COOK
VICE-PRESIDENT, NEW BUSINESS DEVELOPMENT
CINCINNATI, OHIO

SHAREHOLDERS' INFORMATION

ANNUAL GENERAL MEETING

THE ANNUAL GENERAL MEETING OF SHAREHOLDERS WILL BE HELD ON THURSDAY, AUGUST 3, 2006 AT 11:00 A.M. IN THE SAISON A ROOM OF THE HÔTEL OMNI MONT-ROYAL, 1050 SHERBROOKE STREET WEST, MONTRÉAL, QUÉBEC, CANADA

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