MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended June 30, 2017

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OVERVIEW

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. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2017 and June 30, 2017. It also compares the operating results and cash flows for the quarter ended June 30, 2017 to those of the same period of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2017, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2017, all of which are available on the Corporation's website at www.herouxdevtek.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

IFRS and non-IFRS financial measures

This MD&A contains both IFRS and non-IFRS financial measures. Non-IFRS financial measures are defined and reconciled to the most comparable IFRS measures in the *Non-IFRS Financial Measures* section under *Operating Results*.

Materiality for disclosures

Management determines whether information is material based on whether they believe a reasonable investor's decision to buy, sell or hold securities of the Corporation would likely be influenced or changed should the information be omitted or misstated, and discloses material information accordingly.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A, including those presented in the Guidance and Economic Outlook sections, are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from those expressed in or implied by such statements. These statements are provided for the purpose of assisting the reader in understanding the Corporation's financial performance and prospects and to present management's assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate for other purposes.

They may be impacted by factors including, but not limited to: the impact of worldwide general economic conditions; 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; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2017. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although management believes the expectations conveyed by these statements and although they 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 Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

FOREIGN EXCHANGE ("FX")

The Corporation is subject to foreign currency fluctuations from the translation of revenues (sales), expenses, assets and liabilities of its foreign operations and from transactions denominated mainly in US dollars and in British pounds ("GBP"). Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, excluding the impact of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the period.

The foreign exchange rates used to translate assets and liabilities into Canadian dollars were as follows, as at:

	June 30, 2017	March 31, 2017
USD (Canadian equivalent of US$1.0)	**1.2977**	1.3299
GBP (Canadian equivalent of £1.0)	**1.6862**	1.6662

The foreign exchange rates used to translate revenues and expenses into Canadian dollars were as follows:

	Three months ended June 30,	
	2017	2016
USD (Canadian equivalent of US$1.0)	**1.3448**	1.2886
GBP (Canadian equivalent of £1.0)	**1.7201**	1.8487

The Corporation manages its exposure to fluctuations in FX rates using FFEC; therefore the variances in the rates presented above may not be representative of the actual impact of FX on financial results.

HIGHLIGHTS

	Three months ended June 30,	
	2017	2016
Sales	**$ 86,857**	$ 95,590
Operating income	**5,408**	7,596
Adjusted operating income[(1)]	**5,408**	8,001
Adjusted EBITDA[(1)]	**11,940**	14,321
Net income	**4,027**	5,179
Adjusted net income[(1)]	**4,027**	5,584
In dollars per share		
EPS - basic and diluted	**$ 0.11**	$ 0.14
Adjusted EPS[(1)]	**0.11**	0.15
In thousands of shares		
Weighted average number of common diluted shares outstanding	**36,324**	36,284
In millions of dollars, as at	**June 30, 2017**	March 31, 2017
Funded backlog[(2)]	**$ 451**	$ 405

[(1)] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

[(2)] *Represents firm orders*

Key Events

- In May 2017, the Corporation reached an agreement with its syndicate of banks to extend the term of the Credit Facility through May 2022. The authorized amount remains $200.0 million and most other key terms remain unchanged, though the amount of the accordion feature was increased from $75.0 million to $100.0 million. Financing costs totaling $0.5 million were deferred and will be amortized over the term of the loan using the effective interest rate method.

- For the three-month period ending June 30, 2017, the Corporation achieved consolidated sales of $86.9 million and adjusted EBITDA of $11.9 million, compared to $95.6 million and $14.3 million during the same period last fiscal year.

Guidance

- Management reaffirms guidance for fiscal 2018 sales of a low single-digit decrease as compared to fiscal 2017, long-term sales guidance of a range from $480-$520 million for fiscal 2021, and fiscal 2018 additions to property, plant and equipment of approximately $20 million.

- Management issues new guidance for fiscal 2018 adjusted EBITDA margin, which should remain relatively stable when compared to that of fiscal 2017.

Please refer to the *Guidance* section under *Additional Information* for further details including the assumptions underlying this guidance, as well as to *Forward-Looking Statements* for further information regarding forward-looking statements and related risks.

OPERATING RESULTS

	Three months ended June 30,		
	2017	2016	*Variance*
Sales	**$ 86,857**	$ 95,590	*$ (8,733)*
Gross profit	**12,920**	16,105	*(3,185)*
Selling and administrative expenses	**7,512**	8,104	*(592)*
Adjusted operating income[(1)]	**5,408**	8,001	*(2,593)*
Non-recurring items	**—**	405	*(405)*
Operating income	**5,408**	7,596	*(2,188)*
Financial expenses	**1,306**	1,606	*(300)*
Income tax expense	**75**	811	*(736)*
Net income	**$ 4,027**	$ 5,179	*$ (1,152)*
Adjusted net income[(1)]	**$ 4,027**	$ 5,584	*$ (1,557)*
As a percentage of sales			
Gross profit	**14.9%**	16.8%	*-190 bps*
Selling and Administrative expenses	**8.6%**	8.5%	*10 bps*
Operating income	**6.2%**	7.9%	*-170 bps*
Adjusted operating income[(1)]	**6.2%**	8.4%	*-220 bps*
In dollars per share			
EPS - basic and diluted	**$ 0.11**	$ 0.14	*$ (0.03)*
Adjusted EPS[(1)]	**$ 0.11**	$ 0.15	*$ (0.04)*

[(1)] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section for definitions and reconciliations to the most comparable IFRS measures.*

Sales

Sales can be broken down by sector as follows:

	Three months ended June 30,				
	2017	2016	FX impact	Net variance	
Commercial	**$ 43,328**	$ 50,591	$ 696	$ (7,959)	(15.7)%
Defence[(1)]	**43,529**	44,999	700	(2,170)	(4.8)%
Total	**$ 86,857**	$ 95,590	$ 1,396	$ (10,129)	(10.6)%

[(1)] *Includes defence sales to civil customers and governments.*

Commercial

The $8.0 million net decrease in commercial sales for the three-month period was mainly driven by:

- Lower large commercial programs due to the scheduled ending of a Tier-2 contract; and,
- Lower customer requirements for certain business jet and regional jet programs.

These negative factors were partly offset by ramp-up of deliveries for the Boeing 777 program.

Defence

The $2.2 million net decrease in defence sales for the three-month period was mainly driven by:

- Lower repair and overhaul (“R&O”) sales, namely on the P-3 program; and,
- Timing of delivery of certain manufacturing sales to civil customers.

These negative factors were partially offset by higher spare parts requirements from the U.S. government and ramp-up of the F-35 program.

Gross Profit

The decrease in gross profit margin from 16.8% to 14.9% for the three-month period compared to the same period last fiscal year was mainly driven by higher under-absorption, including excess capacity and processing and finishing costs related to the Boeing 777 program. These excess processing and finishing costs are expected to normalize upon completion of the customer qualification and approval of Héroux-Devtek's surface treatment processes.

These negative factors were partly offset by exchange rate fluctuations representing 0.8% of sales, mainly related to the U.S. Dollar.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 8.3% of sales, compared to 9.2% for the same period last fiscal year. The decrease as a percentage of sales compared to the same period last fiscal year is mainly associated with lower employee-related costs.

Non-recurring items

	Three months ended June 30,	
	2017	2016
Legal and other professional fees	**—**	405
	—	405

In January 2016, the Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During the second quarter ended September 30, 2016 the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4.0 million ($5.2 million) settlement. Non-recurring legal fees incurred during the three-month period ended June 30, 2016 totaled $0.4 million.

Operating Income

The decrease from 7.9% to 6.2% of sales (decrease from 8.4% to 6.2% excluding non-recurring items) for the three-month period compared to the same period last fiscal year is mainly the result of the factors described above.

Year over year, foreign exchange had no net impact on the Corporation's operating income for the three month period.

Financial Expenses

The $0.3 million decrease during the three-month period compared to the same period last fiscal year was driven by:

- Higher interest income on cash and cash equivalents;
- Lower interest accretion on governmental authorities loans; and,
- Lower other interest accretion expense and discount rate adjustments.

These positive factors were partly offset by higher interest expense mainly related to a larger balance of finance leases.

Income Tax Expense

	Three months ended June 30,	
	2017	2016
Income before income tax expense	**$ 4,102**	$ 5,990
Income tax expense	**75**	811
Effective tax rate	**1.8%**	13.5%
Canadian blended statutory income tax rate	**26.7%**	26.7%

For the three-month period ended June 30, 2017, the Corporation's effective income tax rate mainly reflects the favourable impact of earnings in other tax jurisdictions ($1.1 million) partially offset by permanent differences ($0.1 million).

For the three-month period ended June 30, 2016, the Corporation's effective income tax rate mainly reflected the favourable impact of earnings in other tax jurisdictions ($1.0 million) partially offset by permanent differences ($0.1 million).

Net Income

Net income decreased from $5.2 million to $4.0 million (or decreased from $5.6 million to $4.0 million excluding non-recurring items net of taxes) during the three-month period compared to the same period last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

This MD&A is based on earnings in accordance with IFRS and the following non-IFRS financial measures:

Adjusted operating income:	Operating income excluding non-recurring items.
EBITDA:	Earnings before financial expenses, income tax expense and amortization expense.
Adjusted EBITDA:	EBITDA as defined above excluding non-recurring items.
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities, less additions to property, plant and equipment and net increase in finite‑life intangible assets.

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. However, the Corporation's management, considers these metrics to be useful information to assist investors in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

The following are reconciliations of these items to their most comparable IFRS measures, excluding free cash flow. For the reconciliation of free cash flow to cash flows from operating activities, refer to *Liquidity and Capital Resources*.

The Corporation's adjusted operating income is calculated as follows:

	Three months ended June 30,	
	2017	2016
Operating income	**$ 5,408**	$ 7,596
Non-recurring items	**—**	405
Adjusted operating income	**$ 5,408**	$ 8,001

The Corporation's EBITDA and adjusted EBITDA are calculated as follows:

	Three months ended June 30,	
	2017	2016
Net income	**$ 4,027**	$ 5,179
Income tax expense	**75**	811
Financial expenses	**1,306**	1,606
Amortization expense	**6,532**	6,320
EBITDA	**$ 11,940**	$ 13,916
Non-recurring items	**—**	405
Adjusted EBITDA	**$ 11,940**	$ 14,321

The Corporation's adjusted net income and adjusted earnings per share are calculated as follows:

	Three months ended June 30,	
	2017	2016
Net income	**$ 4,027**	$ 5,179
Non-recurring items, net of taxes	**—**	405
Adjusted net income	**$ 4,027**	$ 5,584
In dollars per share		
Earnings per share - basic and diluted	**$ 0.11**	$ 0.14
Non-recurring items, net of taxes	**—**	0.01
Adjusted earnings per share	**$ 0.11**	$ 0.15

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

In May 2017, the Corporation renewed their Credit Facility and extended through May 2022, with the terms and conditions remaining substantially the same. Related financing costs totaling $0.5 million were deferred and will be amortized over the term of the loan using the effective interest rate method.

As at June 30, 2017, this Credit Facility allowed the Corporation and its subsidiaries to borrow up to $200.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies. It also included an accordion feature to increase the Credit Facility by an additional $100.0 million during the term of this agreement, subject to the approval of the lenders. This accordion feature was increased from $75.0 million during the renewal process.

As at June 30, 2017, the Corporation had $54.5 million drawn against the Credit Facility, compared to $55.9 million as at March 31, 2017. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

The Corporation's net debt position is calculated as follows, as at:

	June 30, 2017	March 31, 2017
Long-term debt, including current portion(1)	**$ 132,120**	$ 134,776
Less: Cash and cash equivalents	**40,282**	42,456
Net debt position	**$ 91,838**	$ 92,320

(1) *Excluding net deferred financing costs of $1.1 million as at June 30, 2017 and $0.6 million as at March 31, 2017.*

In general terms, the Corporation has a healthy financial position and is well positioned to face its financing needs.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended June 30,	
	2017	2016
Cash and cash equivalents at beginning of periods	**$ 42,456**	$ 19,268
Cash flows related to operating activities	**2,568**	5,235
Cash flows related to investing activities	**(3,423)**	(6,904)
Cash flows related to financing activities	**(962)**	(9,586)
Effect of changes in exchange rates on cash and cash equivalents	**(357)**	(347)
Cash and cash equivalents at end of periods	**$ 40,282**	$ 7,666

Operating Activities

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

	Three months ended June 30,	
	2017	2016
Cash flows from operations	**$ 10,613**	$ 11,726
Net change in non-cash items	**(8,045)**	(6,491)
Cash flows related to operating activities	**$ 2,568**	$ 5,235

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

	Three months ended June 30,	
	2017	2016
Accounts receivable	**$ 8,803**	$ 15,993
Inventories	**(7,597)**	(7,230)
Other current assets	**(2,680)**	(3,249)
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(2,649)**	(5,612)
Income taxes payable and receivable	**(947)**	(9)
Customer advances	**(371)**	(1,601)
Provisions	**(2,147)**	(393)
Progress billings	**324**	(1,852)
Effect of changes in exchange rates	**(781)**	(2,538)
	$ (8,045)	$ (6,491)

For the three-month periods ended June 30, 2017, the negative net change in non-cash items mainly reflects:

- An increase in inventories mainly related to the timing of delivery of certain defence manufacturing sales to civil customers; and
- The seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year.

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year.

For the three-month periods ended June 30, 2016, the negative net change in non-cash items mainly reflected:

- An increase in inventories mainly related to the Boeing 777 program;
- The seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year.

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended June 30, 2017	2016
Net additions to property, plant and equipment	**$ (2,666)**	$ (6,648)
Net increase in finite-life intangible assets	**(787)**	(256)
Proceeds on disposal of property, plant and equipment	**30**	—
Cash flows related to investing activities	**$ (3,423)**	$ (6,904)

Additions to property, plant and equipment shown above can be reconciled as follows:

	Three months ended June 30, 2017	2016
Gross additions to property, plant and equipment	**$ 1,442**	$ 5,732
Government assistance	**(129)**	(227)
Net additions to property, plant and equipment	**$ 1,313**	$ 5,505
Variation in unpaid additions included in Accounts payable - other and other liabilities	**1,353**	1,332
Deposits reclassified to property, plant and equipment upon completion (1)	**—**	(189)
Net additions, as per statements of cash flows	**$ 2,666**	$ 6,648

(1) *Includes machinery financed under finance leases for which deposits had been made.*

The decrease in net additions to property, plant and equipment for the three-month period compared to the same period last fiscal year mainly relates to the completion of investments related to the Boeing 777 and 777X contract.

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended June 30, 2017	2016
Increase in long-term debt	**$ —**	$ 1,305
Repayment of long-term debt	**(1,106)**	(11,139)
Issuance of common shares	**144**	248
Cash flows related to financing activities	**$ (962)**	$ (9,586)

The cash outflow from repayment of long-term debt during the three months ended June 30, 2016 mainly related to a $10.2 million repayment of the Credit Facility.

As at June 30, 2017, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW[1]

	Three months ended June 30,	
	2017	2016
Cash flows related to operating activities	**$ 2,568**	$ 5,235
Net additions to property, plant and equipment	**(1,313)**	(5,505)
Net increase in finite-life intangible assets	**(787)**	(256)
Free cash flow	**$ 468**	$ (526)

(1) *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for the definition of this metric.*

The $1.0 million increase in free cash flow for the three-month period ended June 30, 2017 compared to the same period last fiscal year mainly relates to a decrease in net additions to property, plant and equipment partially offset by a decrease in cash flows related to operating activities.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Three months ended June 30, 2017	
	Number of shares	Issued capital
Opening balance	36,122,050	$ 77,217
Issued for cash under the stock purchase and ownership incentive plan	12,895	144
Ending balance	36,134,945	$ 77,361

As at August 4, 2017, the number of common shares outstanding stood at 36,138,645.

Stock options varied as follows:

	Three months ended June 30, 2017	
	Number of stock options	Weighted-average exercise price
Opening balance	914,295	$ 10.88
Ending balance	914,295	$ 10.88

As at June 30, 2017, 1,563,231 common shares remained reserved for issuance upon exercise of stock options compared to 1,563,231 at March 31, 2017 and 93,743 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 106,638 at March 31, 2017.

As at August 4, 2017, the number of stock options outstanding stood at 914,295.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 11*, Issued Capital*, to the interim condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Working capital

As at	June 30, 2017		March 31, 2017		Variance	
Current assets	$	**273,039**	$ 272,667	$	*372*	*0.1 %*
Current liabilities		**94,575**	104,436		*(9,861)*	*(9.4)%*
Working capital	$	**178,464**	$ 168,231	$	*10,233*	*6.1 %*
Working capital ratio		**2.89**	2.61			

Long-term assets, Long-term liabilities and Shareholders' Equity

The Corporation's long-term assets and liabilities were as follows, as at:

	June 30, 2017		March 31, 2017		Variance	
Long-term assets	$	**329,910**	$ 334,619	$	*(4,709)*	*(1.4)%*
Long-term liabilities	$	**147,278**	$ 146,982	$	*296*	*0.2 %*
Shareholders' equity	$	**361,096**	$ 355,868	$	*5,228*	*1.5 %*
Net debt-to-equity ratio(1)		**0.25:1**	0.26:1			

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

The $5.2 million increase in Shareholders' equity is mainly explained by Comprehensive income of $5.0 million, essentially comprised of net income of $4.0 million and the favourable effect of foreign exchange fluctuations of $2.2 million included in Other comprehensive income. For further details, see the Statement of comprehensive income in the interim condensed consolidated financial statements for the three months ended June 30, 2017.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

The Corporation had the following forward foreign exchange contracts outstanding, as at:

	June 30, 2017		March 31, 2017	
Notional amount outstanding	**US$**	**141,150**	US$	152,350
Average exchange rate		**1.3190**		1.3178

As at June 30, 2017, these contracts mature at various dates between July 2017 and March 2021, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at June 30, 2017 the Corporation had entered into the following interest rate swap agreements to fix the interest rate on certain loans:

Notional		Fixed rate	Inception	Maturity
US$	5,000	1.65%	March 2014	December 2018
US$	10,000	2.38%	December 2015	December 2018

The interest rate swap rates mentioned above exclude the additional bank relevant margin (see Note 10, *Long-term debt*, to the interim condensed consolidated financial statements). The cash flows related to the interest rate swaps are expected to occur in the same periods as they are expected to affect net income.

Equity swap agreement

As at June 30, 2017 the Corporation had entered into an equity swap agreement fixing 150,000 common shares of the Corporation at a price of $11.45. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2018.

INTERNAL CONTROLS AND PROCEDURES

In compliance with the Canadian Securities Administrators' Regulation 52-109, the Corporation has filed certifications signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on disclosure controls and procedures and the design of internal controls over financial reporting.

The CEO and the CFO have designed disclosure controls and procedures, or have caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Corporation has been made known to them and has been properly disclosed in the interim and annual filings.

The CEO and CFO have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

No changes were made to the Corporation's internal controls over financial reporting during the three-month period ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2017. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

There was no significant change to these risks and uncertainties during the three months ended June 30, 2017, other than those described elsewhere in this MD&A.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2018	2017				2016		
	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter
Sales	**$ 86,857**	$120,886	$ 98,489	$ 91,571	$ 95,590	$117,496	$ 96,561	$ 94,518
Operating income	**5,408**	8,678	7,694	11,584	7,596	13,334	9,794	8,684
Adjusted operating income [(1)]	**5,408**	12,312	7,694	7,873	8,001	13,334	9,794	8,684
EBITDA [(1)]	**11,940**	15,547	13,851	17,806	13,916	20,713	15,666	14,607
Adjusted EBITDA [(1)]	**11,940**	19,181	13,851	14,095	14,321	20,713	15,666	14,607
Net Income	**4,027**	8,895	8,175	9,519	5,179	9,091	7,010	6,030
Adjusted Net Income [(1)]	**4,027**	9,077	6,015	5,677	5,584	9,091	7,010	6,030
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.11**	$ 0.25	$ 0.23	$ 0.26	$ 0.14	$ 0.25	$ 0.19	$ 0.17
Adjusted earnings per share [(1)]	**0.11**	0.25	0.17	0.16	0.15	0.25	0.19	0.17
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.3**	36.3	36.3	36.3	36.3	36.2	36.2	36.1

(1) *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

Seasonal trends

Héroux-Devtek's second quarter is usually slower than the others due to seasonality such as plant shutdowns and summer vacations, whereas the fourth quarter is usually the strongest.

ECONOMIC OUTLOOK [(1)]

In the commercial aerospace market, The International Air Transport Association's ("IATA") most recent forecast calls for a strong 7.4% growth in the passenger market for calendar 2017, a figure above the historical average of approximately 5.0%, and also above its previous forecast of 5.1% for the period. Meanwhile, air cargo volume is expected to rise 7.3% in calendar 2017, also marking a significant increase over its previous forecast of 3.3%[(2)].

In the large commercial aircraft sector, Boeing and Airbus are proceeding with production rate adjustments ahead of introducing certain more fuel efficient aircraft variants on several leading programs through calendar 2020. Their backlogs remain healthy despite a reduction in new firm orders since calendar 2016[(3)]. The reduction has been more important for twin-aisle aircraft, a category that includes the Boeing 777 program.

In the defence aerospace market, the new U.S. administration has indicated its intention to increase funding for the Department of Defense (DOD). A bipartisan agreement provided DOD with additional funding for the rest of the U.S. Government's 2017 fiscal year, while the President's 2018 Budget requests US$639 billion for DOD's 2018 fiscal year, which is 8.9% above the initial request for fiscal 2017. In Canada, the new defence policy calls for a rise in defence spending, from $18.9 billion in the 2017 fiscal year to $32.7 billion in the 2027 fiscal year. European nations are also committing more funds to defence, as evidenced by a 3.7% overall spending increase by all European countries members of NATO for 2017[(4)].

The Corporation's UK operations provide a more geographically diversified defence portfolio, which reduces its relative exposure to the U.S. market. The balance between new component manufacturing and aftermarket products and services in the Corporation's defence portfolio and its leading program content also promote more stability.

(1) *Refer to* Forward-Looking Statements *in* Overview *for further information regarding forward-looking statements and related risks.*

(2) *Source: Economic Performance of the Airline Industry, IATA, June 2017.*

(3) *Sources: Airbus press releases July 12, 2016; February 24, 2016; October 30, 2015; Boeing press release January 21, 2016*

(4) *Sources: A New Foundation for American Greatness, May 23, 2017; Strong, Secure, Engaged, Canada's Defence Policy, June 7, 2017; Defence Expenditure of NATO Countries, June 29, 2017.*

GUIDANCE[1]

Metric	Fiscal 2018 guidance	Update fiscal 2018 guidance
Fiscal 2018 sales growth	Low single-digit decrease	**Low single-digit decrease**
Long-term sales growth	Sales of $480-520 million for FY2021	**Sales of $480-520 million for FY2021**
Fiscal 2018 additions to PP&E	Approximately $20 million	**Approximately $20 million**
Fiscal 2018 adjusted EBITDA[2] margin	None provided	**Stable as compared to fiscal 2017**

[1] *Refer to* Forward-Looking Statements *in* Overview *for further information regarding forward-looking statements and related risks.*
[2] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

Management has prepared the foregoing guidance using the best information available upon preparing this MD&A, and based it on assumptions and sources of information including, but not limited to:

- Héroux-Devtek's backlog, long-term sales contracts and estimated future order intake, assuming no material acquisition;
- Existing OEM backlogs, production rates and disclosed production and delivery expectations;
- Stability of government defence budget, spending climates, trends and expectations;
- Stability of overall economic conditions;
- Stability of foreign exchange rates, particularly versus the U.S. dollar; and,
- The Corporation's ability to deliver on key contract initiatives.

Refer to the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2017 for discussion of certain factors which may cause future results to differ from this guidance.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on August 4, 2017. Additional information about the Corporation, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.