MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND OPERATING RESULTS

For the quarter ended December 31, 2015

TABLE OF CONTENTS

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, 2015 and December 31, 2015. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2015 to those of the same periods of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter and nine-month period ended December 31, 2015, 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, 2015, 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.

<u>IFRS and non-IFRS measures</u>

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

<u>Materiality for disclosures</u>

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

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 (including those presented in the Outlook section) 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.

Such factors include, but are 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; foreign exchange or interest rate fluctuations; stock market volatility; and the impact of accounting policies issued by international standard setters. For more details, please see the Risks and Uncertainties section of the Corporation's MD&A for the fiscal year ended March 31, 2015. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although the Corporation 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 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:

	December 31, 2015	March 31, 2015
USD (Canadian equivalent of US$1.0)	**1.3840**	1.2666
GBP (Canadian equivalent of £1.0)	**2.0407**	1.8792

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

	Quarters ended December 31,		**Nine months ended December 31,**	
	2015	2014	**2015**	2014
USD (Canadian equivalent of US$1.0)	**1.3353**	1.1357	**1.2913**	1.1052
GBP (Canadian equivalent of £1.0)	**2.0253**	1.7974	**1.9792**	1.8165

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

		Quarters ended December 31,		Nine months ended December 31,
	2015	2014	**2015**	2014
Sales	**$ 96,561**	$ 88,368	**$ 289,316**	$ 258,862
Operating income	**9,794**	(1,815)	**24,449**	9,051
Adjusted operating income[(1)]	**9,794**	6,711	**25,929**	18,691
Adjusted EBITDA[(1)]	**15,666**	11,544	**43,357**	31,882
Net income (loss)	**7,010**	(1,909)	**17,550**	4,864
Adjusted net income[(1)]	**7,010**	4,361	**18,559**	11,956
In dollars per share				
EPS - basic and diluted	**$ 0.19**	$ (0.05)	**$ 0.49**	$ 0.14
Adjusted EPS[(1)]	**0.19**	0.12	**0.52**	0.34
In thousands of shares				
Weighted average number of common diluted shares outstanding	**36,168**	36,048	**36,099**	34,676

[(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.*

Key Events

- This quarter, the Corporation achieved sales growth of 9.3% and Adjusted EBITDA growth of 35.7% compared to the third quarter of fiscal 2015, mainly as a result of favourable U.S. dollar exchange rate fluctuations and strong sales growth in the commercial aerospace market. See *Operating Results* for further details.
- During the quarter, the Corporation renewed three important contracts:
  - On November 12, 2015, Héroux-Devtek announced the extension of the global strategic maintenance agreement between Saab AB, Support & Services, Regional Aircraft and Héroux-Devtek's U.K. operations. The extended agreement further enhances the global maintenance, repair and overhaul services and support available to operators of all variants of the Saab 340 and Saab 2000 aircraft families.
  - On December 2, 2015, the Corporation announced the renewal of an agreement to provide landing gear repair and overhaul services to the U.S. Air Force for the C-130, E-3 and KC-135R aircraft. The long-term contract spans a period extending to September 2021. Under the terms of the agreement, Héroux-Devtek is also responsible for the manufacturing and delivery of certain aftermarket components for these aircraft.
  - On December 23, 2015, Héroux-Devtek announced the extension of a preferred supplier agreement with a leading aerospace systems manufacturer. The extension spans a five-year period through the end of calendar year 2023. The strategic agreement is accompanied by orders to manufacture major, complex landing gear components for three large commercial aircraft programs.

Update on the B-777 and B-777X contract

Héroux-Devtek is making further progress towards meeting the requirements of the long-term contract to supply The Boeing Company ("Boeing") with complete landing gear systems for the B-777 and B-777X aircraft. During the quarter, the Corporation made progress on the customer qualification and approval process of its new plating equipment at the finishing sub-assembly centre in Strongsville, Ohio. While this process is taking more time than planned, management now expects it to be completed in the first quarter of the next fiscal year. Héroux-Devtek has received almost all components necessary for the delivery of the first complete landing gear system and management expects that all complex manufactured components will be substantially completed in the current quarter. Sub-assembly work has started in Strongsville, Ohio, and the Corporation is completing the installation of all tooling and equipment at the final assembly facility in Everett, Washington.

Management remains confident that delivery of the pre-production shipset to Boeing will occur as planned in mid-calendar 2016 and that production requirements associated to deliveries scheduled to begin in early calendar 2017 will be met. As at December 31, 2015 the Corporation had made capital investments of $105 million representing more than 90% of the total capital investment associated to this contract (refer to the *Variations in Cash and Cash Equivalents* section under *Liquidity and Capital Resources* for further details).

Operating Results

	Quarters ended December 31,			Nine months ended December 31,		
	2015	2014	*Variance*	**2015**	2014	*Variance*
Sales	**$ 96,561**	$ 88,368	*$ 8,193*	**$ 289,316**	$ 258,862	*$ 30,454*
Gross profit	**18,054**	14,618	*3,436*	**52,133**	41,886	*10,247*
Selling and administrative expenses	**8,260**	7,907	*353*	**26,204**	23,195	*3,009*
Adjusted operating income(1)	**9,794**	6,711	*3,083*	**25,929**	18,691	*7,238*
Non-recurring charges	**—**	8,526	*(8,526)*	**1,480**	9,640	*(8,160)*
Operating income (loss)	**9,794**	(1,815)	*11,609*	**24,449**	9,051	*15,398*
Financial expenses	**1,363**	1,373	*(10)*	**3,896**	4,347	*(451)*
Income tax expense (recovery)	**1,421**	(1,279)	*2,700*	**3,003**	(160)	*3,163*
Net income (loss)	**$ 7,010**	$ (1,909)	*$ 8,919*	**$ 17,550**	$ 4,864	*$ 12,686*
Adjusted net income(1)	**$ 7,010**	$ 4,361	*$ 2,649*	**$ 18,559**	$ 11,956	*$ 6,603*
As a percentage of sales						
Gross profit	**18.7%**	16.5 %		**18.0%**	16.2%	
Selling and Administrative expenses	**8.6%**	8.9 %		**9.1%**	9.0%	
Operating income	**10.1%**	(2.1)%		**8.5%**	3.5%	
Adjusted operating income	**10.1%**	7.6 %		**9.0%**	7.2%	
In dollars per share						
EPS - basic and diluted	**$ 0.19**	$ (0.05)	*$ 0.24*	**$ 0.49**	$ 0.14	*$ 0.35*
Adjusted EPS(1)	**$ 0.19**	$ 0.12	*$ 0.07*	**$ 0.52**	$ 0.34	*$ 0.18*

(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:

	Quarters ended December 31,				
	2015	2014	FX impact	Net variance	
Commercial	**$ 50,810**	$ 39,928	$ 6,145	$ 4,737	11.9 %
Defence(1)	**45,751**	48,440	5,533	(8,222)	(17.0)%
Total	**$ 96,561**	$ 88,368	$ 11,678	$ (3,485)	(3.9)%

	Nine months ended December 31,				
	2015	2014	FX impact	Net variance	
Commercial	**$ 152,245**	$ 120,778	$ 16,319	$ 15,148	12.5 %
Defence(1)	**137,071**	138,084	14,692	(15,705)	(11.4)%
Total	**$ 289,316**	$ 258,862	$ 31,011	$ (557)	(0.2)%

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

Commercial

The $4.7 million and $15.1 million respective net increases in commercial sales for the quarter and nine-month period were mainly driven by:

- Higher revenues from the sale of landing gear systems designed by Héroux-Devtek due to production ramp-up of the Embraer Legacy 450/500 and Airbus Helicopters EC-175 programs as well as delivery of first production units for the Dassault Falcon 5X program;
- Greater content and higher production rates for certain large commercial programs, including the Boeing 787; and,
- Higher aftermarket sales related to a new strategic alliance to provide support for the Saab 340 program.

Defence

The respective $8.2 million and $15.7 million net decreases in defence sales for the quarter and nine-month period were mainly driven by:

- Lower spare parts requirements and certain delayed deliveries with the U.S. government;
- Lower manufacturing sales to civil customers; and,
- Lower repair and overhaul ("R&O") sales with the U.S. Navy on the P-3 program due to lower requirements and on certain programs in the U.K. resulting from a lower throughput.

These negative factors were partially offset by higher R&O sales to the U.S. Air force and higher engineering sales.

Gross Profit

The increase in gross profit margin from 16.5% to 18.7% this quarter compared to the same quarter last fiscal year was mainly driven by the favourable U.S. dollar exchange rate fluctuations, representing 2.0% of sales, and lower under-absorption of costs. These positive elements were partially offset by higher costs related to certain programs.

The increase in gross profit from 16.2% to 18.0% for the nine-month period compared to the same period last fiscal year was mainly driven by the favourable U.S. dollar exchange rate fluctuations, representing 2.0% of sales, lower under-absorption of costs and better product mix driven by higher commercial aftermarket sales. These positive elements were partially offset by higher costs related to certain programs.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 8.9% of sales and 9.0% of sales for the quarter and nine-month period, respectively, compared to 10.0% and 9.4% for the same periods last fiscal year. These decreases as a percentage of sales are mainly related to the relatively larger impact of the U.S. dollar exchange rate on sales than on selling and administrative expenses, which are more concentrated in Canadian dollars.

Non-recurring charges

Non-recurring charges comprise the following:

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Settlement of a litigation	**$ —**	$ —	**$ 1,480**	$ —
Impairment of finite-life intangible assets	**—**	7,924	**—**	7,924
Restructuring charges	**—**	602	**—**	1,716
	$ —	$ 8,526	**$ 1,480**	$ 9,640

Settlement of a litigation

On February 5, 2014, Goodrich Corporation, member of UTC Aerospace Systems ("UTAS") group, filed a request for arbitration against the Corporation to the ICC International Court of Arbitration based on alleged violation of a non-compete covenant contained in an agreement between Goodrich Corporation and Devtek Aerospace Inc., wholly-owned subsidiary of the Corporation, relating to the manufacturing of pistons.

On May 29, 2015, the Corporation concluded a final settlement with UTAS in regards to this litigation following the execution of a Memorandum of Settlement on May 27, 2015, which was accounted for in fiscal 2015. The final agreement includes the extension of two existing contracts with UTAS for the supply of various aircraft parts.

During the nine-month period ended December 31, 2015, the Corporation incurred legal fees of $1.5 million, or $1.0 million net of taxes.

Impairment of finite-life intangible assets

On January 15, 2015, Bombardier announced that hey were pausing the Learjet 85 business aircraft program. They subsequently announced, on October 28, 2015, the cancellation of the program. Héroux-Devtek was the developer and supplier of the complete landing gear system for this aircraft and recorded an impairment charge of $7,924 on the related capitalized development costs in the quarter ended December 31, 2014.

To determine the impairment charge, the Corporation established a recoverable amount for the capitalized development costs based on the best estimate of expected future cash flows. The calculation is most sensitive to the discount rate used, established at 7.76%, and the timing of future cash flows.

Restructuring charges

On January 16, 2014, given the substantial reduction in demand for aftermarket defence products from the U.S. government, the Corporation announced a plan to optimize and consolidate manufacturing capacity while further enhancing productivity throughout the organization. These initiatives were in line with the Corporation's operating strategy of focusing on specialized centers of excellence. Furthermore, following the acquisition of APPH in February 2014, the Corporation incurred restructuring charges related to the integration of APPH's operations, personnel and technology with its pre-acquisition operations. These initiatives were substantially completed as at March 31, 2015.

Consequently, for the quarter and nine-month period ended December 31, 2014, the Corporation recorded restructuring charges of $0.6 million and $1.7 million, respectively, related to the optimization and consolidation of manufacturing capacity.

Operating Income

The increases in operating income from a loss of 2.1% to income of 10.1% of sales (increase from 7.6% to 10.1% excluding non-recurring charges) for the quarter and from 3.5% to 8.5% of sales (increase from 7.2% to 9.0% excluding non-recurring charges) for the nine-month period compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

Financial expenses remained flat during the quarter compared to the same period last fiscal year, reflecting higher interest expense related to higher drawings on the Credit Facility and increased obligations under finance leases, offset by positive discount rate adjustments.

The $0.5 million decrease during the nine-month period compared to the same period last fiscal year mainly reflects more favourable discount rate adjustments to a provision for asset retirement obligations.

See the financing activities section of *Variations in cash and cash equivalents* under *Liquidity and Capital Resources* for further details.

Income Tax Expense

	Quarters ended December 31,		**Nine months ended December 31,**	
	2015	2014	**2015**	2014
Income before income tax expense	**$ 8,431**	$ (3,188)	**$ 20,553**	$ 4,704
Income tax expense (recovery)	**1,421**	(1,279)	**3,003**	(160)
Effective tax rate	**16.9%**	40.1%	**14.6%**	(3.4)%
Canadian blended statutory income tax rate	**26.7%**	26.7%	**26.7%**	26.7 %

The effective income tax rate for the quarter mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($1.0 million), partially offset by permanent differences ($0.1 million). The Corporation's effective tax rate for the quarter ended December 31, 2014 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($0.7 million) partially offset by permanent differences ($0.2 million).

For the nine-month period, the Corporation's effective income tax rate mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($2.8 million), partially offset by permanent differences ($0.2 million). The Corporation's effective tax rate for the nine-month period ended December 31, 2014 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($1.7 million), partially offset by permanent differences ($0.3 million).

Net Income

Net income increased from a loss of $1.9 million to $7.0 million (or from $4.4 million to $7.0 million excluding non-recurring charges net of taxes) during the quarter and increased from $4.9 million to $17.6 million (or from $12.0 million to $18.6 million excluding non-recurring charges net of taxes) during the nine-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

During the nine-month period, earnings per share increased from $0.14 to $0.49 per share (or from $0.34 to $0.52 per share excluding non-recurring charges, net of taxes) calculated on the basis of a higher weighted average diluted number of shares outstanding (36,098,556 versus 34,675,984), reflecting the public offering of shares and concurrent private placements during the first quarter of fiscal 2015. See the financing activities section of *Variations in Cash and Cash Equivalents*, under *Liquidity and Capital Resources* for further details of the share issuance.

Non-IFRS 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 charges.
EBITDA:	Earnings before financial expenses, income tax expense and amortization expense.
Adjusted EBITDA:	EBITDA as defined above excluding non-recurring charges.
Adjusted net income:	Net income excluding non-recurring charges net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.

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. The Corporation's management, however, 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 Corporation's Adjusted operating income is calculated as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Operating income (loss)	**$ 9,794**	$ (1,815)	**$ 24,449**	$ 9,051
Non-recurring charges	**—**	8,526	**1,480**	9,640
Adjusted operating income	**$ 9,794**	$ 6,711	**$ 25,929**	$ 18,691

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

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Net income (loss)	**$ 7,010**	$ (1,909)	**$ 17,550**	$ 4,864
Income tax expense (recovery)	**1,421**	(1,279)	**3,003**	(160)
Financial expenses	**1,363**	1,373	**3,896**	4,347
Amortization expense	**5,872**	4,833	**17,428**	13,191
EBITDA	**$ 15,666**	$ 3,018	**$ 41,877**	$ 22,242
Non-recurring charges	**—**	8,526	**1,480**	9,640
Adjusted EBITDA	**$ 15,666**	$ 11,544	**$ 43,357**	$ 31,882

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

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Net income (loss)	**$ 7,010**	$ (1,909)	**$ 17,550**	$ 4,864
Non-recurring charges, net of taxes	**—**	6,270	**1,009**	7,092
Adjusted net income	**$ 7,010**	$ 4,361	**$ 18,559**	$ 11,956
In dollars per share				
Earnings per share - basic and diluted	**$ 0.19**	$ (0.05)	**$ 0.49**	$ 0.14
Non-recurring charges, net of taxes	**—**	0.17	**0.03**	0.20
Adjusted earnings per share	**$ 0.19**	$ 0.12	**$ 0.52**	$ 0.34

Liquidity and Capital Resources

Credit Facility and Cash and Cash Equivalents

The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $200.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies and will mature in March 2019. It also includes an accordion feature to increase the Credit Facility by an additional $75.0 million during the term of the Credit Agreement, subject to the approval of the lenders.

As at December 31, 2015, the Corporation had $74.3 million drawn against the Credit Facility, compared to $56.7 million as at March 31, 2015. 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:

		December 31, 2015		March 31, 2015
Long-term debt, including current portion[1]	**$**	**149,667**	$	114,202
Less: Cash and cash equivalents		**21,373**		35,098
Net debt position	**$**	**128,294**	$	79,104

[1] *Excluding net deferred financing costs of $1.0 million as at* December 31, 2015 *and $1.3 million as at* March 31, 2015*.*

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

Variations in cash and cash equivalents

	Quarters ended December 31,				**Nine months ended December 31,**			
		2015		2014		**2015**		2014
Cash and cash equivalents at beginning of periods	**$**	**4,243**	$	50,942	**$**	**35,098**	$	47,347
Cash flows related to operating activities		**10,374**		7,760		**5,958**		29,675
Cash flows related to investing activities		**(12,864)**		(19,950)		**(49,329)**		(40,438)
Cash flows related to financing activities		**19,136**		781		**28,493**		2,612
Effect of changes in exchange rates on cash and cash equivalents		**484**		1,080		**1,153**		1,417
Cash and cash equivalents at end of periods	**$**	**21,373**	$	40,613	**$**	**21,373**	$	40,613

<u>Operating Activities</u>

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

	Quarters ended December 31,				**Nine months ended December 31,**			
		2015		2014		**2015**		2014
Cash flows from operations	**$**	**12,685**	$	11,165	**$**	**37,067**	$	27,447
Net change in non-cash items related to continuing operations		**(2,311)**		(3,405)		**(31,109)**		3,310
Cash flows related to operating activities from continuing operations		**10,374**		7,760		**5,958**		30,757
Cash flows related to operating activities from discontinued operations		**—**		—		**—**		(1,082)
Cash flows related to operating activities	**$**	**10,374**	$	7,760	**$**	**5,958**	$	29,675

The respective $1.5 million and $9.6 million increases in cash flows from operations for the quarter and nine-month period December 31, 2015, when compared to the same periods last fiscal year, are mainly explained by higher adjusted EBITDA.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Accounts receivable	**$ 5,801**	$ 5,030	**$ 10,906**	$ 7,273
Inventories	**(13,503)**	(2,321)	**(22,395)**	(249)
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as “accounts payable”)	**4,589**	(1,753)	**(8,699)**	(11,662)
Provisions	**1,400**	(367)	**(6,091)**	(941)
Customer advances	**(5,725)**	(1,870)	**(14,760)**	7,956
Income taxes payable and receivable	**4,064**	(1,046)	**1,494**	(1,683)
All others, including the effect of changes in exchange rates	**1,063**	(1,078)	**8,436**	2,616
	$ (2,311)	$ (3,405)	**$ (31,109)**	$ 3,310

For the quarter ended December 31, 2015, the negative net change in non-cash items related to continuing operations mainly reflects:

- An increase in inventories mainly related to the Boeing B-777 and B-787 programs and an increased level of activity in repair and overhaul; and,
- A net reduction in customer advances following revenue recognition.

These factors were partly offset by a decrease in accounts receivable reflecting a lower number of days in receivables and an increase in accounts payable mainly associated to the increased inventories described above.

For the nine-month period ended December 31, 2015, the negative net change in non-cash items related to continuing operations mainly reflects:

- An increase in inventories mainly related to the Boeing B-777 and B-787 programs and an increased level of activity in repair and overhaul; and,
- A net reduction in customer advances following revenue recognition.

For the quarter ended December 31, 2014, the negative net change in non-cash items related to continuing operations was a result of minor negative changes in most non-cash items, partly offset by a decrease in accounts receivable following improvements made in collections.

For the nine-month period ended December 31, 2014, the positive net change in non-cash items related to continuing operations mainly reflected:

- Increases in customer advances due to payments received in relation to long-term contracts; and
- A decrease in accounts receivable when compared to the previous year’s fourth quarter, which historically is the best quarter of the fiscal year.

These factors were largely offset by a decrease in accounts payable and accrued liabilities, reflecting a lower level of activity when compared to the previous year’s fourth quarter.

Investing Activities

The Corporation’s investing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Net additions to property, plant and equipment	**$ (12,484)**	$ (9,453)	**$ (35,516)**	$ (23,788)
Deposits on machinery and equipment	**—**	(10,258)	**(10,119)**	(15,427)
Net increase in finite-life intangible assets	**(471)**	(239)	**(3,986)**	(1,653)
Proceeds on disposal of property, plant and equipment	**91**	—	**292**	430
Cash flows related to investing activities	**$ (12,864)**	$ (19,950)	**$ (49,329)**	$ (40,438)

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

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Gross additions to property, plant and equipment	**$ 43,349**	$ 12,675	**$ 69,088**	$ 28,319
Government assistance	**(3,178)**	(716)	**(4,079)**	(1,005)
Additions to property, plant and equipment	**$ 40,171**	$ 11,959	**$ 65,009**	$ 27,314
Variation in unpaid additions included in Accounts payable - other and other liabilities	**(449)**	(1,322)	**3,743**	(2,342)
Deposits reclassified to property, plant and equipment upon completion (1)	**(27,238)**	(1,184)	**(33,236)**	(1,184)
Additions, as per statements of cash flows	**$ 12,484**	$ 9,453	**$ 35,516**	$ 23,788

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

Additions to property, plant and equipment stood at $40.2 million for the quarter ($12.0 million last year) and $65.0 million for the nine-month period ($27.3 million last year) and were essentially related to the B-777 and B-777X contract. An amount of $18.9 million of these investments, to date, have been financed using finance leases. Additions to property, plant and equipment for the full fiscal year 2016 are expected to be about $75.0 million.

The Boeing B-777 and B-777X contract, the largest ever awarded to Landing Gear operations, is for the supply of complete landing gear systems, including the main and nose landing gears, and the nose landing gear drag strut. The contract also includes manufacturing parts for Boeing to sell in the aftermarket. Under the multi-year contract, deliveries will begin in early calendar 2017, with an option to extend the contract through 2028. As at December 31, 2015, the Corporation had invested $104.9 million related to this contract, representing more than 90% of the expected total capital investment.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2015	2014	**2015**	2014
Increase in long-term debt	**$ 19,851**	$ 1,144	**$ 34,029**	$ 21,080
Repayment of long-term debt	**(856)**	(451)	**(5,937)**	(66,762)
Issuance of common shares	**141**	88	**401**	48,294
Cash flows related to financing activities	**$ 19,136**	$ 781	**$ 28,493**	$ 2,612

The cash inflows from increases in long-term debt over the nine-month period mainly relates to a $13.3 million (US$10.0 million) drawing against the Credit Facility during the first quarter and year to date additions to finance leases of $18.9 million, including $12.9 million in the third quarter, related to the Boeing B-777 and B-777X contract.

During the nine-month period ended December 31, 2014, the Corporation issued 4,316,892 common shares at a weighted-average price of $11.36 per share for a net consideration of $49.0 million, essentially pursuant to a public offering and concurrent private placements. The net proceeds of issuance were used, along with a $16.2 million drawing against the Corporation's Credit Facility, to repay US$59.3 million ($63.6 million) of debt against the Credit Facility. These transactions largely explain the variances in cash flows related to the repayment of long-term debt and issuance of common shares.

As at December 31, 2015, the Corporation was in compliance with all its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

Financial Position

Issued Capital

Capital stock varied as follows:

	Quarter ended December 31, 2015		Nine months ended December 31, 2015	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	35,978,146	$ 75,586	35,949,445	$ 75,304
Issued for cash on exercise of stock options	—	—	2,400	27
Issued for cash under the stock purchase and ownership incentive plan	12,902	141	39,203	396
Ending balance	35,991,048	$ 75,727	35,991,048	$ 75,727

As at February 11, 2016, the number of shares outstanding stood at 35,999,427.

Stock options varied as follows:

	Quarter ended December 31, 2015		Nine months ended December 31, 2015	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	890,446	$ 10.00	747,346	$ 9.84
Granted	—	—	145,500	10.71
Exercised	—	—	(2,400)	2.02
Cancelled / forfeited	(7,500)	11.71	(7,500)	11.71
Ending balance	882,946	$ 9.99	882,946	$ 9.99

As at December 31, 2015, 1,637,381 common shares remained reserved for issuance upon exercise of stock options compared to 1,639,781 at March 31, 2015 and 163,490 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 202,693 at March 31, 2015.

As at February 11, 2016, the number of options outstanding stood at 882,946.

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

The Corporation's working capital was as follows, as at:

	December 31, 2015	March 31, 2015	*Variance*	
Current assets	**$ 250,437**	$ 255,943	*$ (5,506)*	*(2.2)%*
Current liabilities	**119,080**	146,227	*(27,147)*	*(18.6)%*
Net working capital	**$ 131,357**	$ 109,716	*$ 21,641*	*19.7 %*
Working capital ratio	**2.10**	1.75		

The $5.5 million decrease in current assets is mainly the result of decreases in cash and cash equivalents ($13.7 million) and accounts receivable ($10.9 million), partially offset by an increase in inventory ($22.4 million), as detailed in the *Liquidity and Capital Resources section*.

The $27.1 million decrease in current liabilities is mainly explained by:

- A net decrease in customer advances ($14.8 million) following revenue recognition.
- A decrease in provisions ($6.1 million), mainly due to a payment related to the settlement of a litigation; and,
- A decrease in accounts payable - other and other liabilities ($4.7 million) essentially related to the payment of property, plant and equipment, mainly related to the Boeing B-777 and B-777X contract.

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

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

	December 31, 2015	March 31, 2015	*Variance*	
Long-term assets	**$ 364,845**	$ 319,510	*$ 45,335*	*14.2%*
Long-term liabilities	**$ 166,178**	$ 135,771	*$ 30,407*	*22.4%*
Shareholders' equity	**$ 330,024**	$ 293,455	*$ 36,569*	*12.5%*
Long-term debt-to-equity ratio	**0.43:1**	0.36:1		
Net debt-to-equity ratio(1)	**0.39:1**	0.27:1		

(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 $45.3 million increase in long-term assets is mainly explained by increases in Property, plant and equipment ($59.6 million), partly offset by the related decrease in Deposits on machinery and equipment ($23.1 million), both driven largely by the Boeing B-777 and B-777X contract.

The $30.4 million increase in long-term liabilities is mainly explained by a $35.3 million increase in Long-term debt. This increase was driven both by an additional drawing against the Credit Facility ($13.8 million or US$10.0 million) and increased net obligations under finance leases ($16.8 million), both mainly due to the Boeing B-777 and B-777X contract.

The increase in Shareholders' equity is mainly explained by Comprehensive income of $35.4 million, mainly comprised of net income of $17.6 million and the favourable effect of foreign exchange fluctuations of $15.4 million included in Other comprehensive income. For further details, see the Statement of comprehensive income in the interim condensed consolidated financial statements for the quarter ended December 31, 2015.

Additional Information

Commitments and Derivatives

Commitments

The Corporation has released purchase orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. As at December 31, 2015, these outstanding purchase orders amounted to $10.5 million ($34.8 million as at March 31, 2015) net of related deposits of $0.2 million ($23.3 million as at March 31, 2015) which are included in the Corporation's balance sheet. As at December 31, 2015, $5.1 million ($32.4 million as at March 31, 2015) of these outstanding purchase orders, net of deposits, were related to the Boeing B-777 and B-777X contract.

Forward foreign exchange contracts

As at December 31, 2015, the Corporation had forward foreign exchange contracts to sell US$131.9 million at a weighted-average rate of 1.2344 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2015, these contracts totalled US$119.0 million at a weighted-average rate of 1.1297 cad/usd. As at December 31, 2015, these contracts mature at various dates between January 2016 and September 2018, with the majority maturing this and next fiscal years.

Interest rate swap agreements

As at December 31, 2015 the Corporation had entered into two interest-rate swap agreements for a total notional amount of US$15.0 million. These interest-rate swap agreements fixed the Libor U.S. rate at 1.65% for the first tranche of US$5.0 million, and at 2.38% for the second tranche of US$10.0 million, both until their maturity in 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

On June 22, 2015, the Corporation entered into an equity swap agreement with a financial institution to manage cash flow exposure and reduce its income exposure to fluctuations in its share price related to the Deferred share unit ("DSU") and Performance share unit ("PSU") plans.

Pursuant to this agreement, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impact the value of the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at December 31, 2015, the equity swap agreement covered 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 2016.

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 nine-month period ended December 31, 2015 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 segments 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, 2015. 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 nine months ended December 31, 2015, other than those described elsewhere in this MD&A.

Selected Quarterly Financial Information

Selected financial information is as follows, for the quarters ended:

	Fiscal year 2016			Fiscal year 2015				2014
	Dec 31, 2015	Sep 30, 2015	Jun 30, 2015	Mar 31, 2015	Dec 31, 2014	Sep 30, 2014	Jun 30, 2014	Mar 31, 2014
Sales	**$ 96,561**	$ 94,518	$ 98,237	$106,054	$ 88,368	$ 84,086	$ 86,408	$ 91,212
Operating income (loss)	**9,794**	8,684	5,971	(2,490)	(7,410)	4,974	5,892	3,898
Adjusted operating income (1)	**9,794**	8,684	7,451	10,730	6,711	5,737	6,243	9,419
EBITDA (1)	**15,666**	14,607	11,604	2,679	3,018	9,215	10,009	7,728
Adjusted EBITDA (1)	**15,666**	14,607	13,084	15,899	11,544	9,978	10,360	13,249
Net Income (loss)	**7,010**	6,030	4,510	(1,640)	(1,909)	3,273	3,500	1,230
Adjusted Net Income (1)	**7,010**	6,030	5,519	7,456	4,361	3,839	3,756	5,953
In dollars per share								
Earnings (loss) per share - Basic & Diluted	**$ 0.19**	$ 0.17	$ 0.13	$ (0.05)	$ (0.05)	$ 0.09	$ 0.11	$ 0.04
Adjusted Earnings per share (1)	**0.19**	0.17	0.15	0.21	0.12	0.11	0.12	0.19
In millions of shares								
Weighted average number of common diluted shares outstanding	**36.2**	36.1	36.1	36.1	36.0	36.0	31.9	31.7

(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.*

Outlook [1]

Conditions remain mostly favourable in the commercial aerospace market. The International Air Transport Association's ("IATA") most recent forecast calls for robust growth of 6.9% in the passenger market for calendar 2016, while air cargo volume is expected to rise 3.0% in calendar 2016 [2].

In the large commercial aircraft segment, Boeing and Airbus are proceeding with production rate adjustments ahead of introducing certain more fuel efficient aircraft variants on several leading programs through calendar 2019. Their backlogs remain strong, representing approximately eight and ten years of production at current rates, respectively [3].

In the business jet sector, industry deliveries increased 4.3% in the first nine months of calendar 2015 and certain positive signs suggest healthy market conditions going forward, such as growing U.S. business aircraft movements and year-over-year stability in the proportion of the business aircraft fleet for sale. The current and future ramp-up of business jet models for which Héroux‑Devtek has designed the landing gear should result in sustained growth for the Corporation in this market [4].

In the defence aerospace market, the Bipartisan Budget Act of 2015 provides additional funding through the U.S. Government's 2017 fiscal year, but uncertainty remains beyond that period given the need to address the deficit. The Corporation's UK operations provide Héroux‑Devtek with 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 stability.

The Corporation's healthy balance sheet along with its available credit will allow Héroux-Devtek to finance the fiscal 2016 remaining investments of $10 million in property, plant and equipment, as well as working capital requirements, mainly related to the Boeing B-777 and B-777X landing gear contract.

As at December 31, 2015, Héroux-Devtek's funded (firm orders) backlog stood at $441.7 million, versus $459.0 million at the beginning of the fiscal year. Despite this solid backlog and strong customer relationships, the Corporation will continue to enhance productivity and streamline its cost base to remain competitive in light of the increasingly global character of the aerospace industry.

Given forces driving its main markets, as well as favourable currency variations, the Corporation anticipates sales growth of approximately 10% in fiscal 2016, including solid growth in the commercial aerospace market and relatively stable sales in the defence aerospace market.

Over a longer-term horizon, Héroux-Devtek's performance will be driven by the growth of our European operations, the start-up of the Boeing B-777 and B-777X contract, the ramp-up of certain landing gear design programs, the achievement by large aircraft manufacturers of their scheduled production rate increases, a sustained recovery in the business jet market, and stable conditions in the defence market.

With these key drivers, the Corporation believes that it can achieve sales of approximately $500.0 million by its 2019 fiscal year, assuming no further acquisitions.

Additional Information and Continuous Disclosure

This MD&A was approved by the Audit Committee and by the Board of Directors on February 11, 2016. 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 .

[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, December 2015.*

[3] *Sources: Airbus press releases October 30, 2015; February 27, 2015; November 4, 2014; February 24, 2014. Boeing press releases January 21, 2016; October 2, 2014; January 24, 2014.*

[4] *Sources: General Aviation Manufacturers Association, Federal Aviation Administration, JetNet, Teal Group.*