



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

For the quarter ended September 30, 2015

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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, 2015 and September 30, 2015. It also compares the operating results and cash flows for the quarters and six-month periods ended September 30, 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 six-month period ended September 30, 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.

IFRS and non-IFRS measures

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*.

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

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:

	September 30, 2015	March 31, 2015
USD (Canadian equivalent of US\$1.0)	1.3345	1.2666
GBP (Canadian equivalent of £1.0)	2.0187	1.8792

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
USD (Canadian equivalent of US\$1.0)	1.3094	1.0893	1.2694	1.0899
GBP (Canadian equivalent of £1.0)	2.0280	1.8168	1.9562	1.8261

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 September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Sales	\$ 94,518	\$ 84,086	\$ 192,755	\$ 170,494
Operating income	8,684	4,974	14,655	10,866
Adjusted operating income ⁽¹⁾	8,684	5,737	16,135	11,980
Adjusted EBITDA ⁽¹⁾	14,607	9,978	27,691	20,338
Net income	6,030	3,273	10,540	6,773
Adjusted net income ⁽¹⁾	6,030	3,839	11,549	7,595
<i>In dollars per share</i>				
EPS - basic and diluted	\$ 0.17	\$ 0.09	\$ 0.29	\$ 0.20
Adjusted EPS ⁽¹⁾	0.17	0.11	0.32	0.22
<i>In thousands of shares</i>				
Weighted average number of common diluted shares outstanding	36,095	36,022	36,083	33,986

⁽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

- The Corporation achieved sales growth of 12.4% and Adjusted EBITDA growth of 46.4% compared to the second 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 was awarded two sales contracts which underline its commitment to its growth platforms:
 - * On September 18, 2015, Héroux-Devtek announced the signing of a long-term contract with Finmeccanica-AgustaWestland to supply complete landing gear systems for the AW609 TiltRotor aircraft. Under the terms of the agreement, the Corporation will design, develop, fabricate, assemble, test and deliver complete landing gear systems for the aircraft; and
 - * On September 30, 2015, the Corporation announced that it had been awarded a long-term contract by The Boeing Company (“Boeing”) to manufacture landing gear retract actuator assemblies for the 777 and 777X programs, as well as provide spare parts.

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. In regards to the plan’s main initiatives:

- The new Cambridge, Ontario plant is operational;
- Essentially all machinery and equipment has been installed in the Cambridge, Ontario; Springfield, Ohio; and Laval, Québec facilities, and is in varying stages of testing and approval;
- All components necessary for the delivery of complete landing gear assemblies are in production;
- The expansion of the Corporation’s finishing sub-assembly centre in Strongsville, Ohio, is completed. The new plating equipment is ready for production and Héroux-Devtek is in its customer qualification and approval process; and,
- The final assembly facility in Everett, Washington has been completed ahead of schedule and is available for the installation of equipment.

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 September 30, 2015 the Company had invested approximately \$101 million related to this contract (refer to the *Investing Activities* section under *Liquidity and Capital Resources* for further details).

Operating Results

	Quarters ended September 30,			Six months ended September 30,		
	2015	2014	Variance	2015	2014	Variance
Sales	\$ 94,518	\$ 84,086	\$ 10,432	\$ 192,755	\$ 170,494	\$ 22,261
Gross profit	17,521	13,087	4,434	34,079	27,268	6,811
Selling and administrative expenses	8,837	7,350	1,487	17,944	15,288	2,656
Adjusted operating income ⁽¹⁾	8,684	5,737	2,947	16,135	11,980	4,155
Non-recurring charges	—	763	(763)	1,480	1,114	366
Operating income	8,684	4,974	3,710	14,655	10,866	3,789
Financial expenses	1,501	1,270	231	2,533	2,974	(441)
Income tax expense	1,153	431	722	1,582	1,119	463
Net income	\$ 6,030	\$ 3,273	\$ 2,757	\$ 10,540	\$ 6,773	\$ 3,767
Adjusted net income ⁽¹⁾	\$ 6,030	\$ 3,839	\$ 2,191	\$ 11,549	\$ 7,595	\$ 3,954
<i>As a percentage of sales</i>						
Gross profit	18.5%	15.6%		17.7%	16.0%	
Selling and Administrative expenses	9.3%	8.7%		9.3%	9.0%	
Operating income	9.2%	5.9%		7.6%	6.4%	
<i>In dollars per share</i>						
EPS - basic and diluted	\$ 0.17	\$ 0.09	\$ 0.08	\$ 0.29	\$ 0.20	\$ 0.09
Adjusted EPS ⁽¹⁾	\$ 0.17	\$ 0.11	\$ 0.06	\$ 0.32	\$ 0.22	\$ 0.10

⁽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 September 30,			
	2015	2014	FX impact	Net variance
Commercial	\$ 49,964	\$ 37,521	\$ 6,035	\$ 6,408 17.1 %
Defence ⁽¹⁾	44,554	46,565	5,399	(7,410) (15.9)%
Total	\$ 94,518	\$ 84,086	\$ 11,434	\$ (1,002) (1.2)%

	Six months ended September 30,			
	2015	2014	FX impact	Net variance
Commercial	\$ 101,435	\$ 80,850	\$ 10,174	\$ 10,411 12.9 %
Defence ⁽¹⁾	91,320	89,644	9,159	(7,483) (8.3)%
Total	\$ 192,755	\$ 170,494	\$ 19,333	\$ 2,928 1.7 %

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

Commercial

The \$6.4 million and \$10.4 million respective net increases in commercial sales for the quarter and six-month period were mainly driven by:

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

Defence

The respective \$7.4 million and \$7.5 million net decreases in defence sales for the quarter and six-month period were mainly driven by:

- Lower manufacturing sales to civil customers;
- Lower spare parts requirements mainly from the U.S. government; 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.

Gross Profit

The increase in gross profit margin from 15.6% to 18.5% this quarter compared to the same quarter last fiscal year was mainly driven by the favourable U.S. dollar exchange rate fluctuations, representing 2.4% of sales, lower under-absorption of costs and a better product mix driven by higher commercial aftermarket sales. These positive elements were partially offset by higher costs related to certain programs.

The increase in gross profit from 16.0% to 17.7% for the six-month period compared to the same period last fiscal year was mainly driven by the favourable U.S. dollar exchange rate fluctuations, representing 1.9% of sales, and the same factors described above.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 9.6% of sales and 9.1% of sales for the quarter and six-month period, respectively, compared to 9.4% and 9.0% for the same periods last fiscal year. The increase as a percentage of sales is mainly due to higher stock-based compensation expense.

Non-recurring charges

Non-recurring charges for the quarters and six-month periods ended September 30, comprise the following:

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Settlement of a litigation	\$ —	\$ —	\$ 1,480	\$ —
Restructuring charges	—	763	—	1,114
	\$ —	\$ 763	\$ 1,480	\$ 1,114

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 a litigation following the execution of a Memorandum of Settlement on May 27, 2015. The final agreement includes the extension of two existing contracts with UTAS for the supply of various aircraft parts, and was accounted for in fiscal 2015. During the six-month period ended September 30, 2015, the Corporation incurred related legal fees of \$1.5 million, or \$1.0 million net of taxes.

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.

For the quarter and six-month period ended September 30, 2014, the Corporation recorded restructuring charges of \$0.8 million and \$1.1 million, respectively, related to the optimization and consolidation of manufacturing capacity.

Operating Income

The increases in operating income from 5.9% to 9.2% of sales (increase from 6.8% to 9.2% excluding non-recurring charges) for the quarter and from 6.4% to 7.6% of sales (increase from 7.0% to 8.4% excluding non-recurring charges) for the six-month period compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

Financial expenses increased by \$0.2 million during the quarter compared to the same period last fiscal year, mainly reflecting higher interest expense related to the Credit Facility due to higher borrowings as well as increased obligations under finance leases.

The \$0.4 million decrease during the six-month period compared to the same period last fiscal year, mainly reflects lower interest expense due to the repayment of US\$59.3 million (\$63.6 million) drawn against the Credit Facility during the first quarter of fiscal 2015 and a more favourable discount rate adjustment of \$0.2 million 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 September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Income before income tax expense	\$ 7,183	\$ 3,704	\$ 12,122	\$ 7,892
Income tax expense	1,153	431	1,582	1,119
Effective tax rate	16.1%	11.6%	13.1%	14.2%
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 (\$0.8 million), partially offset by permanent differences (\$0.1 million). The Corporation's effective tax rate for the quarter ended September 30, 2014 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions (\$0.5 million).

For the six-month period, the Corporation's effective income tax rate mainly reflects, the favourable impact of earnings in lower tax rate jurisdictions (\$1.8 million), partially offset by permanent differences (\$0.1 million). The Corporation's effective tax rate for the six-month period ended September 30, 2014 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions (\$1.0 million), partially offset by permanent differences (\$0.2 million).

Net Income

Net income increased from \$3.3 million to \$6.0 million (or from \$3.8 million to \$6.0 million excluding non-recurring charges net of taxes) during the quarter and increased from \$6.8 million to \$10.5 million (or from \$7.6 million to \$11.5 million excluding non-recurring charges net of taxes) during the six-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

During the six-month period, earnings per share increased from \$0.20 to \$0.29 per share (or from \$0.22 to \$0.32 per share excluding non-recurring charges, net of taxes) calculated on the basis of a higher weighted average diluted number of shares outstanding (36,082,923 versus 33,986,219), 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 September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Operating income	\$ 8,684	\$ 4,974	\$ 14,655	\$ 10,866
Non-recurring charges	—	763	1,480	1,114
Adjusted operating income	\$ 8,684	\$ 5,737	\$ 16,135	\$ 11,980

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 6,030	\$ 3,273	\$ 10,540	\$ 6,773
Income tax expense	1,153	431	1,582	1,119
Financial expenses	1,501	1,270	2,533	2,974
Amortization expense	5,923	4,241	11,556	8,358
EBITDA	\$ 14,607	\$ 9,215	\$ 26,211	\$ 19,224
Non-recurring charges	—	763	1,480	1,114
Adjusted EBITDA	\$ 14,607	\$ 9,978	\$ 27,691	\$ 20,338

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Net income	\$ 6,030	\$ 3,273	\$ 10,540	\$ 6,773
Non-recurring charges, net of taxes	—	566	1,009	822
Adjusted net income	\$ 6,030	\$ 3,839	\$ 11,549	\$ 7,595
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.17	\$ 0.09	\$ 0.29	\$ 0.20
Non-recurring charges, net of taxes	—	0.02	0.03	0.02
Adjusted earnings per share	\$ 0.17	\$ 0.11	\$ 0.32	\$ 0.22

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 five Canadian syndicated 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 September 30, 2015, the Corporation had \$72.2 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:

	September 30, 2015	March 31, 2015
Long-term debt, including current portion ⁽¹⁾	\$ 133,927	\$ 114,202
Less: Cash and cash equivalents	4,243	35,098
Net debt position	\$ 129,684	\$ 79,104

⁽¹⁾ Excluding net deferred financing costs of \$1.1 million as at September 30, 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 September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Cash and cash equivalents at beginning of periods	\$ 14,804	\$ 43,492	\$ 35,098	\$ 47,347
Cash flows related to operating activities	3,291	15,342	(4,416)	21,915
Cash flows related to investing activities	(12,672)	(10,791)	(36,465)	(20,488)
Cash flows related to financing activities	(1,875)	1,087	9,357	1,831
Effect of changes in exchange rates on cash and cash equivalents	695	1,812	669	337
Cash and cash equivalents at end of periods	\$ 4,243	\$ 50,942	\$ 4,243	\$ 50,942

Operating Activities

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Cash flows from operations	\$ 12,939	\$ 7,804	\$ 24,382	\$ 16,282
Net change in non-cash items related to continuing operations	(9,648)	8,138	(28,798)	6,715
Cash flows related to operating activities from continuing operations	3,291	15,942	(4,416)	22,997
Cash flows related to operating activities from discontinued operations	—	(600)	—	(1,082)
Cash flows related to operating activities	\$ 3,291	\$ 15,342	\$ (4,416)	\$ 21,915

The respective \$5.1 million and \$8.1 million increases in cash flows from operations for the quarter and six-month period September 30, 2015, when compared to the same periods last fiscal year, are mainly explained by higher EBITDA partly offset by higher deferred income tax expense.

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Accounts receivable	\$ 1,648	\$ (1,495)	\$ 5,105	\$ 2,243
Inventories	(5,708)	2,314	(8,892)	2,072
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	(4,121)	(1,362)	(13,288)	(9,909)
Provisions	413	304	(7,491)	(574)
Customer advances	(5,446)	4,839	(9,035)	9,826
Income taxes payable and receivable	(573)	(1,018)	(2,570)	(637)
All others, including the effect of changes in exchange rates	4,139	4,556	7,373	3,694
	\$ (9,648)	\$ 8,138	\$ (28,798)	\$ 6,715

For the quarter ended September 30, 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.
- A net reduction in customer advances following revenue recognition; and
- A decrease in accounts payable and receivable due to the higher level of activity in the first quarter of fiscal 2016 compared to the second.

For the six-month period ended September 30, 2015, the negative net change in non-cash items related to continuing operations mainly reflects:

- A decrease in accounts payable and receivable due to the higher level of activity in the fourth quarter of fiscal 2015 compared to the first six months of fiscal 2016;
- A net reduction in customer advances following revenue recognition;
- An increase in inventories mainly related to the Boeing B-777 and B-787 programs; and
- A reduction in provisions resulting from the payment made following the settlement of a litigation.

For the quarter and six-month period ended September 30, 2014, the positive net change in non-cash items related to continuing operations mainly reflected:

- Increases in customer advances and progress billings due to payments received in relation to long-term contracts; and
- A reduction in inventory due to reduced backlog on certain military programs, partly offset by higher commercial funded backlog.

These positive factors were partly offset by a decrease in accounts payable resulting from lower sales volume due to the vacation period and plant shut-downs.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Additions to property, plant and equipment	\$ (7,146)	\$ (5,156)	\$ (23,032)	\$ (14,335)
Deposits on machinery and equipment	(3,602)	(4,492)	(10,119)	(5,169)
Net increase in finite-life intangible assets	(2,125)	(1,366)	(3,515)	(1,414)
Proceeds on disposal of property, plant and equipment	201	223	201	430
Cash flows related to investing activities	\$ (12,672)	\$ (10,791)	\$ (36,465)	\$ (20,488)

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

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Gross additions to property, plant and equipment	\$ 7,840	\$ 7,604	\$ 25,739	\$ 15,644
Government assistance	(901)	(180)	(901)	(289)
Additions to property, plant and equipment	\$ 6,939	\$ 7,424	\$ 24,838	\$ 15,355
Variation in unpaid additions included in Accounts payable - other and other liabilities	207	(2,268)	4,192	(1,020)
Machinery and equipment acquired through finance leases	—	—	(5,998)	—
Additions, as per statements of cash flows	\$ 7,146	\$ 5,156	\$ 23,032	\$ 14,335

Additions to property, plant and equipment stood at \$6.9 million for the quarter (\$7.4 million last year) and \$24.8 million for the six-month period (\$15.4 million last year) and were essentially related to the B-777 and B-777X contract. Additions to property, plant and equipment for the full fiscal year 2016 are expected to be about \$75.0 million, of which \$33.4 million of deposits on machinery and equipment had already been made as at September 30, 2015, as evidenced in the Corporation's balance sheet. The approximate remaining \$17.0 million of capital investments are expected to be financed through finance leases.

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 September 30, 2015, the Corporation had invested \$100.9 million related to this contract which included additions to property, plant and equipment of \$68.4 million and cumulative deposits on machinery and equipment of \$32.5 million.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2015	2014	2015	2014
Increase in long-term debt	\$ 528	\$ 1,316	\$ 14,178	\$ 19,936
Repayment of long-term debt	(2,547)	(479)	(5,081)	(66,311)
Issuance of common shares	144	250	260	48,206
Cash flows related to financing activities	\$ (1,875)	\$ 1,087	\$ 9,357	\$ 1,831

The increase in long-term debt over the six-month period mainly relates to a \$13.3 million (US\$10.0 million) drawing against the Credit Facility to finance additions to property, plant and equipment.

During the six-month period ended September 30, 2014, the Corporation issued 4,307,676 common shares at a weighted-average price of \$11.36 per share for a net consideration of \$48.2 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 September 30, 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 September 30, 2015		Six months ended September 30, 2015	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	35,962,098	\$ 75,420	35,949,445	\$ 75,304
Issued for cash on exercise of stock options	2,400	27	2,400	27
Issued for cash under the stock purchase and ownership incentive plan	13,648	139	26,301	255
Ending balance	35,978,146	\$ 75,586	35,978,146	\$ 75,586

As at November 9, 2015, the number of shares outstanding stood at 35,987,088.

Stock options varied as follows:

	Quarter ended September 30, 2015		Six months ended September 30, 2015	
	Number of stock options	Weighted- average exercise price	Number of stock options	Weighted- average exercise price
Opening balance	892,846	\$ 9.98	747,346	\$ 9.84
Granted	—	—	145,500	10.71
Exercised	(2,400)	2.02	(2,400)	2.02
Ending balance	890,446	\$ 10.00	890,446	\$ 10.00

As at September 30, 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 176,392 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 202,693 at March 31, 2015.

As at November 9, 2015, the number of options outstanding stood at 890,446.

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:

	September 30, 2015	March 31, 2015	Variance	
Current assets	\$ 229,240	\$ 255,943	\$ (26,703)	(10.4)%
Current liabilities	116,130	146,227	(30,097)	(20.6)%
Net working capital	\$ 113,110	\$ 109,716	\$ 3,394	3.1 %
Working capital ratio	1.97	1.75		

The \$26.7 million decrease in current assets is mainly the result of decreases in cash and cash equivalents (\$30.9 million) and accounts receivable (\$5.1 million), partially offset by an increase in inventory (\$8.9 million), as detailed in the *Liquidity and Capital Resources* section.

The \$30.1 million decrease in current liabilities is mainly explained by:

- A decrease in accounts payable and accrued liabilities (\$10.3 million), mainly resulting from a higher seasonal level of activity in the fourth quarter of fiscal 2015;
- A net decrease in customer advances (\$9.0 million) following revenue recognition.
- A decrease in provisions (\$7.5 million), mainly due to a payment related to the settlement of a litigation; and,
- A decrease in accounts payable - other and other liabilities (\$4.5 million) essentially related to the payment of property, plant and equipment, essentially related to the Boeing B-777 and B-777X contract.

Long-term assets, Long-term liabilities and Shareholder's Equity

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

	September 30, 2015	March 31, 2015	Variance	
Long-term assets	\$ 358,198	\$ 319,510	\$ 38,688	12.1%
Long-term liabilities	\$ 154,042	\$ 135,771	\$ 18,271	13.5%
Shareholder's equity	\$ 317,266	\$ 293,455	\$ 23,811	8.1%
Long-term debt-to-equity ratio	0.40:1	0.36:1		
Net debt-to-equity ratio ⁽¹⁾	0.41:1	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 \$38.7 million increase in long-term assets is mainly explained by increases in Property, plant and equipment (\$20.6 million) and Deposits on machinery and equipment (\$10.1 million), both driven largely by the Boeing B-777 and B-777X contract.

The \$18.3 million increase in long-term liabilities is mainly explained by a \$20.4 million increase in Long-term debt. This increase was driven both by an additional drawing against the Credit Facility (\$13.3 million or US\$10.0 million) and increased obligations under finance leases (\$4.7 million), both mainly due to the Boeing B-777 and B-777X contract.

The increase in Shareholder's equity is mainly explained by Comprehensive income of \$23.0 million, mainly comprised of net income of \$10.5 million and the effect of foreign exchange fluctuations of \$11.5 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 September 30, 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 September 30, 2015, these outstanding purchase orders amounted to \$18.2 million (\$34.8 million as at March 31, 2015) net of related deposits of \$33.4 million (\$23.3 million as at March 31, 2015) which are included in the Corporation's balance sheet. As at September 30, 2015, \$7.9 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 September 30, 2015, the Corporation had forward foreign exchange contracts to sell US\$113.5 million at a weighted-average rate of 1.1734 (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 September 30, 2015, these contracts mature at various dates between October 2015 and April 2018, with the majority maturing this and next fiscal years.

Interest rate swap agreements

As at September 30, 2015, and March 31, 2015, the Corporation had entered into an interest-rate swap agreement for a total notional amount of US\$10.0 million. The agreement fixed the Libor U.S. rate at 2.04%, maturing in December 2015. The Corporation had also entered into two additional 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 commencing in March 2014, and at 2.38% for the second tranche of US\$10.0 million commencing in December 2015, 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 September 30, 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 six-month period ended September 30, 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 six months ended September 30, 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				Fiscal year 2014	
	Sept. 30, 2015	June 30, 2015	March 31, 2015	Dec. 31, 2014	Sept. 30, 2014	June 30, 2014	March 31, 2014	Dec. 31, 2013
Sales	\$ 94,518	\$ 98,237	\$106,054	\$ 88,368	\$ 84,086	\$ 86,408	\$ 91,212	\$ 61,448
Operating income	8,684	5,971	(2,490)	(7,410)	4,974	5,892	3,898	4,149
Adjusted operating income ⁽¹⁾	8,684	7,451	10,730	6,711	5,737	6,243	9,419	5,265
EBITDA ⁽¹⁾	14,607	11,604	2,679	10,942	9,215	10,009	7,728	7,170
Adjusted EBITDA ⁽¹⁾	14,607	13,084	15,899	11,544	9,978	10,360	13,249	8,286
Net Income (loss)	6,030	4,510	(1,640)	(1,909)	3,273	3,500	1,230	2,608
Adjusted Net Income ⁽¹⁾	6,030	5,519	7,456	4,361	3,839	3,756	5,953	3,697
In dollars per share								
Earnings (loss) per share - Basic & Diluted	\$ 0.17	\$ 0.13	\$ (0.05)	\$ (0.05)	\$ 0.09	\$ 0.11	\$ 0.04	\$ 0.08
Adjusted Earnings per share ⁽¹⁾	0.17	0.15	0.21	0.12	0.11	0.12	0.19	0.12
In millions of shares								
Weighted average number of common diluted shares outstanding	36.1	36.1	36.1	36.0	36.0	31.9	31.7	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 6.7% in the passenger market for calendar 2015, while air cargo volume is expected to rise 5.5% in calendar 2015 ⁽²⁾.

In the large commercial aircraft segment, Boeing and Airbus are proceeding with production rate increases on several leading programs scheduled through calendar 2018, and with the introduction of more fuel efficient variants of existing aircraft over the next several years. Their backlogs remain strong, representing more than eight years of production at current rates ⁽³⁾.

In the business jet market, although industry deliveries decreased slightly in the first half of calendar 2015, positive signs suggest improving market conditions, such as increasing U.S. business aircraft movements and a year-over-year decrease in the proportion of the business aircraft fleet for sale. More importantly, the planned entry into service and 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, a recent budget agreement provides additional funding for the U.S. Government's next two fiscal years, 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 approximate remaining \$17.0 million of expected investments in property, plant and equipment during fiscal 2016, mainly related to the Boeing B-777 and B-777X landing gear contract.

As at September 30, 2015, Héroux-Devtek's funded (firm orders) backlog stood at \$426.5 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.

In the current fiscal year ending March 31, 2016, Héroux-Devtek anticipates an organic sales growth of approximately 10%, assuming stable currencies. Given forces driving its main markets and stable currencies, the Corporation anticipates organic sales to the commercial aerospace market to grow in excess of 10%, while organic sales to the defence aerospace market should experience a slight increase.

Over a longer-term horizon, Héroux-Devtek's performance will be driven by the growth of 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 November 9, 2015. 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, June 2015.

⁽³⁾ Sources: Airbus press releases February 27, 2015; November 4, 2014; February 24, 2014. Boeing press releases October 2, 2014; January 24, 2014; October 31, 2013.

⁽⁴⁾ Sources: General Aviation Manufacturers Association, Federal Aviation Administration, JetNet, Teal Group.