MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 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 December 31, 2017. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2017 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 ended December 31, 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:

	December 31, 2017	March 31, 2017
USD (Canadian equivalent of US$1.0)	**1.2545**	1.3299
GBP (Canadian equivalent of £1.0)	**1.6961**	1.6662

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,**	
	2017	2016	**2017**	2016
USD (Canadian equivalent of US$1.0)	**1.2715**	1.3339	**1.2896**	1.3092
GBP (Canadian equivalent of £1.0)	**1.6883**	1.6564	**1.6828**	1.7392

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,	
	2017	2016	**2017**	2016
Sales	**$ 97,006**	$ 98,489	**$ 273,540**	$ 285,650
Operating income	**6,629**	7,694	**16,681**	26,874
Adjusted EBITDA[1]	**13,563**	13,851	**37,535**	42,267
Net income	**626**	8,175	**7,816**	22,873
Adjusted net income[1]	**5,690**	6,015	**13,774**	17,276
Cash flows related to operating activities	**19,333**	15,516	**37,601**	26,999
Free cash flow[1]	**17,110**	9,701	**30,835**	10,213
In dollars per share				
EPS - basic and diluted	**$ 0.02**	$ 0.23	**$ 0.22**	$ 0.63
Adjusted EPS[1]	**0.16**	0.17	**0.38**	0.48
In millions of dollars, as at			**December 31, 2017**	March 31, 2017
Funded backlog[2]			**$ 475**	$ 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

- For the quarter ended December 31, 2017, the Corporation achieved consolidated sales of $97.0 million and adjusted EBITDA of $13.6 million, compared to $98.5 million and $13.9 million during the same period last fiscal year.
- Backlog increased to $475 million as at December 31, 2017, compared to $405 million as of March 31, 2017.
- For the quarter ended December 31, 2017, the Corporation generated cash flows related to operating activities of $19.3 million, compared to $15.5 million during the same quarter last fiscal year and a free cash flow[1] of $17.1 million, compared to $9.7 million during the same quarter last fiscal year.
- Dassault Aviation ("Dassault") announced, on December 13, 2017, the cancellation process of the Silvercrest contract leading to the termination of the Falcon 5X business jet program and announced the launch of a new Falcon program with an entry into service in 2022. The Corporation is in discussions with Dassault and expects to supply this new aircraft within the framework of the existing Falcon 5X contract.

[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.*

Guidance

Management has updated its guidance relating to fiscal 2018 additions to property, plant and equipment. See the *Guidance* section under *Additional Information* for further details.

Agreement to acquire CESA

On October 2, 2017, the Corporation announced an agreement to acquire Compañia Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE (the "Transaction"), for €140.0 million ($205.0 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry with annual sales of approximately €94 million ($136 million). Its main product lines include landing gear, actuation and hydraulic systems. This strategic and accretive acquisition will significantly enhance the Corporation's reach in Europe and will provide access to a direct, long-term business relationship with Airbus.

Closing of the Transaction is expected around the end of the Corporation's 2018 fiscal year and is subject to certain approvals, including authorization by the Spanish Council of Ministers and the prior acquisition by Airbus of the stake of its minority partner in CESA. The Transaction exposes the Corporation to new foreign exchange and interest rate risks. Please refer to *Derivatives* under *Additional Information* for further information about these risks and the derivative financial instruments the Corporation has acquired to mitigate them.

OPERATING RESULTS

	Quarters ended December 31,						Nine months ended December 31,					
		2017		2016		*Variance*		**2017**		2016		*Variance*
Sales	**$**	**97,006**	$	98,489	*$*	*(1,483)*	**$**	**273,540**	$	285,650	*$*	*(12,110)*
Gross profit		**15,839**		15,037		*802*		**42,318**		47,183		*(4,865)*
Selling and administrative expenses		**8,601**		7,343		*1,258*		**24,082**		23,615		*467*
Adjusted operating income[(1)]		**7,238**		7,694		*(456)*		**18,236**		23,568		*(5,332)*
Non-recurring items		**609**		—		*609*		**1,555**		(3,306)		*4,861*
Operating income		**6,629**		7,694		*(1,065)*		**16,681**		26,874		*(10,193)*
Financial expenses (income)		**395**		(1,917)		*2,312*		**2,926**		1,190		*1,736*
Income tax expense		**5,608**		1,436		*4,172*		**5,939**		2,811		*3,128*
Net income	**$**	**626**	$	8,175	*$*	*(7,549)*	**$**	**7,816**	$	22,873	*$*	*(15,057)*
Adjusted net income[(1)]	**$**	**5,690**	$	6,015	*$*	*(325)*	**$**	**13,774**	$	17,276	*$*	*(3,502)*
As a percentage of sales												
Gross profit		**16.3%**		15.3%		*100 bps*		**15.5%**		16.5%		*-100 bps*
Selling and Administrative expenses		**8.9%**		7.5%		*140 bps*		**8.8%**		8.3%		*50 bps*
Operating income		**6.8%**		7.8%		*-100 bps*		**6.1%**		9.4%		*-330 bps*
Adjusted operating income[(1)]		**7.5%**		7.8%		*-30 bps*		**6.7%**		8.3%		*-160 bps*
In dollars per share												
EPS - basic and diluted	**$**	**0.02**	$	0.23	*$*	*(0.21)*	**$**	**0.22**	$	0.63	*$*	*(0.41)*
Adjusted EPS[(1)]	**$**	**0.16**	$	0.17	*$*	*(0.01)*	**$**	**0.38**	$	0.48	*$*	*(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 December 31,								
		2017		2016		FX impact		Net variance	
Commercial	**$**	**52,105**	$	50,744	$	(728)	$	2,089	4.1 %
Defence[(1)]		**44,901**		47,745		(735)		(2,109)	(4.4)%
Total	**$**	**97,006**	$	98,489	$	(1,463)	$	(20)	0.0 %

	Nine months ended December 31,								
		2017		2016		FX impact		Net variance	
Commercial	**$**	**137,592**	$	150,024	$	(514)	$	(11,918)	(7.9)%
Defence[(1)]		**135,948**		135,626		(508)		830	0.6 %
Total	**$**	**273,540**	$	285,650	$	(1,022)	$	(11,088)	(3.9)%

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

Commercial

The $2.1 million net increase in commercial sales for the quarter was mainly driven by:

- Increased deliveries for the Boeing 777 program; and,
- Higher engineering sales.

These favourable factors were partly offset by the scheduled ending of a Tier-2 contract and lower aftermarket sales in support of the Saab 340 program.

The $11.9 million net decrease in commercial sales for the nine-month period was mainly driven by:

- Lower large commercial programs sales including the scheduled ending of a Tier-2 contract; and,
- Lower customer requirements for certain business jets and aftermarket sales in support of the Saab 340 program.

These negative factors were partly offset by increased Boeing 777 deliveries and higher engineering sales.

Defence

The $2.1 million net decrease in defence sales for the quarter was mainly driven by:

- Lower spare parts sales to civil customers; and,
- Lower repair and overhaul ("R&O") sales on the P-3 program.

These negative factors were partially offset by higher manufacturing sales from a catch-up in deliveries to civil customers and higher R&O sales to European customers as a result of better throughput.

The $0.8 million net increase in defence sales for the nine-month period was mainly driven by:

- Higher manufacturing sales to civil customers, including the ramp-up of the F35 program; and,
- Higher spare parts requirements from the U.S. government.

Theses factors were partially offset by lower R&O sales, namely on the P-3 program.

Gross Profit

The increase in gross profit margin from 15.3% to 16.3% this quarter compared to the same quarter last fiscal year was mainly driven by favourable exchange rate fluctuations mostly related to the U.S. dollar, representing 1.5% of sales, partially offset by higher under-absorption including excess capacity and processing and finishing costs related to the Boeing 777 program.

The decrease in gross profit from 16.5% to 15.5% for the nine-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 favourable exchange rate fluctuations representing 0.9% 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 8.2% of sales for the quarter and nine-month period, compared to 8.5% and 9.0% for the same periods last fiscal year. These decreases are mainly associated with lower employee-related costs.

Non-recurring items

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Non-recurring items in operating income				
Acquisition-related costs	**$ 609**	$ —	**$ 1,555**	$ —
Gain on settlement of litigation	**—**	—	**—**	(5,247)
Legal fees	**—**	—	**—**	1,941
	$ 609	—	**$ 1,555**	$ (3,306)
Non-recurring items in financial expenses				
Net gains on certain derivative financial instruments	**(609)**	—	**(609)**	—
Revision of governmental authorities loans repayment estimates	**—**	(2,949)	**—**	(2,949)
	$ (609)	(2,949)	**$ (609)**	$ (2,949)
Non-recurring item in income tax expense				
Impact of US Tax Reform	**4,912**	—	**4,912**	—
	$ 4,912	$ —	**$ 4,912**	$ —

Acquisition-related costs

During the quarter and nine-month period ended December 31, 2017, the Corporation's incurred acquisition-related costs of $0.6 million and $1.6 million, respectively. These costs mainly pertain to professional fees and expenses in connection with the agreement to acquire CESA.

Gain on settlement of a litigation, legal and other professional fees

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 and other professional fees incurred during the nine-month period ended December 31, 2016 amounted to $1.9 million.

Net gains on certain derivative financial instruments

These gains are related to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks related to the purchase price and financing of CESA. Refer to the *Derivatives* section under *Additional Information* for further details.

Revision of governmental authorities loans repayment estimates

In December 2016, the Corporation updated the estimated repayment schedule for certain of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts made following reduced production rates announced by OEMs. This resulted in a favourable $2.9 million non-cash gain ($2.2 million after taxes) accounted for in financial expenses, comprised of a reduction of interest accretion amounting to $0.9 million for the nine-month period ended December 31, 2016 and a catch up adjustment of $2.0 million.

Impact of US Tax Reform

This one-time tax expense of $4.9 million recorded during the quarter ended December 31, 2017 is related to US Tax Reform enacted on December 22, 2017. Refer to the *Income Tax* section for further details.

Operating Income

The decreases in operating income from 7.8% to 6.8% of sales (or decrease from 7.8% to 7.5% excluding non-recurring items) for the quarter and from 9.4% to 6.1% of sales (or decrease from 8.3% to 6.7% excluding non-recurring items) for the nine-month period compared to the same periods last fiscal year are mainly the result of the factors described above.

Year-over-year, foreign exchange had a negative impact of $0.3 million and $1.4 million on operating income for the quarter and nine-month periods, respectively.

Financial Expenses

The $2.3 million increase in financial expenses for the quarter when compared to the same period last fiscal year was mainly driven by:

- The $2.9 million non-cash gain recorded last year following the revision of governmental authorities loans repayment schedules; and,
- Net gains of $0.6 million realized during the current quarter related to certain derivative financial instruments, described in *Non-Recurring Items* above.

The $1.7 million increase in financial expenses for the nine-month period when compared to the same period last fiscal year is mainly due to the $2.9 million non-cash gain recorded last year following the revision of governmental authorities loans repayment schedules. This unfavorable factor was partly offset by:

- Net gains of $0.6 million related to certain derivative financial instruments, described in *Non-Recurring Items* above;
- Higher interest income on cash and cash equivalents;
- Lower interest accretion on governmental authorities loans; and,
- A higher favourable discount rate adjustment related to a provision for asset retirement obligations.

Income Tax Expense

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Income before income tax expense	**$ 6,234**	$ 9,611	**$ 13,755**	$ 25,684
Income tax expense	**5,608**	1,436	**5,939**	2,811
Effective tax rate	**90.0%**	14.9%	**43.2%**	10.9%
Effective tax rate excluding the US Tax Reform impact	**11.2%**	14.9%	**7.5%**	10.9%
Canadian blended statutory income tax rate	**26.6%**	26.7%	**26.7%**	26.7%

On December 22, 2017, the United States Government passed into law the Tax Cuts and Jobs Act (the "US Tax Reform"). The US Tax Reform includes a number of changes in tax law impacting businesses including a permanent reduction in the corporate income tax rate from 35% to 21% effective January 1, 2018. This reduction caused a revaluation of the Corporation's net deferred tax assets, resulting in a one-time income tax expense of $4.9 million during the quarter ended December 31, 2017.

Excluding this non-recurring impact, the effective tax rate stood at 11.2%, reflecting the favourable impact of results in other tax jurisdictions ($1.0 million), partially offset by permanent differences ($0.1 million).

For the quarter ended December 31, 2016, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($1.3 million) partially offset by permanent differences ($0.1 million).

For the nine-month period ended December 31, 2017, the Corporation's effective income tax rate mainly reflects the unfavourable impact of the US Tax Reform as explained above for an amount of ($4.9 million). Excluding this non-recurring impact, the effective tax rate stood at 7.5% and reflected the favourable impact of results in other tax jurisdictions ($3.4 million) partially offset by non-deductible acquisition-related costs ($0.3 million) and permanent differences ($0.2 million).

For the nine-month period ended December 31, 2016, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($3.6 million) and the non-taxable gain on settlement of litigation ($0.8 million) partially offset by permanent differences ($0.1 million).

Net Income

Net income decreased from $8.2 million to $0.6 million during the quarter (or decreased from $6.0 million to $5.7 million excluding non-recurring items net of taxes) and decreased from $22.9 million to $7.8 million (or decreased from $17.3 million to $13.8 million excluding non-recurring items 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.

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. Management considers these metrics to be information which may assist investors in evaluating the Corporation's profitability and enable better comparability of the results from one period to another and with peers who may employ similar measures.

These measures are not considered by management to be a substitute for IFRS measures, nor to be superior as they often do not fully reflect periodic costs, the long-term costs of investing or financing decisions or the impact of events which are not a result of operations.

The following are reconciliations of these items to their most comparable IFRS measures as well as additional information on what they represent, excluding free cash flow. For the reconciliation of free cash flow to cash flows related to operating activities, refer to *Liquidity and Capital Resources*.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Operating income	**$ 6,629**	$ 7,694	**$ 16,681**	$ 26,874
Non-recurring items	**609**	—	**1,555**	(3,306)
Adjusted operating income	**$ 7,238**	$ 7,694	**$ 18,236**	$ 23,568

Management believes adjusted operating income provides investors with a figure that allows better assessment of the Corporation's future profitability by excluding from operating income the impact of events which are not in the expected course of future operations, or which are not a result of operations.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Net income	**626**	8,175	**7,816**	22,873
Income tax expense	**5,608**	1,436	**5,939**	2,811
Financial expenses (income)	**395**	(1,917)	**2,926**	1,190
Amortization expense	**6,325**	6,157	**19,299**	18,699
EBITDA	**$ 12,954**	$ 13,851	**$ 35,980**	$ 45,573
Non-recurring items	**609**	—	**1,555**	(3,306)
Adjusted EBITDA	**$ 13,563**	$ 13,851	**$ 37,535**	$ 42,267

Management believes EBITDA and adjusted EBITDA provide valuable insight into the Corporation's day-to-day operations as they exclude from earnings factors that are more reflective of long-term financing or investing decisions than of current performance.

Adjusted EBITDA, in addition, allows for a better assessment of future operating results as it excludes the impact of events which are not in the expected course of future operations, or which are not a result of operations. Adjusted EBITDA is also used by management to assess operational performance and is a component of certain performance-based employee remuneration.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Net income	**$ 626**	$ 8,175	**$ 7,816**	$ 22,873
Non-recurring items, net of taxes	**5,064**	(2,160)	**5,958**	(5,597)
Adjusted net income	**$ 5,690**	$ 6,015	**$ 13,774**	$ 17,276
In dollars per share				
Earnings per share - basic and diluted	**$ 0.02**	$ 0.23	**$ 0.22**	$ 0.63
Non-recurring items, net of taxes	**0.14**	(0.06)	**0.16**	(0.15)
Adjusted earnings per share	**$ 0.16**	$ 0.17	**$ 0.38**	$ 0.48

Management believes adjusted net income and adjusted earnings per share allow investors to better assess the Corporation's current period results and future earnings prospects as they exclude from earnings the impact of events which are of a non-recurring nature or do not reflect current operations.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

In May 2017, the Corporation renewed its Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") and extended it through May 2022, with the terms and conditions remaining substantially the same. Related financing costs totaling $0.5 million were deferred and are amortized over the term of the related loans using the effective interest rate method.

As at December 31, 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 December 31, 2017, the Corporation had $52.7 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:

	December 31, 2017	March 31, 2017
Long-term debt, including current portion[1]	**$ 131,418**	$ 134,776
Less: Cash and cash equivalents	**70,642**	42,456
Net debt position	**$ 60,776**	$ 92,320

[1] Excluding net deferred financing costs of $1.0 million as at December 31, 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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Cash and cash equivalents at beginning of periods	**$ 52,812**	$ 15,827	**$ 42,456**	$ 19,268
Cash flows related to operating activities	**19,333**	15,516	**37,601**	26,999
Cash flows related to investing activities	**(2,016)**	(6,182)	**(8,117)**	(18,661)
Cash flows related to financing activities	**98**	(6,505)	**(585)**	(8,698)
Effect of changes in exchange rates on cash and cash equivalents	**415**	200	**(713)**	(52)
Cash and cash equivalents at end of periods	**$ 70,642**	$ 18,856	**$ 70,642**	$ 18,856

Operating Activities

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,	
	2017	2016	**2017**	2016
Cash flows from operations	**$ 11,762**	$ 11,944	**$ 30,663**	$ 39,725
Net change in non-cash items	**7,571**	3,572	**6,938**	(12,726)
Cash flows related to operating activities	**$ 19,333**	$ 15,516	**$ 37,601**	$ 26,999

The $9.1 million decrease in cash flows from operations for the nine-month period ended December 31, 2017, when compared to the same period last fiscal year, is mainly explained by lower EBITDA.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Accounts receivable	**$ 6,124**	$ (2,531)	**$ 16,970**	$ 10,695
Inventories	**3,671**	(930)	**2,019**	(11,663)
Other current assets	**(1,306)**	6,549	**(1,286)**	(2,992)
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**927**	(1,336)	**(3,446)**	(9,035)
Income taxes payable and receivable	**396**	1,661	**(60)**	1,551
Customer advances	**(2,628)**	1,497	**(3,165)**	4,990
Provisions	**(419)**	(551)	**(3,544)**	(2,611)
Progress billings	**180**	(898)	**1,349**	(1,435)
Effect of changes in exchange rates	**626**	111	**(1,899)**	(2,226)
	$ 7,571	$ 3,572	**$ 6,938**	$ (12,726)

For the quarter ended December 31, 2017, the positive net change in non-cash items mainly reflects decreases in accounts receivable and inventories partially offset by a net reduction in customer advances following revenue recognition.

For the nine-month period ended December 31, 2017, the positive net change in non-cash items mainly reflects:

- Seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year; and,
- A decrease in inventories mainly related to the Boeing 777 program.

These factors were partially offset by the seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year, a decrease in provisions mainly related to the utilization of the restructuring provision and a net reduction in customers advances following revenue recognition.

For the quarter ended December 31, 2016, the positive net change in non-cash items mainly reflected a decrease in other current assets following the collection of other receivables related to the arbitration claim settlement (refer to *Non-recurring items* under *Operating results*), partially offset by an increase in accounts receivable.

For the nine-month period ended December 31, 2016, the negative net change in non-cash items mainly reflected:

- An increase in inventories mainly related to the Boeing 777 program and an anticipated increase in level of activity in the final quarter of the fiscal year; and,
- The seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of fiscal 2016.

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of fiscal 2016, and an increase in customers advances mainly related to a new contract.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Net additions to property, plant and equipment	**$ (1,657)**	$ (5,316)	**$ (6,186)**	$ (16,512)
Net increase in finite-life intangible assets	**(436)**	(1,136)	**(2,038)**	(2,419)
Proceeds on disposal of property, plant and equipment	**77**	270	**107**	270
Cash flows related to investing activities	**$ (2,016)**	$ (6,182)	**$ (8,117)**	$ (18,661)

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

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Gross additions to property, plant and equipment	**$ 1,787**	$ 4,679	**$ 4,995**	$ 14,848
Government assistance	**—**	—	**(267)**	(481)
Net additions to property, plant and equipment	**$ 1,787**	$ 4,679	**$ 4,728**	$ 14,367
Variation in unpaid additions included in Accounts payable - other and other liabilities	**(130)**	637	**1,458**	2,334
Deposits reclassified to property, plant and equipment upon completion [(1)]	**—**	—	**—**	(189)
Net additions, as per statements of cash flows	**$ 1,657**	$ 5,316	**$ 6,186**	$ 16,512

[(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 quarter and nine-month period compared to the same periods 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:

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Increase in long-term debt	**$ 949**	$ 10,611	**$ 2,218**	$ 22,306
Repayment of long-term debt	**(1,125)**	(17,280)	**(3,370)**	(31,804)
Issuance of common shares	**274**	164	**567**	800
Cash flows related to financing activities	**$ 98**	$ (6,505)	**$ (585)**	$ (8,698)

The increase in long-term debt during the quarter ended December 31, 2016 was mainly related to $9.8 million of new finance leases for machinery and equipment, while repayment of long-term debt included repayments of $16.0 million of the Credit Facility.

For the nine-month period ended December 31, 2016, cash inflows from long-term debt include $10.5 million of new finance leases, and a $10.0 million drawing on the Credit Facility. Cash outflows from repayments of long-term debt include $26.2 million of repayments of the Credit Facility, with the remainder being comprised of repayments of government loans and finance leases.

As at December 31, 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)]

	Quarters ended December 31,		Nine months ended December 31,	
	2017	2016	**2017**	2016
Cash flows related to operating activities	**$ 19,333**	$ 15,516	**$ 37,601**	$ 26,999
Net additions to property, plant and equipment	**(1,787)**	(4,679)	**(4,728)**	(14,367)
Net increase in finite-life intangible assets	**(436)**	(1,136)	**(2,038)**	(2,419)
Free cash flow	**$ 17,110**	$ 9,701	**$ 30,835**	$ 10,213

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

Management considers free cash flow to be a good indicator of financial strength and profitability because it shows how much cash generated by operations is available for distribution, to repay debt or fund other investments.

The respective $7.4 million and $20.6 million increases in free cash flow for the three- and nine-month periods ended December 31, 2017 were mainly related to increases in cash flows related to operating activities and decreases in net additions to property, plant and equipment described previously.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended December 31, 2017		Nine months ended December 31, 2017	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,147,155	$ 77,510	36,122,050	$ 77,217
Issued for cash on exercise of stock options	11,250	183	11,250	183
Issued for cash under the stock purchase and ownership incentive plan	11,352	142	36,457	435
Ending balance	36,169,757	$ 77,835	36,169,757	$ 77,835

As at February 6, 2018, the number of common shares outstanding stood at 36,173,313.

Stock options varied as follows:

	Quarter ended December 31, 2017		Nine months ended December 31, 2017	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	914,295	$ 10.88	914,295	$ 10.88
Exercised	(11,250)	11.71	(11,250)	11.71
Cancelled / forfeited	(3,750)	11.71	(3,750)	11.71
Ending balance	899,295	$ 10.87	899,295	$ 10.87

As at December 31, 2017, 1,551,981 common shares remained reserved for issuance upon exercise of stock options compared to 1,563,231 at March 31, 2017 and 70,181 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 106,638 at March 31, 2017.

As at February 6, 2018, the number of stock options outstanding stood at 899,295.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 12, *Issued Capital*, to the interim condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Working capital

As at	December 31, 2017	March 31, 2017	Variance	
Current assets	**$ 285,662**	$ 272,667	*$ 12,995*	*4.8 %*
Current liabilities	**90,012**	104,436	*(14,424)*	*(13.8)%*
Working capital	**$ 195,650**	$ 168,231	*$ 27,419*	*16.3 %*
Working capital ratio	**3.17**	2.61		

The increase in current assets mainly reflect the year-to-date cash flows from operations net of the seasonal decrease in accounts receivable while the decrease in current liabilities mainly reflects the seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year.

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

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

	December 31, 2017	March 31, 2017	Variance	
Long-term assets	**$ 313,195**	$ 334,619	*$ (21,424)*	*(6.4)%*
Long-term liabilities	**$ 145,924**	$ 146,982	*$ (1,058)*	*(0.7)%*
Shareholders' equity	**$ 362,921**	$ 355,868	*$ 7,053*	*2.0 %*
Net debt-to-equity ratio[1]	**0.17:1**	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 $21.4 million decrease in Long-term assets mainly reflects the year-to-date amortization expense and the effect of the decrease in value of the U.S. dollar on the conversion of the Corporation's assets with a U.S. dollar functional currency.

The $7.1 million increase in Shareholders' equity is mainly explained by Comprehensive income of $6.2 million, essentially comprised of net income of $7.8 million.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

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

	December 31, 2017		March 31, 2017	
Notional amount outstanding	**US$**	**107,200**	US$	152,350
Average exchange rate		**1.3187**		1.3178

As at December 31, 2017, these contracts mature at various dates between January 2018 and March 2021, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at December 31, 2017 the Corporation had entered into the following interest rate swap agreements to fix the interest rate on a portion of the Credit Facility:

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 11, *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.

Derivatives related to the agreement to acquire CESA

The agreement to acquire CESA exposes the Corporation to new foreign currency and interest rate risks related to the purchase price and related financing. An increase in value of the Euro compared to the Canadian dollar would increase the anticipated transaction price, and an increase in interest rates underlying expected debt would increase related financial expenses.

In order to mitigate these risks, the Corporation acquired €85.0 million (approximately $123.8 million) of foreign exchange collars which were settled in the quarter ended December 31, 2017. (refer to the *Non-recurring items* section under *Operating results*).

As at December 31, 2017, the Corporation had also entered into the following cross-currency interest rate swap agreements in order to manage foreign exchange and interest rate risks:

Notional		Fixed EUR equivalent	Euro fixed rate	Inception	Maturity
US$	29,370	€25,000	1.65%	October 2017	May 2022
C$	50,000	€34,110	2.38%	October 2017	March 2025

Equity swap agreement

As at December 31, 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 ended December 31, 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.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	**2018**			2017				2016
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Sales	**$ 97,006**	$ 89,677	$ 86,857	$ 120,886	$ 98,489	$ 91,571	$ 95,590	$ 117,496
Operating income	**6,629**	4,644	5,408	8,678	7,694	11,584	7,596	13,334
Adjusted operating income (1)	**7,238**	5,590	5,408	12,312	7,694	7,873	8,001	13,334
EBITDA (1)	**12,954**	11,086	11,940	15,547	13,851	17,806	13,916	20,713
Adjusted EBITDA (1)	**13,563**	12,032	11,940	19,181	13,851	14,095	14,321	20,713
Net Income	**626**	3,163	4,027	8,895	8,175	9,519	5,179	9,091
Adjusted Net Income (1)	**5,690**	4,057	4,027	9,077	6,015	5,677	5,584	9,091
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.02**	$ 0.09	$ 0.11	$ 0.25	$ 0.23	$ 0.26	$ 0.14	$ 0.25
Adjusted earnings per share (1)	**0.16**	0.11	0.11	0.25	0.17	0.16	0.15	0.25
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.4**	36.3	36.3	36.3	36.3	36.3	36.3	36.2

(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 demand to remain healthy in calendar 2018 in both the passenger and cargo markets. Following a strong 7.5% progression in calendar 2017, passenger traffic expressed in revenue-passenger-kilometers ("RPK") should grow by 6.0% in calendar 2018 fueled by solid global GDP growth that is expected to reach 3.1%. These RPK increases are above the average annual growth of 5.6% recorded in the 1996-2016 period. Meanwhile, air cargo volume increased 9.3% in calendar 2017 and is expected to further rise by 4.5% in calendar 2018[(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. Both manufacturers concluded calendar 2017 with record deliveries and strong order backlogs. New order intake was robust in the single-aisle market, but relatively less important for twin-aisle aircraft, a category that includes the Boeing 777 program [(3)].

In the business jet market, aircraft shipments increased slightly in the first nine months of calendar 2017, according to data published by the General Aviation Manufacturers Association ("GAMA"). Looking ahead, while the number of new jets entering service is expected to increase at a modest pace, the trend towards larger, long-range business aircraft is expected to continue[(4)].

In the defence aerospace market, the U.S. administration intends to increase the Department of Defense (DOD) funding over the next several years. In the short-term, although the fiscal 2018 National Defense Authorization Act providing higher funding was signed by the President, the DOD operated under a continuous resolution in the first four months of fiscal 2018 pending Congress approval. 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. Europe is also committing more funds to defence, as evidenced by a 3.7% overall spending increase by European countries members of NATO for 2017 in an effort to reach a target of defence spending set at 2% of GDP [(5)].

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, December 2017.
(3) Sources: Airbus press releases January 15, 2018; October 19, 2017; July 12, 2016; February 24, 2016; Boeing press releases January 9, 2018; January 21, 2016.
(4) Sources: GAMA press release November 13, 2017; Business Jet Aviation Forecast, Honeywell, October 2017; Business Aviation Market Forecast, Jetcraft, October 2017.
(5) Sources: DOD press release December 12, 2017; NATO press release October 9, 2017.

GUIDANCE[(1)]

Metric	Fiscal 2018 guidance	**Updated 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 $15 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 revised its guidance for additions to property, plant and equipment ("PP&E") for fiscal 2018 issued with the fiscal 2017 third quarter results, which previously forecasted approximately $20 million was revised to approximately $15 million due to lower expected investments related to a customer contract.

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.

The foregoing guidance excludes the potential impact of the acquisition of CESA on the Corporation's results. Refer to the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2017 for discussion of certain other 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 February 6, 2018. 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.