MANAGEMENT’S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 2017

TABLE OF CONTENTS

OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2017 and September 30, 2017. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 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 September 30, 2017, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2017, all of which are available on the Corporation's website at www.herouxdevtek.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

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

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

Although management believes the expectations conveyed by these statements and although they are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

FOREIGN EXCHANGE ("FX")

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

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

	September 30, 2017	March 31, 2017
USD (Canadian equivalent of US$1.0)	**1.2480**	1.3299
GBP (Canadian equivalent of £1.0)	**1.6716**	1.6662

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,	
	2017	2016	**2017**	2016
USD (Canadian equivalent of US$1.0)	**1.2526**	1.3051	**1.2987**	1.2968
GBP (Canadian equivalent of £1.0)	**1.6398**	1.7126	**1.6800**	1.7807

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,	
	2017	2016	**2017**	2016
Sales	**$ 89,677**	$ 91,571	**$ 176,534**	$ 187,161
Operating income	**4,644**	11,584	**10,052**	19,180
Adjusted operating income[(1)]	**5,590**	7,873	**10,998**	15,874
Adjusted EBITDA[(1)]	**12,032**	14,095	**23,972**	28,416
Net income	**3,163**	9,519	**7,190**	14,698
Adjusted net income[(1)]	**4,057**	5,677	**8,084**	11,261
In dollars per share				
EPS - basic and diluted	**$ 0.09**	$ 0.26	**$ 0.20**	$ 0.41
Adjusted EPS[(1)]	**0.11**	0.16	**0.22**	0.31
In millions of dollars, as at			**September 30, 2017**	March 31, 2017
Funded backlog[(2)]			**$ 498**	$ 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*

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.

The acquisition will be financed through:

- A $50.0 million, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- The assumption of debt amounting to approximately $42.0 million;
- An increase in the Corporation's existing credit facility to $250.0 million; and,
- The Corporation's available cash balance.

Closing of the Transaction is expected before 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 *Risks and Uncertainties* under *Additional Information* for further information about these risks and the derivative financial instruments the Corporation has acquired to mitigate them.

Key Events

- For the quarter ended September 30, 2017, the Corporation achieved consolidated sales of $89.7 million and adjusted EBITDA of $12.0 million, compared to $91.6 million and $14.1 million during the same period last fiscal year.
- Backlog increased to $498 million as at September 30, 2017, compared to $451 million as of June 30, 2017 and $405 million as of March 31, 2017.
- For the quarter ended September 30, 2017, the Corporation achieved a free cash flow[(1)] of $13.3 million, compared to $1.0 million during the same quarter last fiscal year.

[(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.*

OPERATING RESULTS

	Quarters ended September 30,			Six months ended September 30,		
	2017	2016	*Variance*	**2017**	2016	*Variance*
Sales	**$ 89,677**	$ 91,571	*$ (1,894)*	**$ 176,534**	$ 187,161	*$ (10,627)*
Gross profit	**13,559**	16,041	*(2,482)*	**26,479**	32,146	*(5,667)*
Selling and administrative expenses	**7,969**	8,168	*(199)*	**15,481**	16,272	*(791)*
Adjusted operating income(1)	**5,590**	7,873	*(2,283)*	**10,998**	15,874	*(4,876)*
Non-recurring items	**946**	(3,711)	*4,657*	**946**	(3,306)	*4,252*
Operating income	**4,644**	11,584	*(6,940)*	**10,052**	19,180	*(9,128)*
Financial expenses	**1,225**	1,501	*(276)*	**2,531**	3,107	*(576)*
Income tax expense	**256**	564	*(308)*	**331**	1,375	*(1,044)*
Net income	**$ 3,163**	$ 9,519	*$ (6,356)*	**$ 7,190**	$ 14,698	*$ (7,508)*
Adjusted net income(1)	**$ 4,057**	$ 5,677	*$ (1,620)*	**$ 8,084**	$ 11,261	*$ (3,177)*
As a percentage of sales						
Gross profit	**15.1%**	17.5%	*-240 bps*	**15.0%**	17.2%	*-220 bps*
Selling and Administrative expenses	**8.9%**	8.9%	*0 bps*	**8.8%**	8.7%	*10 bps*
Operating income	**5.2%**	12.7%	*-750 bps*	**5.7%**	10.2%	*-450 bps*
Adjusted operating income(1)	**6.2%**	8.6%	*-240 bps*	**6.2%**	8.5%	*-230 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.09**	$ 0.26	*$ (0.17)*	**$ 0.20**	$ 0.41	*$ (0.21)*
Adjusted EPS(1)	**$ 0.11**	$ 0.16	*$ (0.05)*	**$ 0.22**	$ 0.31	*$ (0.09)*

(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,				
	2017	2016	FX impact	Net variance	
Commercial	**$ 42,159**	$ 48,689	$ (482)	$ (6,048)	(12.4)%
Defence(1)	**47,518**	42,882	(473)	5,109	11.9 %
Total	**$ 89,677**	$ 91,571	$ (955)	$ (939)	(1.0)%

	Six months ended September 30,				
	2017	2016	FX impact	Net variance	
Commercial	**$ 85,487**	$ 99,280	$ 214	$ (14,007)	(14.1)%
Defence(1)	**91,047**	87,881	227	2,939	3.3 %
Total	**$ 176,534**	$ 187,161	$ 441	$ (11,068)	(5.9)%

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

Commercial

The $6.0 million and $14.0 million respective net decreases in commercial sales for the quarter and the six-month periods were mainly driven by:

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

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

Defence

The $5.1 million net increase in defence sales for the quarter was mainly driven by:

- Higher spare parts requirements from civil customers;
- Higher manufacturing sales from a catch-up in deliveries to civil customers; and,
- Higher repair and overhaul sales to the U.S. Air Force.

These positive factors were partially offset by lower repair and overall ("R&O") sales to European customers, namely the EH-101.

The $2.9 million net increase in defence sales for the six-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 and civil customers.

These positive factors were partially offset by lower R&O sales, namely on the P-3 and EH-101 programs.

Gross Profit

The decrease in gross profit margin from 17.5% to 15.1% this quarter and from 17.2% to 15.0% for the six-month period compared to the same periods last fiscal year were 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 favorable exchange rate fluctuations representing 0.3% and 0.5% of sales, respectively, 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 8.1% and 8.2% of sales for the quarter and six-month period, respectively, compared to 9.5% and 9.3% for the same periods last fiscal year. These decreases are mainly associated with lower employee-related costs.

Non-recurring items

	Quarters ended September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Non-recurring items in EBITDA				
Acquisition-related costs	**946**	—	**946**	—
Gain on settlement of litigation	**—**	(5,247)	**—**	(5,247)
Legal and other professional fees	**—**	1,536	**—**	1,941
	$ 946	$ (3,711)	**$ 946**	$ (3,306)

Acquisition-related costs

During the quarter and six-month period ended September 30, 2017, the Corporation incurred $0.9 million in acquisition-related costs. These costs mainly pertain to professional fees and expenses in connection with the agreement to acquire Compañia Española de Sistemas Aeronauticos S.A..

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 quarter and six-month periods ended September 30, 2016 totaled $1.5 million and $1.9 million, respectively.

Operating Income

The decrease in operating income from 12.7% to 5.2% of sales (or decrease from 8.6% to 6.2% excluding non-recurring items) for the quarter and from 10.2% to 5.7% of sales (or decrease from 8.5% to 6.2% excluding non-recurring items) for the six-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 $1.1 million on operating income for the quarter and six-month periods.

Financial Expenses

The respective $0.3 million and $0.6 million decreases in financial expenses for the quarter and the six-month period when compared to the same periods last fiscal year were mainly driven by:

- Higher interest income on cash and cash equivalents;
- Lower interest accretion on governmental authorities loans; and,
- A favourable discount rate adjustment related to a provision for asset retirement compared to an unfavourable one in the same period of the prior fiscal year.

Income Tax Expense

	Quarters ended September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Income before income tax expense	**$ 3,419**	$ 10,083	**$ 7,521**	$ 16,073
Income tax expense	**256**	564	**331**	1,375
Effective tax rate	**7.5%**	5.6%	**4.4%**	8.6%
Canadian blended statutory income tax rate	**26.6%**	26.7%	**26.7%**	26.7%

The effective income tax rate for the quarter ended September 30, 2017, mainly reflects the favourable impact of results in other tax jurisdictions ($1.2 million), partially offset by non-deductible acquisition-related costs ($0.2 million) and permanent differences ($0.3 million).

For the three-month period ended September 30, 2016, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($1.3 million) and the non-taxable gain on settlement of litigation, net of related fees ($0.8 million) partially offset by permanent differences ($0.1 million).

For the six-month period ended September 30, 2017, the Corporation's effective income tax rate mainly reflects the favourable impact of results in other tax jurisdictions ($2.3 million) partially offset by non-deductible acquisition-related costs ($0.2 million) and permanent differences ($0.4 million).

For the six-month period ended September 30, 2016, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($2.3 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 $9.5 million to $3.2 million during the quarter (or decreased from $5.7 million to $4.1 million excluding non-recurring items net of taxes) and decreased from $14.7 million to $7.2 million (or decreased from $11.3 million to $8.1 million excluding non-recurring items 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.

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 September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Operating income	**$ 4,644**	$ 11,584	**$ 10,052**	$ 19,180
Non-recurring items	**946**	(3,711)	**946**	(3,306)
Adjusted operating income	**$ 5,590**	$ 7,873	**$ 10,998**	$ 15,874

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 September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Net income	**3,163**	9,519	**7,190**	14,698
Income tax expense	**256**	564	**331**	1,375
Financial expenses	**1,225**	1,501	**2,531**	3,107
Amortization expense	**6,442**	6,222	**12,974**	12,542
EBITDA	**$ 11,086**	$ 17,806	**$ 23,026**	$ 31,722
Non-recurring items	**946**	(3,711)	**946**	(3,306)
Adjusted EBITDA	**$ 12,032**	$ 14,095	**$ 23,972**	$ 28,416

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 September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Net income	**$ 3,163**	$ 9,519	**$ 7,190**	$ 14,698
Non-recurring items, net of taxes	**894**	(3,842)	**894**	(3,437)
Adjusted net income	**$ 4,057**	$ 5,677	**$ 8,084**	$ 11,261
In dollars per share				
Earnings per share - basic and diluted	**$ 0.09**	$ 0.26	**$ 0.20**	$ 0.41
Non-recurring items, net of taxes	**0.02**	(0.10)	**0.02**	(0.10)
Adjusted earnings per share	**$ 0.11**	$ 0.16	**$ 0.22**	$ 0.31

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 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 will be amortized over the term of the loan using the effective interest rate method.

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

As at September 30, 2017, the Corporation had $52.4 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:

	September 30, 2017	March 31, 2017
Long-term debt, including current portion[1]	**$ 130,732**	$ 134,776
Less: Cash and cash equivalents	**52,812**	42,456
Net debt position	**$ 77,920**	$ 92,320

[1] Excluding net deferred financing costs of $1.0 million as at September 30, 2017 and $0.6 million as at March 31, 2017.

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

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended September 30,				Six months ended September 30,			
		2017		2016		2017		2016
Cash and cash equivalents at beginning of periods	$	40,282	$	7,666	$	42,456	$	19,268
Cash flows related to operating activities		15,700		6,248		18,268		11,483
Cash flows related to investing activities		(2,678)		(5,575)		(6,101)		(12,479)
Cash flows related to financing activities		279		7,393		(683)		(2,193)
Effect of changes in exchange rates on cash and cash equivalents		(771)		95		(1,128)		(252)
Cash and cash equivalents at end of periods	$	52,812	$	15,827	$	52,812	$	15,827

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,			
		2017		2016		2017		2016
Cash flows from operations	$	8,288	$	16,055	$	18,901	$	27,781
Net change in non-cash items		7,412		(9,807)		(633)		(16,298)
Cash flows related to operating activities	$	15,700	$	6,248	$	18,268	$	11,483

The respective $7.8 million and $8.9 million decreases in cash flows from operations for the quarter and six-month period September 30, 2017, when compared to the same periods last fiscal year, are mainly explained by lower EBITDA.

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

	Quarters ended September 30,				Six months ended September 30,			
		2017		2016		2017		2016
Accounts receivable	$	2,043	$	(2,767)	$	10,846	$	13,226
Inventories		5,945		(3,503)		(1,652)		(10,733)
Other current assets		2,700		(6,292)		20		(9,541)
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")		(1,724)		(2,087)		(4,373)		(7,699)
Income taxes payable and receivable		491		(101)		(456)		(110)
Customer advances		(166)		5,094		(537)		3,493
Provisions		(978)		(1,667)		(3,125)		(2,060)
Progress billings		845		1,315		1,169		(537)
Effect of changes in exchange rates		(1,744)		201		(2,525)		(2,337)
	$	7,412	$	(9,807)	$	(633)	$	(16,298)

For the quarter ended September 30, 2017, the positive net change in non-cash items mainly reflects decreases in inventories and other current assets.

For the six-month period ended September 30, 2017, the negative net change in non-cash items mainly reflects:

- 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 due to utilization of the restructuring provision; and,
- The net negative impact of the effects of changes in exchange rates.

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

For the quarter ended September 30, 2016, the negative net change in non-cash items mainly reflected:

- An increase in other current assets following the settlement of a litigation; and,
- An increase in inventories mainly related to the Boeing 777 program and an anticipated increase in level of activity in the second half of the fiscal year.

These factors were partly offset by an increase in customer advances mainly related to a new contract.

For the six-month period ended September 30, 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 second half of the fiscal year;
- An increase in other current assets following the settlement of a litigation; 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 customer advances mainly related to a new contract.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Net additions to property, plant and equipment	**$ (1,863)**	$ (4,548)	**$ (4,529)**	$ (11,196)
Net increase in finite-life intangible assets	**(815)**	(1,027)	**(1,602)**	(1,283)
Proceeds on disposal of property, plant and equipment	**—**	—	**30**	—
Cash flows related to investing activities	**$ (2,678)**	$ (5,575)	**$ (6,101)**	$ (12,479)

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

	Quarters ended September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Gross additions to property, plant and equipment	**$ 1,766**	$ 4,437	**$ 3,208**	$ 10,169
Government assistance	**(138)**	(254)	**(267)**	(481)
Net additions to property, plant and equipment	**$ 1,628**	$ 4,183	**$ 2,941**	$ 9,688
Variation in unpaid additions included in Accounts payable - other and other liabilities	**235**	365	**1,588**	1,697
Deposits reclassified to property, plant and equipment upon completion (1)	**—**	—	**—**	(189)
Net additions, as per statements of cash flows	**$ 1,863**	$ 4,548	**$ 4,529**	$ 11,196

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

The decrease in net additions to property, plant and equipment for the three and six-month periods 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 September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Increase in long-term debt	**$ 1,269**	$ 10,390	**$ 1,269**	$ 11,695
Repayment of long-term debt	**(1,139)**	(3,385)	**(2,245)**	(14,524)
Issuance of common shares	**149**	388	**293**	636
Cash flows related to financing activities	**$ 279**	$ 7,393	**$ (683)**	$ (2,193)

The increase in long-term debt during the quarter ended September 30, 2016 mainly related to a $10.0 million drawing against the Credit Facility.

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

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

FREE CASH FLOW(1)

	Quarters ended September 30,		Six months ended September 30,	
	2017	2016	**2017**	2016
Cash flows related to operating activities	**$ 15,700**	$ 6,248	**$ 18,268**	$ 11,483
Net additions to property, plant and equipment	**(1,628)**	(4,183)	**(2,941)**	(9,688)
Net increase in finite-life intangible assets	**(815)**	(1,027)	**(1,602)**	(1,283)
Free cash flow	**$ 13,257**	$ 1,038	**$ 13,725**	$ 512

(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 $12.2 million and $13.2 million increases in free cash flow for the three- and six-month periods ended September 30, 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 September 30, 2017		Six months ended September 30, 2017	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,134,945	$ 77,361	36,122,050	$ 77,217
Issued for cash under the stock purchase and ownership incentive plan	12,210	149	25,105	293
Ending balance	36,147,155	$ 77,510	36,147,155	$ 77,510

As at November 3, 2017, the number of common shares outstanding stood at 36,151,301.

Stock options varied as follows:

	Quarter ended September 30, 2017		Six months ended September 30, 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
Ending balance	914,295	$ 10.88	914,295	$ 10.88

As at September 30, 2017, 1,563,231 common shares remained reserved for issuance upon exercise of stock options compared to 1,563,231 at March 31, 2017 and 81,533 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 106,638 at March 31, 2017.

As at November 3, 2017, the number of stock options outstanding stood at 914,295.

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

CONSOLIDATED BALANCE SHEETS

Working capital

As at	September 30, 2017	March 31, 2017	*Variance*	
Current assets	**$ 277,207**	$ 272,667	*$ 4,540*	*1.7 %*
Current liabilities	**90,894**	104,436	*(13,542)*	*(13.0)%*
Working capital	**$ 186,313**	$ 168,231	*$ 18,082*	*10.7 %*
Working capital ratio	**3.05**	2.61		

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:

	September 30, 2017	March 31, 2017	*Variance*	
Long-term assets	**$ 320,134**	$ 334,619	*$ (14,485)*	*(4.3)%*
Long-term liabilities	**$ 143,055**	$ 146,982	*$ (3,927)*	*(2.7)%*
Shareholders' equity	**$ 363,392**	$ 355,868	*$ 7,524*	*2.1 %*
Net debt-to-equity ratio(1)	**0.21:1**	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 $14.5 million decrease in Long-term assets mainly reflects depreciation 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 $7.5 million increase in Shareholders' equity is mainly explained by Comprehensive income of $7.0 million, essentially comprised of net income of $7.2 million.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

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

		September 30, 2017		March 31, 2017
Notional amount outstanding	US$	121,750	US$	152,350
Average exchange rate		1.3218		1.3178

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

Interest rate swap agreements

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

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

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

Equity swap agreement

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

INTERNAL CONTROLS AND PROCEDURES

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

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

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

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

RISKS AND UNCERTAINTIES

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

In addition to the risks referred to above, the acquisition of CESA announced on October 2, 2017 exposes the Corporation to foreign currency and interest rate fluctuations related to the purchase price and 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, following the announcement of the transaction, Héroux-Devtek acquired €85.0 million (approximately $123.8 million) of foreign exchange collars which mature in April 2018 and limit the Corporation's exposure to fluctuations outside of the exchange rates of 1.4560 and 1.5200, as well as approximately $86.4 million of cross-currency interest rate swaps in order to fix interest rates.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2018		2017				2016	
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter
Sales	**$ 89,677**	$ 86,857	$120,886	$ 98,489	$ 91,571	$ 95,590	$117,496	$ 96,561
Operating income	**4,644**	5,408	8,678	7,694	11,584	7,596	13,334	9,794
Adjusted operating income (1)	**5,590**	5,408	12,312	7,694	7,873	8,001	13,334	9,794
EBITDA (1)	**11,086**	11,940	15,547	13,851	17,806	13,916	20,713	15,666
Adjusted EBITDA (1)	**12,032**	11,940	19,181	13,851	14,095	14,321	20,713	15,666
Net Income	**3,163**	4,027	8,895	8,175	9,519	5,179	9,091	7,010
Adjusted Net Income (1)	**4,057**	4,027	9,077	6,015	5,677	5,584	9,091	7,010
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.09**	$ 0.11	$ 0.25	$ 0.23	$ 0.26	$ 0.14	$ 0.25	$ 0.19
Adjusted earnings per share (1)	**0.11**	0.11	0.25	0.17	0.16	0.15	0.25	0.19
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.3**	36.3	36.3	36.3	36.3	36.3	36.2	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 a strong 7.4% growth in the passenger market for calendar 2017, a figure above the historical average of approximately 5.0%. Meanwhile, air cargo volume is expected to rise 7.3% in calendar 2017[2].

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

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

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

[1] *Refer to* Forward-Looking Statements *in* Overview *for further information regarding forward-looking statements and related risks.*
[2] *Source: Economic Performance of the Airline Industry, IATA, June 2017.*
[3] *Sources: Airbus press releases October 19, 2017; July 12, 2016; February 24, 2016; October 30, 2015; Boeing press release January 21, 2016*
[4] *Sources: A New Foundation for American Greatness*

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 $20 million**
Fiscal 2018 adjusted EBITDA[2] margin	None provided	**Stable as compared to fiscal 2017**

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

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

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

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 November 3, 2017. Additional information about the Corporation, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.