MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2016

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OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2015 and March 31, 2016. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2016 to those of the same periods of the prior fiscal year.

This MD&A is based on the audited consolidated financial statements for fiscal year ended March 31, 2016 , which are prepared in accordance with International Financial Reporting Standards ("IFRS"), and should be read in conjunction with them. All amounts in this MD&A are in thousands of Canadian dollars, the Corporation's functional and presentation currency for all periods referred to herein, unless otherwise indicated. Financial data for the quarters ended March 31, 2016 and 2015 has not been audited.

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

This MD&A contains forward-looking statements which are mainly about, but may not be limited to, Héroux-Devtek's future financial performance, expectations, objectives or possible events. These statements are mainly, but may not be exclusively, contained in the *Guidance* and *Economic Outlook* sections and are usually identifiable by the use of such terms as: "aim", "anticipate, "assumption", "believe", "continue", "expect", "foresee", "intend", "may", "plan", "predict", "should" or "will". The predictive nature of such statements makes them subject to risks, uncertainties and other important factors that could cause the actual performance or events to differ materially from those expressed in or implied by such statements.

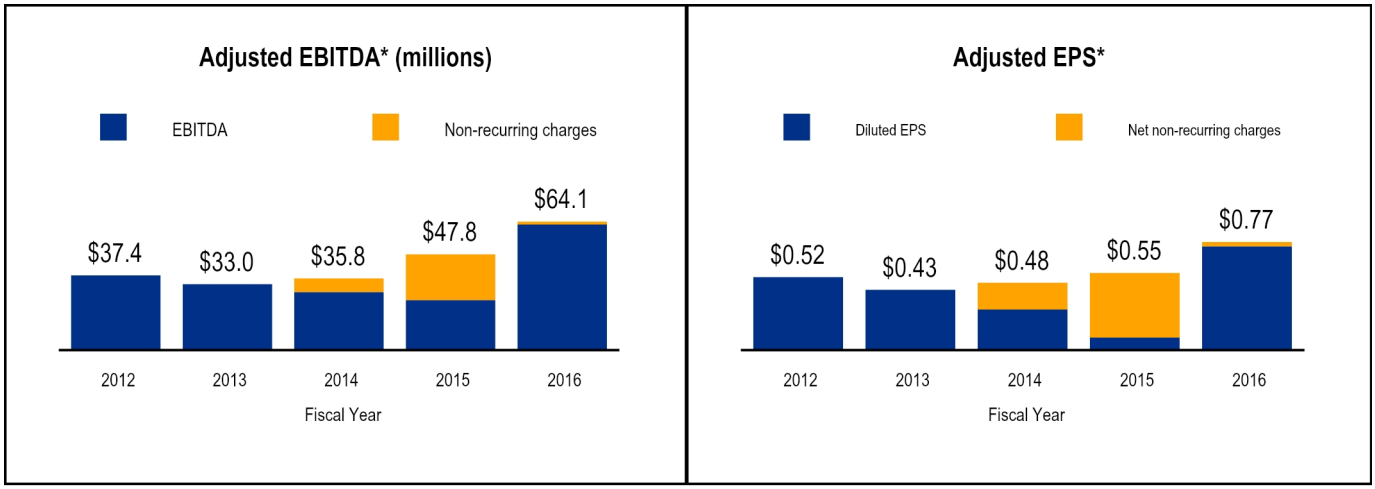
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; 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 more details, please see the *Risk Management* section of this MD&A. 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.

Héroux-Devtek makes such forward-looking statements in order to provide information to stakeholders which management believes may be useful in assessing the Corporation's past and present performance or in making investment decisions. The present cautionary notice is made in order to qualify such forward-looking information and to advise stakeholders that, while potentially useful, this information is based on assumptions and expectations from both internal and external sources and, as such, bear with them a risk of material inaccuracy due, among other things, to the risk factors listed above.

Although management believes in the expectations conveyed by the forward-looking 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.

HIGHLIGHTS OF THE YEAR

Fiscal year	2016	2015
Sales	**$ 406,812**	$ 364,916
Operating income	**37,783**	6,561
Adjusted operating income*	**39,263**	29,421
Adjusted EBITDA*	**64,070**	47,781
Net income	**26,641**	3,224
Adjusted net income*	**27,650**	19,412
In dollars per share		
EPS - basic and diluted	**$ 0.74**	$ 0.09
Adjusted EPS*	**0.77**	0.55
In thousands of shares		
Weighted average number of common diluted shares outstanding	**36,119**	35,016
In millions of dollars		
Funded backlog	**$ 460**	$ 459



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

Key Events

- The Corporation achieved sales growth of 11.5% and Adjusted EBITDA growth of 34.1% compared to fiscal 2015, mainly as a result of favourable U.S. dollar exchange rate fluctuations and strong sales growth in the commercial aerospace market. See *Operating Results* for further details.
- Throughout the fiscal year, the Corporation completed multiple significant agreements, including the following:
  - In February, the Corporation signed a Memorandum of Agreement ("MOA") with Hanwha Corporation ("Hanwha") of the Republic of Korea for the engineering and manufacturing development phase of the KF-X fighter aircraft. Under the terms of the MOA, Héroux-Devtek will engage in the design and development phase to jointly develop the landing gear system with Hanwha.
  - In December, Héroux-Devtek announced the extension of a preferred supplier agreement with a leading aerospace systems manufacturer and the renewal of an agreement to provide landing gear repair and overhaul services to the U.S. Air Force.
  - In November, the Corporation extended the global strategic maintenance agreement between Saab AB, Support & Services, Regional Aircraft and Héroux-Devtek's U.K. operations.
  - In September, the Corporation announced that it had been awarded a long-term contract by The Boeing Company ("Boeing") to manufacture and provide spare parts for the landing gear retract actuator assemblies for the 777 and 777X programs, as well as the signing of a long-term contract with Finmeccanica-AgustaWestland to supply complete landing gear systems for the AW609 TiltRotor aircraft.
- The Corporation made significant progress in the investments and preparations required for the production and delivery of complete landing gear systems for the Boeing 777 and 777X contract. Refer to the *Boeing 777 and 777X contract* section under *Operating Results* for further details.

OVERVIEW OF THE BUSINESS

Profile

Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul of landing gear and actuation systems and components for the aerospace market. The Corporation has also built a strong, well-recognized design engineering team. Héroux-Devtek is the third largest landing gear company in the world based on sales, supplying both the commercial and defence sectors.

In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft in the United States and Europe. As a result, a significant portion of the Corporation's sales are made to a limited number of customers located in Canada, the United States and Europe.

The Corporation's head office is located in Longueuil, Québec while operating facilities are located in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener, Cambridge and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; Everett, Washington; as well as Bolton, Runcorn and Nottingham in the United Kingdom. All facilities are involved in the design and fabrication of landing gear systems and components with the exception of the Toronto facility, which manufactures electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls, and the Bolton facility, which manufactures fluid filters for aircraft engines.

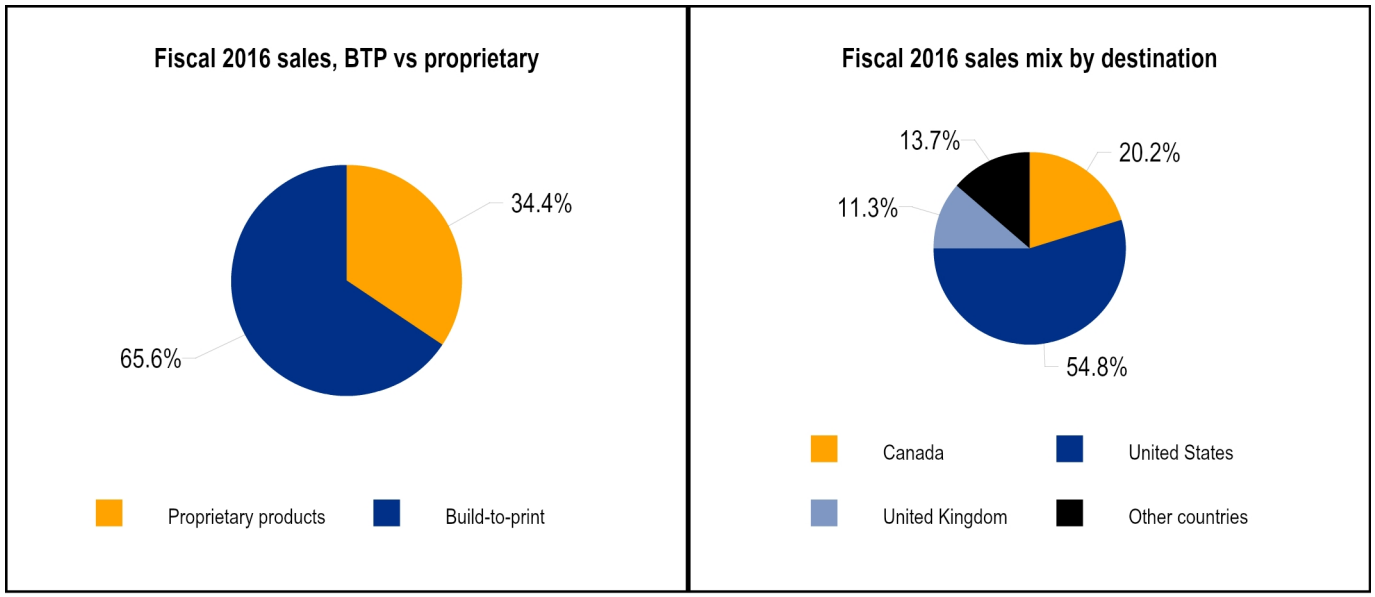
Héroux-Devtek sells to Original Equipment Manufacturers ("OEM") such as Boeing, Lockheed Martin and Finmeccanica Helicopters (formerly AgustaWestland); to Tier 1 suppliers such as UTC Aerospace Systems and Messier-Bugatti-Dowty; and to end users in the aftermarket where its main customer is the US Air Force. In fiscal 2016, sales to these six customers represented approximately 55% of total consolidated sales. More specifically, the Corporation has two customers representing 14% and 13% of its consolidated sales.

History

The Corporation was founded in 1942 as Héroux Machine Parts Limited, and later changed its name to Héroux Inc. The Corporation became public in 1986. In 2000, it acquired Devtek Corporation and was renamed Héroux-Devtek Inc.

On April 28, 2010, the Corporation concluded the acquisition of U.S. based Eagle Tool & Machine Co. and its subsidiary, All Tool Inc., two privately-held Ohio based manufacturers located in Springfield and Cleveland, which were involved in landing gear products mainly for the defence aerospace industry.

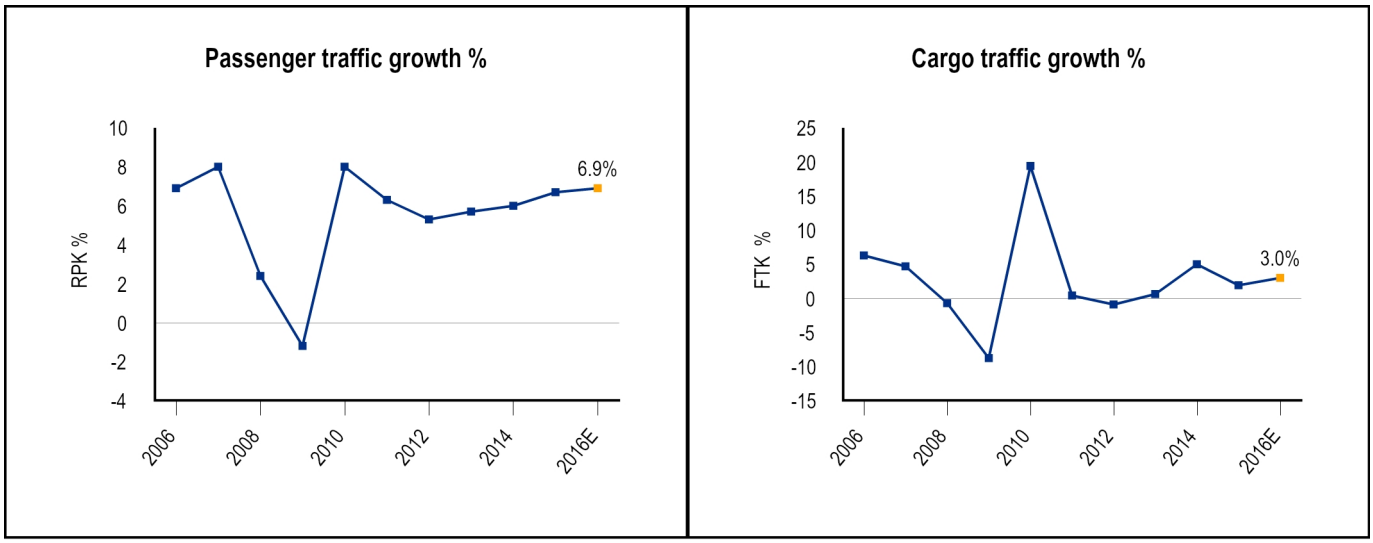
On February 3, 2014, the Corporation acquired the entire share capital of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (collectively "UK and Wichita"). The UK and Wichita operations are integrated providers of landing gear and hydraulic systems and assemblies for OEMs and aftermarket applications. Their main operations are based in Runcorn, Nottingham and Bolton, United Kingdom and in Wichita, Kansas.



BTP: Build to Print

ECONOMIC OUTLOOK[1]

Conditions remain mostly favourable in the commercial aerospace market. The International Air Transport Association's ("IATA") most recent forecast calls for robust growth of 6.9% in the passenger market measured in revenue passenger kilometres ("RPK") for calendar 2016, following a 6.7% increase in calendar 2015, while air cargo volume is expected to rise 3.0% measured in freight ton kilometres ("FTK") in calendar 2016, which would mark an acceleration from a 1.9% growth rate in calendar 2015 [2].



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

In the business jet sector, industry deliveries remained stable in calendar 2015 and declined slightly in the first quarter of 2016. Meanwhile, certain positive signs suggest better market conditions going forward, such as growing U.S. business aircraft movements and year-over-year stability in the proportion of the business aircraft fleet for sale. The current and future ramp-up of business jet models for which it has designed the landing gear should result in sustained growth for the Corporation in this market [4].

In the defence aerospace market, the Bipartisan Budget Act of 2015 provides additional funding through the U.S. Government's 2017 fiscal year, but uncertainty remains beyond that period given the need to address the deficit. The Corporation's UK operations provide a more geographically diversified defence portfolio, which reduces its relative exposure to the U.S. market. The balance between new component manufacturing and aftermarket products and services in the Corporation's defence portfolio and its leading program content also promote stability.

[1] Refer to Forward-Looking Statements in Overview for further information regarding forward-looking statements and related risks.
[2] Source: Economic Performance of the Airline Industry, IATA, December 2015.
[3] Sources: Airbus press releases February 24, 2016; October 30, 2015; February 27, 2015; November 4, 2014. Boeing press releases January 21, 2016; October 2, 2014.
[4] Sources: General Aviation Manufacturers Association, Federal Aviation Administration, JetNet, Teal Group.

KEY PERFORMANCE INDICATORS

Héroux-Devtek measures its performance on a corporate-wide basis through the following elements:

- Profitability
- Liquidity
- Growth and competitive positioning
- Financial position

To do so, the Corporation developed key performance indicators ("KPI"). The following is a list of these indicators as well as the elements which they help measure:

PERFORMANCE ELEMENT	KPI	MEASURES
Profitability	Gross profit	Manufacturing performance
	Adjusted operating income[1]	Operating performance
	Adjusted net income[1]	Global profitability
	Adjusted EPS[1]	Global profitability and shareholder return
Liquidity	Adjusted EBITDA[1]	Overall liquidity generation
	Cash flow from operations	Operating liquidity generation
	Free cash flow[1]	Net liquidity generation
Growth and competitive positioning	Sales	Growth
	Funded backlog	Outstanding firm orders
Financial position	Working capital	Available liquidity
	Net debt to EBITDA ratio	Indebtedness
	Net debt to equity ratio	Overall capital structure

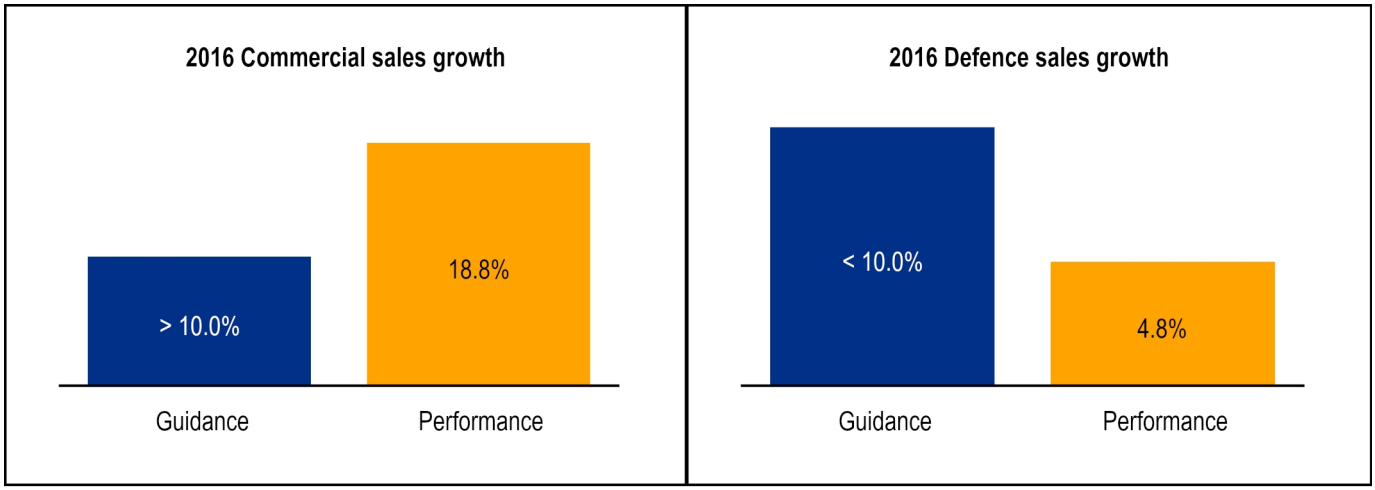
[1] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

In addition to the above measures, on an internal basis, the Corporation uses such measures as return on net assets ("RONA") and manufacturing capacity utilization in order to measure return on investment, as well as on-time deliveries and non-quality costs to measure customer satisfaction.

Héroux-Devtek's incentive-based pay for management varies partially based on reaching established global or divisional targets of certain of the metrics listed above, including operating income, RONA, adjusted EBITDA, adjusted net income and adjusted earnings per share. Incentive pay also relies on individual objectives and, in the case of stock-based compensation, share price performance.

GUIDANCE

FISCAL 2016 OPERATING RESULTS COMPARED TO GUIDANCE



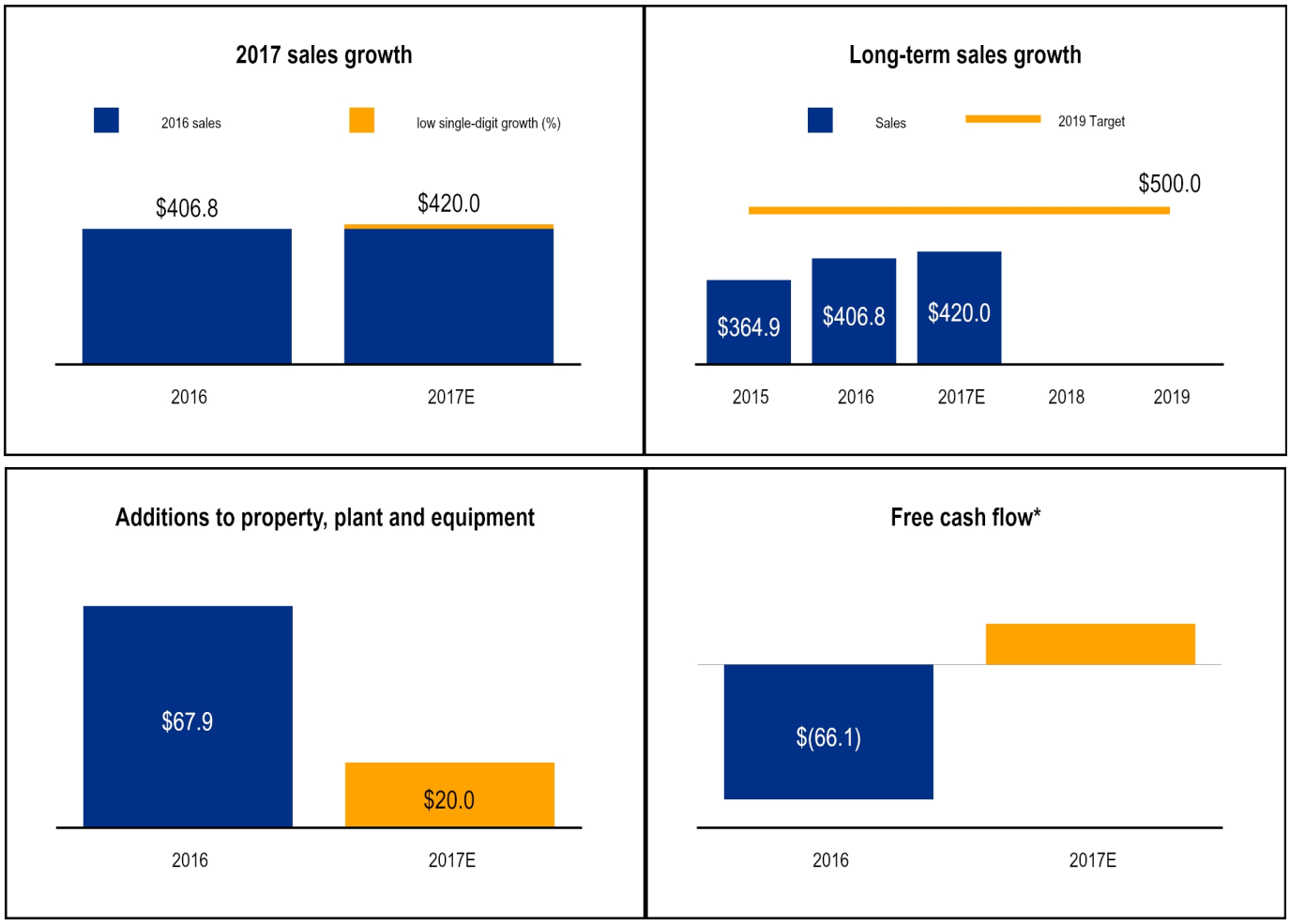
Overall sales increased by 11.5% , compared to guidance of 10%, on the strength of favourable currency variations.

Commercial sales growth of 18.8% exceeded guidance due to the greater than expected positive effect of foreign exchange on sales. Commercial sales grew 6.9% excluding the effect of foreign exchange.

Single-digit growth of 4.8% in defence sales was in line with guidance, though defence sales decreased by 5.7% excluding the positive impact of foreign exchange. This result was below management's expectation due to lower spare parts requirements and certain delayed deliveries with the U.S. government as well as lower than expected engineering sales.

Additions to property, plant and equipment were mainly in line with guidance of $75.0 million at $67.9 million. They fell slightly below due to certain delayed capital expenditures, which are expected to be completed in fiscal 2017.

FISCAL 2017 GUIDANCE



2017E: 2017 guidance

* *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.*

Low single-digit percentage growth is expected in sales for fiscal 2017, generating continued progress towards the Corporation's long-term expectation of reaching $500 million in sales during fiscal 2019.

Following a significant decrease in capital expenditures during fiscal 2017, free cash flow is expected to turn positive.

The prior charts and statements contained therein constitute forward-looking statements. Please refer to *Forward -Looking Statements* at the beginning of this MD&A for a cautionary statement.

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;
- Existing OEM backlogs, production rates and disclosed production and delivery expectations;
- Government defence budget restrictions, spending climates, trends and expectations;
- Ongoing economic conditions;
- Stability of foreign exchange rates, particularly versus the U.S. dollar; and,
- The Corporation's ability to deliver on key contract initiatives.

Refer to the *Risk Management* section for discussion of certain factors which may cause future results to differ from this guidance.

RISK MANAGEMENT

Héroux-Devtek operates in an industry which exposes it to a variety of risk factors and uncertainties that may have a material adverse effect on the business, financial condition and results. The Corporation is also subject to more general economic or natural risks which could have widespread, cross-industry impacts.

Héroux-Devtek's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any risk associated with business activities. Taking any risk unrelated to normal business activities is considered inappropriate.

It is ultimately the responsibility of the Board of Directors along with the Human Resources and Corporate Governance, and Audit committees to identify material risks to the business and ensure management performs adequate risk management duties. Their role in this regard is largely one of high level decisions, oversight and review. In order to succeed, the Board of Directors entrusts the bulk of risk prevention, detection and mitigation to management.

It is Corporate management's responsibility to ensure that systems and procedures are in place to identify and assess risk exposures and manage them within tolerable limits. In order to do so, management has set out the following objectives:

- identify and evaluate risk exposures and, when practicable, reduce exposures to a tolerable level;
- use the most effective and efficient methods to eliminate, reduce or transfer risk exposures; and,
- consider risks associated with operating decisions and structure transactions in such a fashion as to avoid risks whenever possible.

The most significant risk management methods used by management have entity-wide impacts. Such entity-wide efforts include, but are not limited to:

- the establishment of a corporate culture which fosters responsible management and integrity by adhering to strict hiring policies and emitting strong tone from the top;
- the application of a code of ethical conduct and a whistleblower policy in order to assure the quality of the Corporation's corporate governance, and the integrity of the Corporation's functioning;
- the establishment and ongoing alignment of company-wide quality organizations and systems, including supply chain, quality assurance and continuous improvement; and,
- the company-wide establishment of a strong internal control environment in order to manage risks associated with financial reporting, fraud, treasury and operations.

The tables below include a selection of key risks identified by management as well as the related risk management approach. This list is not, nor is it intended to be, exhaustive. Other risks which may not yet have been identified by management could have an adverse effect on the Corporation's business, financial condition or results.

Strategic Risks

Strategic risks have company-wide impacts and are typically related to the Corporation's overall direction.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Boeing 777 and 777X program execution	The Boeing 777 and 777X programs are integral to the long-term growth of Héroux-Devtek and have, to date, engendered over $105 million of investments. Solid execution of this contract is crucial in order for the Corporation to, among other objectives: - Recover invested capital - Achieve forecasted sales and profitability growth - Demonstrate the Corporation's ability to compete as a Tier-1 producer of landing gear for larger commercial aircraft	The Boeing 777 and 777X programs are subject to constant oversight by senior management and represent a company-wide effort. Furthermore: - The Corporation has invested in state-of-the-art facilities to ensure proper execution; - Execution is subject to rigorous internal and external qualification processes; - Héroux-Devtek works very closely with Boeing in order to ensure requirements are consistently met or exceeded.
Reliance on large customers	The top 6 of Héroux-Devtek's customers represent approximately 55% of sales. The loss of any of such customers would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio. In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Acquisitions	As a growth strategy, the Corporation at times engages in business acquisitions. Such acquisitions increase the size and scale of the Corporation, and may expose it to new geographical, political, operational and financial risks. Acquisitions furthermore may place significant demands on management or cause subsequent difficulties related to the integration of new operations. The integration of new operations poses risks which are difficult to forecast that may adversely affect the Corporation's growth and profitability, and may include the inability to successfully integrate acquired operations.	Héroux-Devtek carefully selects acquisition targets within restrictive criteria and only goes forward when satisfactory fit is identified. Acquisition agreements, further, are thoroughly negotiated with the goal in mind to mitigate key acquisition risks via mutually agreeable conditions, warranties and contingent pricing agreements. The Corporation further manages risks associated with acquisitions via thorough due diligence acquisitions, internal experience and external assistance, as needed.

Financial Risks

Financial risks are related to the financial condition, results and liquidity of the corporation and/or relate to market conditions directly related to the Corporation.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Foreign currency fluctuations	Refer to the *Foreign exchange* section under *Overview* for details of Héroux-Devtek's exposure to foreign exchange rate fluctuations and related risk management practices.	
Liquidity, capital resources and related covenants	The Corporation requires continued access to capital markets to finance its activities. The long-term nature and up-front cost structure of certain programs can required significant amounts of start-up capital. Inability to access such capital could impede the Corporation's ability to bid on significant contracts, or negatively impact ongoing operations. Héroux-Devtek has access to such financing from its banking syndicate, as well as from loans from government authorities and capital lease facilities. These agreements subject the Corporation to the financial covenants as described in the *Liquidity and capital resources* section. They furthermore restrict the Corporation's ability to sell all or substantially all of its assets, incur secured or certain other indebtedness, engage in mergers or consolidations or engage in transactions with affiliates. These restrictions and covenants could impede access to capital or prevent the Corporation from engaging in business activities that may be in its interest.	In order to maintain proper liquidity, Héroux-Devtek makes cash management a daily priority. Liquidity balances, receivables, cash projections and market rates of foreign exchange and interest are monitored constantly. In order to ensure stability and long term financial viability, the Corporation also: - Ensures proper bid approval in order to ensure proper forecasting and risk assessment of revenue and costs; - Structures contracts in order to obtain customer advances and progress billings; - Develops long-term agreements with suppliers and goes through bid processes for key costs; - Performs long-term cash projections as part of the annual budget and strategic plan process; - Maintains positive relationships with all major creditors. Management also monitors covenants on an ongoing basis in order to ensure they are met and identify trends which could indicate future risks.
Changing interest rates	The Corporation is exposed to fluctuations in interest rates through the floating rate of its credit facility as well as the impact on the cost of future capital requirements. Fluctuations in interest rates may also negatively impact profitability by their impact on rates used by Héroux-Devtek to discount provisions and pension obligations, among other balances. Lower interest rates would result in higher present obligations, with resulting adjustments impacting financial results.	Héroux-Devtek's risk management policies specifically address the management of interest rate risk by allowing the use of derivatives such as interest rate swaps. The goal of this policy is to obtain an overall fixed rate debt ratio between 40% and 70% of overall long-term debt. Outstanding derivatives are detailed in the *Derivative Financial Instruments* section under *Additional Information*. Risks associated with pensions, in addition, are managed through investment policies put in place by the Corporation and pension committee.

Operational Risks

Operational risks are more micro in nature than strategic risks and are more directly related to or result from Héroux-Devtek's operations.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Litigation	Héroux-Devtek is subject to possible litigation in the ordinary course of business by, among others, customers, suppliers, competitors, shareholders or government agencies. Such litigation can vary both in terms of financial magnitude and in duration, either of which could remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Corporation in addition to potentially material losses, both of which would negatively impact financial results. Litigation, in addition, could divert management's attention and resources away from day-to-day operations and strategic objectives.	The Corporation employs legal professionals who advise senior management on the subject of ongoing legal and regulatory compliance and related risk management. The Corporation also subscribes to several forms of insurance which may, in the event of liability of certain types, partially or entirely compensate for potential losses.
Collective bargaining agreements	The Corporation is party to certain collective bargaining agreements which govern the working relationship with certain employees. Failure to renew such agreements upon mutually agreeable terms could result in work stoppages or other labour disturbances which could have adverse effects on financial results, operational execution and customer satisfaction.	In order to minimize this risk, Héroux-Devtek endeavours to maintain cooperative and professional relationships with union leadership and plans the negotiation of renewals to allow reasonable time to achieve positive results.
Availability of skilled labour	The market for skilled labour in the aerospace industry is highly competitive and is expected to remain so in the future. Execution of key programs and customer satisfaction are heavily reliant on employing top talent. The Corporation relies on such labour, particularly engineers, machinists and programmers, for all levels of operations.	Héroux-Devtek targets top candidates for key roles and carefully evaluates hires for long-term fit and growth. Retention of employees is addressed through solid human resources practices, competitive remuneration and, in the case of key management, incentive-based pay such as bonuses, stock options, performance share units and stock purchase and ownership incentive plans.
Information technology	Information technology systems are essential to most of Héroux-Devtek's operations. These systems could be vulnerable to cyber-attacks or spying, viruses and any other form of hardware or software failures, intentional or not. The non-availability of these systems would directly and negatively affect the Corporation's operations. Unauthorized access to first or third-party confidential data in Héroux-Devtek's possession would also negatively affect the Corporation's reputation and, consequently, its business and results.	In order to reduce technology-related risks, Héroux-Devtek has implemented a variety of measures, including: - Strict policies governing the use of information technology equipment; - Server redundancy; - Data encryption, anti-virus software, e-mail filters, firewalls and other hardware or software-based security measures; - Frequent penetration tests and other security audits.
Warranty casualty claim losses	The complex and sophisticated nature of the Corporation's products creates a risk that defects may be found in them after they have been delivered to customers. Such defects may result in warranty claims or customer losses for which Héroux-Devtek may be liable. Furthermore, the primary use of these products being for air travel may compound the magnitude of such warranty claims or losses. Liability for such losses, or the inability to correct such errors, may have material adverse effect on the Corporation's business and results.	Héroux-Devtek's rigorous dedication to quality standards and systems in all stages of design, production or repair and overhaul partially mitigate the risk of product-related failure which could lead to warranty claims or litigation. The Corporation furthermore subscribes to product liability and aerospace-specific insurance which may mitigate potential losses.
Supplier performance	The increasing growth, integration and automation of the Corporation's business result in increased reliance on, and exposure to, the performance of its supply chain. Reductions in quality, reliability, availability of supply chain performance could result in material adverse effects on the Corporation's business and results.	Héroux-Devtek manages supplier-related risks through frequent supplier audits and maintaining high standards, such as requiring AS9100 and Nadcap certification. The Corporation also tracks and monitors supplier performance and partly mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management.

Environmental Risks

Environmental risks are generally outside of management's control and mostly result from external factors.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Competition and innovation	Héroux-Devtek operates in an industry that has faced ongoing consolidation, resulting in a smaller overall number of larger competitors, as well as constant innovation in technology and products. Larger competitors may have increased ability to compete for significant contracts, as would competitors who bring new technological innovations to market. Either could result in lost customers or opportunities for the Corporation, hindering growth and future profitability.	Héroux-Devtek manages risk from competition by maximizing customer satisfaction, on-time delivery, bidding competitively and maintaining high quality products. The Corporation also manages risk associated with innovation by monitoring technological developments and performing in-house research and development in order to remain at the forefront of technology in the industry.
Availability and cost of raw materials	The main raw materials purchased by the Corporation are steel, aluminum and titanium. Supply and cost of these materials can fluctuate due to factors outside of the Corporation's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion or increases in the costs of these materials could have a material adverse effect on Héroux-Devtek's operations and financial results.	The Corporation mitigates this risk with the inclusion of clauses in certain long-term sales contracts which govern the sharing of risks related to the availability and cost of raw materials with customers. Héroux-Devtek also negotiates long-term supply agreements for raw materials and monitors the supply chain to ensure timely delivery.
General economic conditions	While the aerospace and defence industries have proven over the long term to be relatively resilient in the face of economic turmoil, they are not immune to short term downturns when market conditions take their toll on customers. Such market conditions may be caused by any number of factors, including but not limited to political instability, terrorist activity, or natural disasters. Such unfavourable conditions could negatively impact Héroux-Devtek through decreased sales in particular, which could lead the Corporation to incur significant costs associated with temporary layoffs and termination.	While such economic conditions are outside of the direct sphere of control of management, Héroux-Devtek indirectly manages this risk through maintaining a portfolio of customers and programs which is diversified both geographically and by market segment. This could decrease the overall impact of a downturn in any one of these segments on the Corporation as a whole. This risk is further mitigated by continuous effort on the part of Héroux-Devtek to manage costs, capital and profitability in such a fashion as to be in a healthy financial position, allowing for more resiliency in the event of unexpected downturns.
Defence spending	Defence spending is approved by governments on a yearly basis and is subject to political climates and changing priorities. Austerity measures or shifts away from defence spending on the part of a government, particularly that of the United States, could lead to a significant downward trend in demand for the Corporation's defence products.	The Corporation's diversified sales portfolio, including a growing commercial product portfolio, defence programs outside of the United States and balance between manufacturing and aftermarket products and services reduces the impact that a downward trend in defence spending on the part of certain governments could have.
Environmental matters	The Corporation's activities are subject to environmental laws and regulations associated with risks to human health and the environment. These laws and regulations and potential related charges could have a significant adverse effect on the Corporation's operations and financial condition.	Héroux-Devtek manages this risk by putting in place management systems and policies in order to manage and monitor the environmental impact its operations may have. In the event of an event which could lead to a larger loss due to environmental matters, the Corporation also subscribes to insurance policies which may partially mitigate such losses.

FOREIGN EXCHANGE

As a Corporation with operations in multiple countries which deals with customers from across the world, Héroux-Devtek's financial position and results of operations are partly influenced by movements in foreign exchange ("FX") rates. More specifically, the Corporation has operations in Canada, the United States and the United Kingdom, and thus incurs costs denominated in the respective currencies of these three countries, the Canadian dollar ("CAD"), United States dollar ("USD") and British pound ("GBP"). In addition to costs denominated in their local currencies, a large portion of materials costs of the Canadian and British operations are denominated in USD, as is a large portion of their sales.

The Corporation must translate foreign-denominated revenues, expenses, assets and liabilities into CAD for financial reporting purposes. Gains and losses occur as a result of the fluctuations of these foreign currencies against the CAD between balance sheet periods, or between the date of a transaction and the reporting date.

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. Balance sheet items are translated at the spot rate on the reporting date.

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

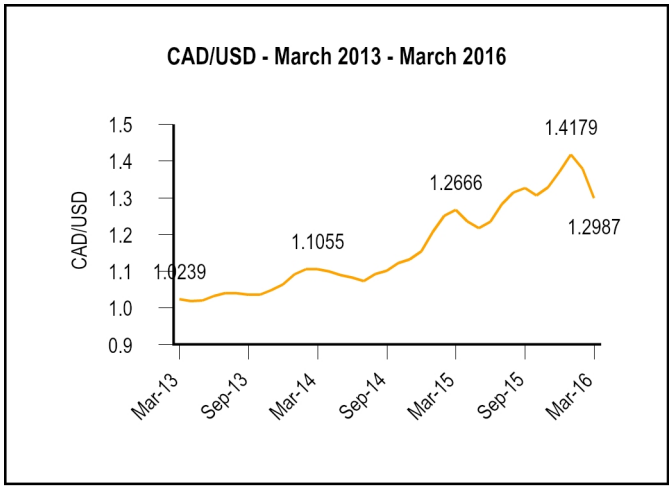
	March 31, 2016	March 31, 2015
USD (Canadian equivalent of US$1.0)	**1.2987**	1.2666
GBP (Canadian equivalent of £1.0)	**1.8654**	1.8792

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

	Quarters ended March 31,		**Fiscal years ended March 31,**	
	2016	2015	**2016**	2015
USD (Canadian equivalent of US$1.0)	**1.3748**	1.2411	**1.3122**	1.1392
GBP (Canadian equivalent of £1.0)	**1.9674**	1.8792	**1.9763**	1.8322

Fiscal 2016 featured a great deal of fluctuation in the exchange rate which most impacts Héroux-Devtek, the USD/CAD rate. Over 75% of the Corporation's 2016 sales were denominated in USD, as was more than half of the related cost of sales. The discrepancy between these two ratios leads to the Corporation frequently having net inflows of USD in entities with different functional currencies. These inflows create financial risk for the Corporation since decreases in value of the USD vs the CAD over time could result in lower CAD profitability needed to meet forecasts or cover local costs when USD are sold. Héroux-Devtek is exposed to only minimal risk associated to the GBP/CAD rate risk as GBP inflows are mostly naturally hedged by GBP outflows.

In order to manage this risk, the Corporation has put in place a foreign currency hedging policy whereby Héroux-Devtek contracts FFEC to sell USD in amounts equivalent to expected net inflows. This policy requires that the Corporation hedge between 50% and 100% of the identified net exposure, mainly over the next two fiscal years



The following table presents the notional amount and exchange rate of outstanding FFEC:

As at	**March 31, 2016**	March 31, 2015	March 31, 2014
Notional amount outstanding (USD '000s)	**165,200**	118,950	127,400
Average exchange rate	**1.2900**	1.1297	1.0628

Consistent with hedge accounting under IFRS, gains and losses on these FFEC, excluding those associated with embedded derivatives, are accounted for in other comprehensive income until settlement, at which point they are realized in the consolidated statement of income along with the opposing gain or loss on translation of the related financial instruments.

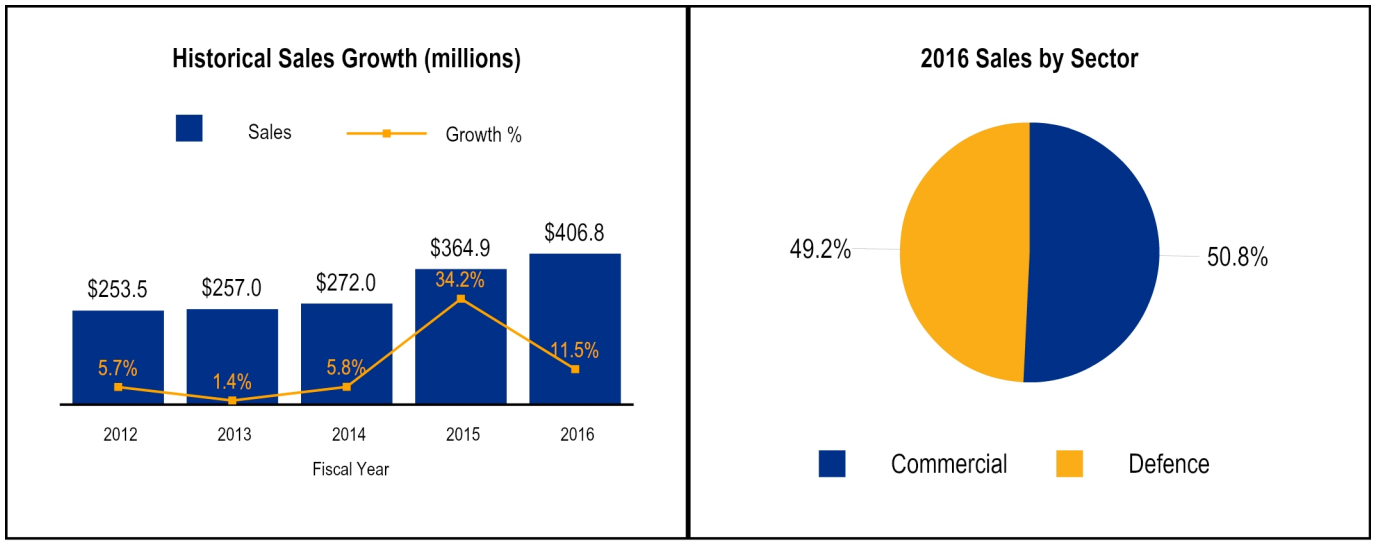
Foreign exchange had a net positive impact of 1.5% on Héroux-Devtek's gross margin, mainly related to the higher FX rate of FFEC delivered in fiscal 2016 as compared to fiscal 2015. As at March 31, 2016, a 1% strengthening of the CAD versus the USD would result in a $215 decrease in the Corporation's net income.

OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2016	2015	*Variance*	**2016**	2015	*Variance*
Sales	**$ 117,496**	$ 106,054	*$ 11,442*	**$ 406,812**	$ 364,916	*$ 41,896*
Gross profit	**22,192**	17,290	*4,902*	**74,325**	59,176	*15,149*
Selling and administrative expenses	**8,858**	6,560	*2,298*	**35,062**	29,755	*5,307*
Adjusted operating income[1]	**13,334**	10,730	*2,604*	**39,263**	29,421	*9,842*
Non-recurring charges	**—**	13,220	*(13,220)*	**1,480**	22,860	*(21,380)*
Operating income (loss)	**13,334**	(2,490)	*15,824*	**37,783**	6,561	*31,222*
Financial expenses	**1,742**	1,513	*229*	**5,638**	5,860	*(222)*
Income tax expense (recovery)	**2,501**	(2,363)	*4,864*	**5,504**	(2,523)	*8,027*
Net income (loss)	**$ 9,091**	$ (1,640)	*$ 10,731*	**$ 26,641**	$ 3,224	*$ 23,417*
Adjusted net income[1]	**$ 9,091**	$ 7,456	*$ 1,635*	**$ 27,650**	$ 19,412	*$ 8,238*
As a percentage of sales						
Gross profit	**18.9%**	16.3 %	*260 bps*	**18.3%**	16.2%	*210 bps*
Selling and Administrative expenses	**7.5%**	6.2 %	*130 bps*	**8.6%**	8.2%	*40 bps*
Operating income (loss)	**11.3%**	(2.3)%	*1360 bps*	**9.3%**	1.8%	*750 bps*
Adjusted operating income[1]	**11.3%**	10.1 %	*120 bps*	**9.7%**	8.1%	*160 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.25**	$ (0.05)	*$ 0.30*	**$ 0.74**	$ 0.09	*$ 0.65*
Adjusted EPS[1]	**$ 0.25**	$ 0.21	*$ 0.04*	**$ 0.77**	$ 0.55	*$ 0.22*

[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 March 31,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 54,288**	$ 53,090	$ 4,395	$ (3,197)	(6.0)%
Defence[1]	**63,208**	52,964	5,394	4,850	9.2 %
Total	**$ 117,496**	$ 106,054	$ 9,789	$ 1,653	1.6 %

	Fiscal years ended March 31,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 206,533**	$ 173,868	$ 20,714	$ 11,951	6.9 %
Defence[1]	**200,279**	191,048	20,086	(10,855)	(5.7)%
Total	**$ 406,812**	$ 364,916	$ 40,800	$ 1,096	0.3 %

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

Commercial

The $12.0 million net increase in commercial sales compared to last fiscal year was mainly driven by:

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

These positive factors were partly offset by:

- Lower customer requirements on the Global business jet program; and,
- Lower production rates on the Airbus A330/340 and regional jet programs.

The $3.2 million net decrease in commercial sales for the quarter compared to the same quarter last fiscal year was mainly driven by:

- Lower business jet customer requirements mainly from the Global and Falcon 5X programs; and,
- Lower production rates on the Airbus A330/340 and regional jet programs.

These negative factors were partly offset by higher aftermarket sales related to a new strategic alliance to provide support for the Saab 340 program combined with greater content and a higher production rate on the Boeing 787 program.

Defence

The $10.9 million net decrease in defence sales compared to last fiscal year was mainly driven by:

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

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

The $4.9 million net increase in defence sales for the quarter compared to the same quarter last fiscal year was mainly driven by:

- Higher manufacturing sales to civil customers, due in part to the resumption and catch-up of certain programs; and,
- Higher R&O sales to the U.S. Air Force.

These positive factors were partially offset by:

- Lower spare parts requirements from the U.S. government; and,
- Lower engineering sales following the completion of a program phase.

Gross Profit

The increase in gross profit from 16.2% to 18.3% this fiscal year compared to last fiscal year was mainly driven by:

- Favourable U.S. dollar exchange rate fluctuations, representing 1.5% of sales;
- A better product mix driven by higher commercial aftermarket sales; and,
- Lower under-absorption of costs.

These positive elements were partially offset by higher costs related to certain programs.

The increase in gross profit margin from 16.3% to 18.9% this quarter compared to the same quarter last fiscal year was mainly driven by favourable U.S. dollar exchange rate fluctuations, representing 0.4% of sales, and the same other factors described above.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 7.3% and 8.5% of sales for the quarter and fiscal year, respectively, compared to 6.9% and 8.7% for the same periods last fiscal year.

While selling and administrative expenses were fairly stable as a percentage of sales over the fiscal year, the slight increase this quarter versus the same last fiscal year was mainly related to the timing of certain professional fees engaged during the fiscal year as well as higher stock-based compensation expenses incurred this quarter when compared to the same period last fiscal year.

Non-recurring charges

Non-recurring charges comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	**2015**
Settlement of a litigation	**$ —**	$ 11,610	**$ 1,480**	$ 11,610
Impairment of finite-life intangible assets	**—**	—	**—**	7,924
Restructuring charges	**—**	1,610	**—**	3,326
	$ —	$ 13,220	**$ 1,480**	$ 22,860

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

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

During the fiscal year ended March 31, 2016, the Corporation incurred legal fees of $1.5 million, or $1.0 million net of taxes.

Impairment of finite-life intangible assets
On January 15, 2015, Bombardier announced a pause of the Learjet 85 business aircraft program. They subsequently announced, on October 28, 2015, the cancellation of the program. Héroux-Devtek was the developer and supplier of the complete landing gear system for this aircraft and recorded an impairment charge of $7.9 million on the related capitalized development costs in the fiscal year ended March 31, 2015.

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

Consequently, during the fiscal year ended March 31, 2015, the Corporation recorded restructuring charges of $3.3 million, including termination benefits of $2.1 million and other related costs of $1.2 million related to the optimization and consolidation of manufacturing capacity.

Operating Income

The increases in operating income from (2.3)% to 11.3% of sales (increase from 10.1% to 11.3% excluding non-recurring charges) for the quarter and from 1.8% to 9.3% of sales (increase from 8.1% to 9.7% excluding non-recurring charges) for the fiscal year compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

The $0.2 million decrease during the fiscal year compared to last fiscal year mainly reflects lower unfavourable discount rate adjustments to a provision for asset retirement obligations than last fiscal year, partially offset by lower interest income on cash and cash equivalents.

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

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

Income Tax Expense

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Income (loss) before income tax expense	**$ 11,592**	$ (4,003)	**$ 32,145**	$ 701
Income tax expense (recovery)	**2,501**	(2,363)	**5,504**	(2,523)
Effective tax rate	**21.6%**	nmf	**17.1%**	nmf
Canadian blended statutory income tax rate	**26.7%**	26.7%	**26.7%**	26.7%

nmf: Information not meaningful

For the fiscal year, the Corporation's effective income tax rate mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($3.8 million), partially offset by permanent differences ($0.8 million) and true-up adjustments ($0.1 million). The Corporation's effective tax rate for fiscal year ended 2015 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($3.0 million), partially offset by permanent differences ($0.5 million).

The effective income tax rate for this quarter mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($1.0 million), partially offset by a true-up adjustment ($0.3 million) and permanent differences ($0.3 million). The Corporation's effective tax rate for the quarter ended March 31, 2015 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($1.3 million) partially offset by permanent differences ($0.1 million).

Net Income

Earnings increased from $(1.6) million to $9.1 million (or from $7.5 million to $9.1 million excluding non-recurring charges net of taxes) during the quarter and increased from $3.2 million to $26.6 million (or from $19.4 million to $27.7 million excluding non-recurring charges net of taxes) during the fiscal year compared to the same periods last fiscal year mainly as a result of the factors described above.

During the fiscal year, earnings per share increased from $0.09 to $0.74 per share (or from $0.55 to $0.77 per share excluding non-recurring charges net of taxes) calculated on the basis of a higher weighted average diluted number of shares outstanding (36,119,291 versus 35,016,396), reflecting the public offering of shares and concurrent private placements during the first quarter of fiscal 2015. See the financing activities section of *Variations in Cash and Cash Equivalents*, under *Liquidity and Capital Resources* for further details of the share issuance.

NON-IFRS 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 charges.
EBITDA:	Earnings before financial expenses, income tax expense and amortization expense.
Adjusted EBITDA:	EBITDA as defined above excluding non-recurring charges.
Adjusted net income:	Net income excluding non-recurring charges net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
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. The Corporation's management, however, considers these metrics to be useful information to assist investors in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

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

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Operating income (loss)	**$ 13,334**	$ (2,490)	**$ 37,783**	$ 6,561
Non-recurring charges	**—**	13,220	**1,480**	22,860
Adjusted operating income	**$ 13,334**	$ 10,730	**$ 39,263**	$ 29,421

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	**2015**
Net income (loss)	**$ 9,091**	$ (1,640)	**$ 26,641**	$ 3,224
Income tax expense (recovery)	**2,501**	(2,363)	**5,504**	(2,523)
Financial expenses	**1,742**	1,513	**5,638**	5,860
Amortization expense	**7,379**	5,169	**24,807**	18,360
EBITDA	**$ 20,713**	$ 2,679	**$ 62,590**	$ 24,921
Non-recurring charges	**—**	13,220	**1,480**	22,860
Adjusted EBITDA	**$ 20,713**	$ 15,899	**$ 64,070**	$ 47,781

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Net income (loss)	**$ 9,091**	$ (1,640)	**$ 26,641**	$ 3,224
Non-recurring charges, net of taxes	**—**	9,096	**1,009**	16,188
Adjusted net income	**$ 9,091**	$ 7,456	**$ 27,650**	$ 19,412
In dollars per share				
Earnings per share - basic and diluted	**$ 0.25**	$ (0.05)	**$ 0.74**	$ 0.09
Non-recurring charges, net of taxes	**—**	0.26	**0.03**	0.46
Adjusted earnings per share	**$ 0.25**	$ 0.21	**$ 0.77**	$ 0.55

BOEING 777 AND 777X CONTRACT

In December 2013, Héroux-Devtek's wholly-owned subsidiary HDI Landing Gear USA Inc. signed a long-term contract with Boeing to supply complete landing gear systems for the Boeing 777 and 777X programs. This contract is the largest ever awarded to the Corporation's Landing Gear operations.

Under the terms of the long-term contract, HDI Landing Gear USA Inc. will supply complete landing gear systems, including the main and nose landing gears, and the nose landing gear drag strut. The contract also includes manufacturing parts for Boeing to sell in the aftermarket. Under the multi-year contract, deliveries will begin in early calendar 2017, with an option to extend the contract through 2028.

In order to successfully carry out this important long-term contract, the Corporation has proceeded with capital investments amounting to $104.6 million, mainly over the Corporation's 2015 and 2016 fiscal years, representing approximately 95% of the total capital investment expected for this contract. These investments included mainly:

- The construction of a new, state-of-the-art 108,000 square foot facility in Cambridge, Ontario with leading-edge equipment to manufacture large-scale, complex landing gear components. This facility started its operations in fiscal 2016.
- Investments in machinery and equipment at the Springfield, Ohio and Laval, Québec plants, which will mainly manufacture smaller complex and critical components. This machinery and equipment is now operational.
- The expansion of the Cleveland, Ohio facility, which nearly doubled its footprint to approximately 100,000 square feet, providing the site with additional capacity for component finishing and a highly modern sub-assembly centre. Sub-assembly work has commenced at this facility.
- The leasing of a new 21,000 square foot facility in Everett, Washington and installation of tooling and equipment which will perform final assembly and testing of landing gear systems to be delivered to Boeing's site, which is located in close proximity. Final assembly work has begun at this facility.

During fiscal 2016, the Corporation made significant progress on the customer qualification and approval process of its new surface treatment equipment at the finishing sub-assembly centre in Strongsville, Ohio, which management expects to be completed in the second quarter of fiscal 2017. Management is confident that final assembly of the pre-production shipset will be completed as planned in the first quarter of Fiscal 2017, and that production requirements associated to deliveries scheduled to begin in early calendar 2017 will be met.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

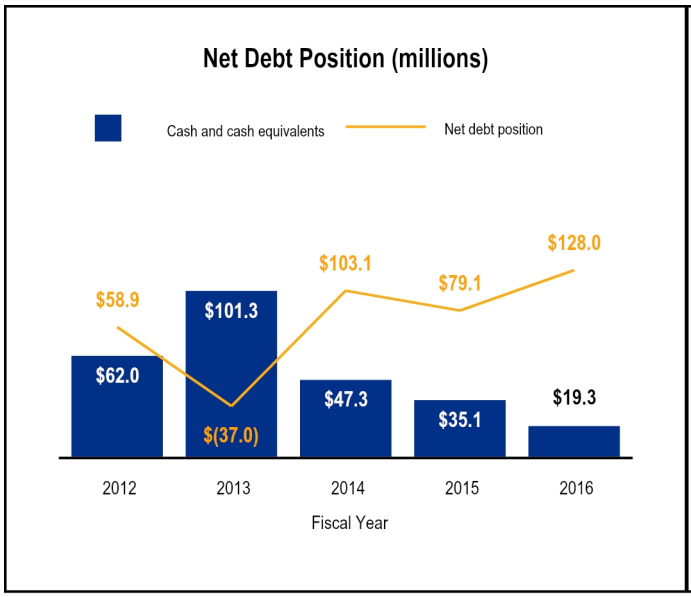
The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to the equivalent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

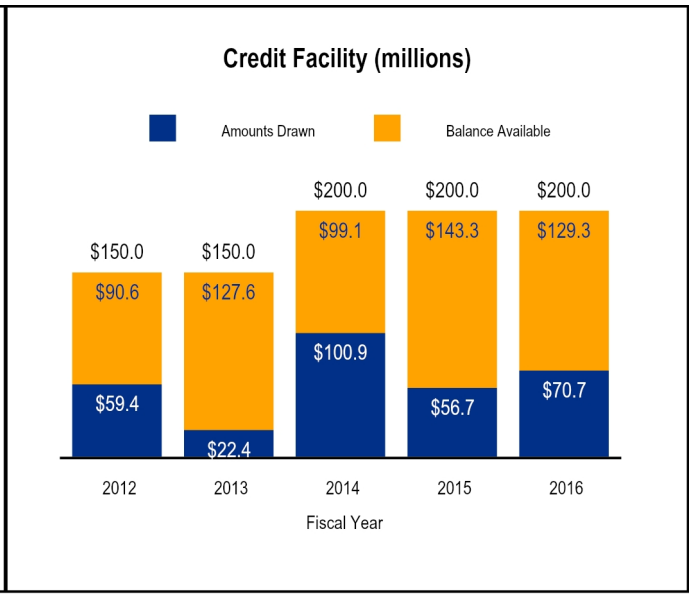
As at March 31, 2016, the Corporation had $70.7 million drawn against the Credit Facility, which is included in long-term debt, compared to $56.7 million as at March 31, 2015. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

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

	March 31, 2016	March 31, 2015
Long-term debt, including current portion[1]	**$ 147,240**	$ 114,202
Less: Cash and cash equivalents	**19,268**	35,098
Net debt position	**$ 127,972**	$ 79,104

[1] *Excluding net deferred financing costs of $1.0 million as at* March 31, 2016 *and $1.3 million as at* March 31, 2015.





Long-term debt is subject to certain general and financial covenants related, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with all covenants during the fiscal year ended March 31, 2016 and expects to continue to comply with these restrictive financial covenants through the current fiscal year. In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs.

GOVERNMENT AUTHORITIES LOANS

Héroux-Devtek has a portfolio of refundable loans received from various government agencies for the purchase of certain equipment or tooling, for the modernization or additions to facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under certain federal and provincial industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be refunded. Repayments are mainly based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines. Assumptions underlying loan repayments are reviewed at least annually.

The terms of the agreements are such that, in certain cases, the Corporation is effectively paying less interest than would be expected under a market rate. As a result, under IFRS, present value of the calculated benefit of these loans is applied either as a reduction of certain assets or expenses over time, as government assistance.

As at March 31, 2016, the Corporation had a present value of $53.8 million outstanding under these agreements ($51.2 million as at March 31, 2015), bearing effective interest rates of 3.4% to 7.2%. These loans have repayment terms extending to fiscal 2033 at the latest.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Cash and cash equivalents at beginning of periods	**$ 21,373**	$ 40,613	**$ 35,098**	$ 47,347
Cash flows related to operating activities	**854**	16,545	**6,812**	46,220
Cash flows related to investing activities	**(3,120)**	(24,520)	**(52,449)**	(64,958)
Cash flows related to financing activities	**807**	895	**29,300**	3,507
Effect of changes in exchange rates on cash and cash equivalents	**(646)**	1,565	**507**	2,982
Cash and cash equivalents at end of periods	**$ 19,268**	$ 35,098	**$ 19,268**	$ 35,098

Operating Activities

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Cash flows from operations	**$ 18,347**	$ 1,900	**$ 55,414**	$ 29,347
Net change in non-cash items related to continuing operations[1]	**(17,493)**	14,645	**(48,602)**	17,955
Cash flows related to operating activities from continuing operations	**854**	16,545	**6,812**	47,302
Cash flows related to operating activities from discontinued operations	**—**	—	**—**	(1,082)
Cash flows related to operating activities	**$ 854**	$ 16,545	**$ 6,812**	$ 46,220

[1] The corporation divested substantially all of its Aerostructure and Industrial product line operations during fiscal 2013.

The respective $16.4 million and $26.1 million increases in cash flows from operations for the quarter and fiscal year ended March 31, 2016 when compared to the same periods last fiscal year are mainly explained by higher EBITDA partly offset by higher income tax expense.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Accounts receivable	**$ (14,636)**	$ (16,376)	**$ (3,730)**	$ (9,103)
Inventories	**6,628**	3,972	**(15,767)**	3,723
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(976)**	17,162	**(9,675)**	5,500
Provisions	**815**	11,506	**(5,276)**	10,565
Customer advances	**289**	961	**(14,471)**	8,917
Income taxes payable and receivable	**(212)**	(1,543)	**1,282**	(3,226)
Effect of changes in exchange rates	**(5,972)**	1,726	**(94)**	2,046
All others	**(3,429)**	(2,763)	**(871)**	(467)
Net change in non-cash items related to continuing operations	**$ (17,493)**	$ 14,645	**$ (48,602)**	$ 17,955

For the fiscal year ended March 31, 2016, the negative net change in non-cash items related to continuing operations mainly reflects:

- An increase in inventories mainly related to the Boeing 777 and 787 programs;
- A net reduction in customer advances following revenue recognition;
- A decrease in accounts payable partly due to the timing of receipts; and
- A decrease in provisions, mainly related to a payment related to the settlement of a litigation.

For the quarter ended March 31, 2016, the negative net change in non-cash items related to continuing operations mainly reflects:

- An increase in accounts receivable due to a higher level of activity in the fourth quarter of the fiscal year than in the third quarter; and,
- The negative impact of changes in foreign exchange rates on the translation of working capital items of foreign subsidiaries.

These positive elements were partly offset by a decrease in inventories.

For the fiscal year ended March 31, 2015, the positive net change in non-cash items related to continuing operations mainly reflected:

- An increase in provisions related to litigations;
- An increase in customer advances mainly related to customer receipts in relation to a long-term contract; and,
- An increase in accounts payable related to a higher level of activities than in the prior year.

These positive factors were partly offset by an increase in accounts receivable related to a higher level of activities than in the prior year.

For the quarter ended March 31, 2015, the positive net change in non-cash items related to continuing operations mainly reflected:

- An increase in accounts payable related to a higher level of activities than in the prior year; and
- An increase in provisions related to litigations.

These positive factors were partly offset by an increase in accounts receivable related to a higher level of activities in the fourth quarter of the fiscal year than in the third.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Additions to property, plant and equipment	**$ (2,088)**	$ (28,504)	**$ (37,604)**	$ (52,292)
Deposits on machinery and equipment	**—**	4,989	**(10,119)**	(10,438)
Net increase in finite-life intangible assets	**(1,032)**	(990)	**(5,018)**	(2,643)
Proceeds on disposal of property, plant and equipment	**—**	(15)	**292**	415
Cash flows related to investing activities	**$ (3,120)**	$ (24,520)	**$ (52,449)**	$ (64,958)

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	2015
Gross additions to property, plant and equipment	**$ 6,628**	$ 32,863	**$ 75,716**	$ 61,182
Government assistance	**(3,739)**	(489)	**(7,818)**	(1,494)
Additions to property, plant and equipment	**$ 2,889**	$ 32,374	**$ 67,898**	$ 59,688
Variation in unpaid additions included in Accounts payable	**(801)**	(2,060)	**2,942**	(4,402)
Deposits reclassified to property, plant and equipment upon completion[1]	**—**	(1,810)	**(33,236)**	(2,994)
Additions, as per statements of cash flows	**$ 2,088**	$ 28,504	**$ 37,604**	$ 52,292

[1] Includes machinery financed through finance leases for which deposits had been made.

Additions to property, plant and equipment stood at $2.9 million for the quarter ($32.4 million last year) and $67.9 million for the fiscal year ($59.7 million last year) and were essentially related to the Boeing 777 and 777X contract. As at March 31, 2016, the Corporation had invested $104.6 million related to this contract, representing approximately 95% of the total capital investments associated to this contract.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	**2015**
Increase in long-term debt	**$ 1,650**	$ 1,793	**$ 35,679**	$ 22,873
Repayment of long-term debt	**(995)**	(1,010)	**(6,932)**	(67,772)
Issuance of common shares	**152**	112	**553**	48,406
Cash flows related to financing activities	**$ 807**	$ 895	**$ 29,300**	$ 3,507

The increase in long-term debt over the fiscal year mainly relates to additions to finance leases of $19.5 million and a $13.0 million (US$10.0 million) drawing against the Credit Facility to finance additions to property, plant and equipment related to the Boeing 777 and 777X contract.

During the fiscal year ended March 31, 2015, the Corporation issued 4,255,871 common shares at a price of $11.75 per share for gross proceeds of $50.0 million pursuant to the public offering and concurrent private placements. The net proceeds of $47.9 million received by the Corporation were used, along with a $16.2 million drawing against the Corporation's Credit Facility, to repay $US 59.3 million ($63.6 million) of debt against the Credit Facility. These transactions largely explain the variances in cash flow related to the repayment of long-term debt and issuance of common shares.

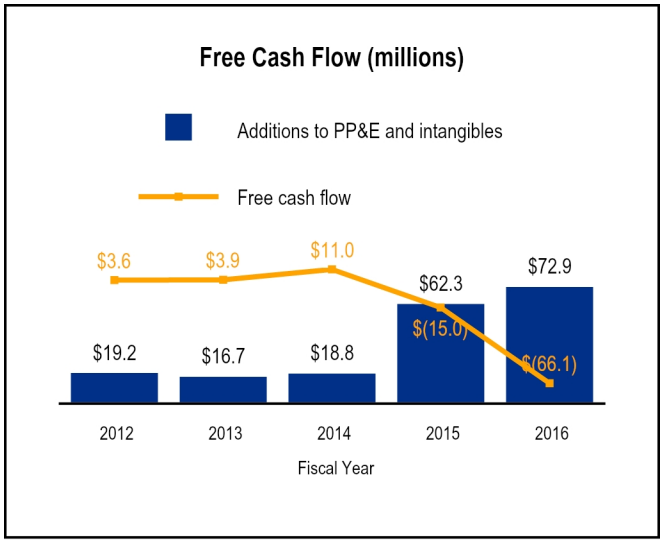
FREE CASH FLOW[1]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2016	2015	**2016**	**2015**
Cash flows related to operating activities from continuing operations	**$ 854**	$ 16,545	**$ 6,812**	$ 47,302
Additions to property, plant and equipment	**(2,889)**	(32,374)	**(67,898)**	(59,688)
Net increase in finite-life intangible assets	**(1,032)**	(990)	**(5,018)**	(2,643)
Free cash flow[1]	**$ (3,067)**	$ (16,819)	**$ (66,104)**	$ (15,029)

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

Héroux-Devtek's Free Cash Flow has decreased compared to last fiscal year mainly as a result of lower cash flows related to operating activities, following the reasons described in *Operating Activities* above under *Variations in Cash and Cash Equivalents,* and as a result of higher additions to property, plant and equipment mainly related to the Boeing 777 and 777X contract.

The significant investments related to these programs have resulted in a material decrease in free cash flow over the past two years compared to prior; however this trend is expected to reverse as capital expenditures return to a more normalized level, with positive free cash flow expected for fiscal 2017.



LIQUIDITY REQUIREMENTS

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, as at March 31, 2016:

	Payments due by period				
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities loans	$ 67,709	$ 3,223	$ 11,617	$ 15,635	$ 37,234
Finance leases	24,899	3,887	8,078	7,778	5,156
Credit facility[1]	74,757	1,357	73,400	—	—
	167,365	8,467	93,095	23,413	42,390
Building, machinery and equipment acquisition commitments	5,902	5,902	—	—	—
Operating leases - Buildings and facilities	14,236	1,556	2,721	2,004	7,955
Total contractual obligations[2]	**$ 187,503**	**$ 15,925**	**$ 95,816**	**$ 25,417**	**$ 50,345**

[1] *Credit Facility matures on March 16, 2019.*
[2] *Excluding defined benefit pension plan obligations presented in the* Pension Plans *section.*

FINANCIAL POSITION

CAPITAL STRUCTURE

The general objectives of the Corporation's management, in terms of capital management, reside in the preservation of the Corporation's capacity to continue operating, providing benefits to its stakeholders and in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can, for example:

- Issue new common shares;
- Repurchase common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders.

The net debt-to-equity ratio, calculated as net debt divided by shareholders' equity, is the overriding factor in the Corporation's capital management and monitoring practices.

During fiscal year ended March 31, 2016, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows, as at:

	March 31, 2016	March 31, 2015
Current portion of long-term debt	**$ 6,334**	$ 5,972
Long-term debt	**139,950**	106,955
Deferred financing costs, net	**956**	1,275
Less: Cash and cash equivalents	**19,268**	35,098
Net debt	**$ 127,972**	$ 79,104
Shareholders' equity	**331,114**	293,455
Net debt-to-equity ratio	**0.39:1**	0.27:1

Increases in net debt over the fiscal year essentially related to the financing of investments required for the Boeing 777 and 777X contract.

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2016		**Fiscal year ended March 31, 2016**	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	35,991,048	$ 75,420	35,949,445	$ 75,304
Issued for cash on exercise of stock options	3,400	44	5,800	71
Issued for cash under the stock purchase and ownership incentive plan	12,487	145	51,690	541
Ending balance	36,006,935	$ 75,609	36,006,935	$ 75,916

As at May 24, 2016, the number of common shares outstanding stood at 36,014,498.

Stock options varied as follows:

	Quarter ended March 31, 2016		Fiscal year ended March 31, 2016	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	882,945	$ 9.99	747,346	$ 9.84
Granted	—	—	145,500	10.71
Exercised	(3,400)	2.31	(5,800)	2.19
Cancelled / forfeited	—	—	(7,501)	11.71
Ending balance	879,545	$ 10.02	879,545	$ 10.02

As at March 31, 2016, 1,633,981 common shares remained reserved for issuance upon exercise of stock options compared to 1,639,781 at March 31, 2015 and 151,003 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 202,693 at March 31, 2015.

As at May 24, 2016, the number of options outstanding stood at 879,545.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 21*, Issued Capital*, to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

Working capital

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

	March 31, 2016	March 31, 2015	*Variance*	
Current assets	**$ 263,137**	$ 255,943	*$ 7,194*	*2.8 %*
Current liabilities	**112,658**	146,227	*(33,569)*	*(23.0)%*
Net working capital	**$ 150,479**	$ 109,716	*$ 40,763*	*37.2 %*
Working capital ratio	**2.34**	1.75		

The $7.2 million increase in current assets is mainly the result of :

- increases in inventory ($15.8 million) mainly due to ramp-up of inventory related to the Boeing 777 program;
- Increases in derivative financial instruments ($4.7 million); and,
- Increases in accounts receivable ($3.7 million) mainly due to a higher level of activity this year compared to last year.

These positive factors were partly offset by a decrease in cash and cash equivalents ($15.8 million) as detailed in the *Liquidity and Capital Resources section*.

The $33.6 million decrease in current liabilities is mainly explained by:

- A net decrease in customer advances ($14.5 million) following revenue recognition,
- A decrease in provisions ($5.2 million), mainly due to a payment related to the settlement of a litigation;
- A decrease in accounts payable and accrued liabilities ($4.9 million), mainly resulting from the timing of receipts; and,
- A decrease in accounts payable - other and other liabilities ($3.5 million), mainly resulting from lower unpaid machinery and equipment.

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

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

	March 31, 2016	March 31, 2015	Variance	
Long-term assets	**$ 346,266**	$ 319,510	*$ 26,756*	*8.4%*
Long-term liabilities	**165,631**	135,771	*29,860*	*22.0%*
Shareholder's equity	**331,114**	293,455	*37,659*	*12.8%*

The $26.8 million increase in long-term assets is mainly explained by increases in Property, plant and equipment ($50.8 million) partly offset by a decrease in Deposits on machinery and equipment ($23.1 million), driven largely by investments in property, plant and equipment related to the Boeing 777 and 777X contract.

The $29.9 million increase in long-term liabilities is mainly explained by a $33.0 million increase in Long-term debt. This increase was driven both by an additional drawing against the Credit Facility ($13.0 million or US$10.0 million) and net increased obligations under finance leases ($16.4 million), both mainly due to the Boeing 777 and 777X contract.

The increase in Shareholder's equity is mainly explained by Comprehensive income of $36.2 million, mainly comprised of net income of $26.6 million and the effect of foreign exchange fluctuations of $9.7 million included in other comprehensive income. For further details, see the Statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2016.

PENSION PLANS

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

The net defined benefit obligations varied as follows, during fiscal year:

	2016	2015
Net defined benefit obligations, beginning of year	**$ (9,275)**	$ (6,697)
Net actuarial losses	**(281)**	(3,368)
Employer contributions	**2,672**	2,415
Current service cost	**(1,377)**	(1,094)
Interest on net defined benefit obligations	**(297)**	(239)
Other	**(112)**	(292)
Net defined benefit obligations, end of year	**$ (8,670)**	$ (9,275)

The funding status of the Corporation's pension plans was as follows, as at:

	March 31, 2016	March 31, 2015
Present value of defined benefit obligations of funded plans	**$ 57,530**	$ 57,380
Fair value of plan assets	**51,385**	51,200
Funding ratio	**89.3%**	89.2%

The Corporation made contributions of $2.7 million and $2.4 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2016, and expects to make respective contributions of $2.0 million and $2.5 million during fiscal 2017.

ADDITIONAL INFORMATION

DERIVATIVE FINANCIAL INSTRUMENTS

Héroux-Devtek makes use of certain derivative financial instruments as tools for risk management purposes in order to mitigate certain foreign exchange, interest rate or other price risks to which it is exposed. Management uses these derivatives within the guidelines laid out by the Corporation's risk management policy. See *Risk Management* under *Overview* for further details of Héroux-Devtek's risk management practices.

As at March 31, 2016, these derivative financial instruments are as follows:

Forward foreign exchange contracts

See *Foreign Exchange* under *Overview* for information about the Corporation's exposure to foreign exchange risks as well as the derivative financial instruments used to mitigate it.

Interest rate swap agreements

The Corporation is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Credit Facility (see note 19 to the Consolidated financial statements). In addition, interest rate fluctuations could also have an impact on the Corporation's interest income which is derived from its cash and cash equivalents.

The Corporation's interest rate policy requires maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rates. Management as such may use derivatives to maintain a fixed debt ratio of between 40% and 70% of long-term debt, excluding government loans.

The following interest-rate swaps were used to this end during fiscal 2016 and fiscal 2015:

Notional		Fixed rate	Inception	Maturity
US$	5,000	1.65%	March 2014	December 2018
US$	10,000	2.38%	December 2015	December 2018
US$	10,000	2.04%	March 2011	December 2015

The interest-rate swap rates mentioned above exclude the additional bank relevant margin (see note 19 to the Consolidated financial statements). The cash flows related to the interest-rate-swaps are expected to occur in the same periods as they are expected to affect net income.

Equity swap agreement

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

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

As at March 31, 2016, the equity swap agreement covered 150,000 common shares of the Corporation at a price of $11.45. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2017.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that may enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation. The key assumptions used to determine the recoverable amount of the CGUs, including sensitivity analysis, are further explained in notes 8 and 15 to the Consolidated financial statements.

Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 24 to the Consolidated financial statements.

Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in note 3 to the Consolidated financial statements. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and contract quantities. For purpose of impairment testing, the Corporation exercises judgment to identify the cash inflows and outflows. The recoverable amount is based on fair value less costs of disposal, generally determined using a discounted cash flow model. Other assumptions used to determine the recoverable amount include the applicable discount rate and the expected future cash flows which include costs to complete the development activities.

Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

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.

Disclosure controls and procedures

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.

As at March 31, 2016, an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

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.

As at March 31, 2016, an evaluation of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS.

However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

FUTURE CHANGES IN ACCOUNTING POLICIES

The standards issued but not yet effective that may apply to the Corporation are the following:

IFRS 9 - Financial Instruments

In July 2014, the International Accounting Standards Board ("IASB") completed a three-phased approach to replacing *IAS 39 - Financial Instruments: Recognition and Measurement* with *IFRS 9 - Financial Instruments.*

The first phase, Classification and Measurement, introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements that are generally considered to be overly complex and difficult to apply.

The second phase, Impairment, introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses.

The third phase, Hedge Accounting, represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities, enabling entities to better reflect these activities in their financial statements.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2018 and is currently assessing the impact of these amendments.

IFRS 15 - Revenue from Contracts with Customers

In May 2015, the IASB released *IFRS 15 - Revenue from Contracts with Customers*. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2018 and is currently assessing the impact of these amendments.

IFRS 16 - Leases

In January 2016, the IASB released *IFRS 16 - Leases.* The new standard, which represents a major revision of the way in which companies account for leases, sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognise assets and liabilities arising from a lease, following a single model where previously leases were classified as either finance leases or operating leases.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2019 and has not yet assessed the impact of these amendments.

SELECTED FINANCIAL INFORMATION

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

Fiscal year				**2016**				2015
	Fourth quarter	**Third quarter**	**Second quarter**	**First quarter**	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	**$117,496**	**$ 96,561**	**$ 94,518**	**$ 98,237**	$106,054	$ 88,368	$ 84,086	$ 86,408
Operating income (loss)	**13,334**	**9,794**	**8,684**	**5,971**	(2,490)	(1,815)	4,974	5,892
Adjusted operating income [1]	**13,334**	**9,794**	**8,684**	**7,451**	10,730	6,711	5,737	6,243
EBITDA [1]	**20,713**	**15,666**	**14,607**	**11,604**	2,679	3,018	9,215	10,009
Adjusted EBITDA [1]	**20,713**	**15,666**	**14,607**	**13,084**	15,899	11,544	9,978	10,360
Net Income (loss)	**9,091**	**7,010**	**6,030**	**4,510**	(1,640)	(1,909)	3,273	3,500
Adjusted Net Income [1]	**9,091**	**7,010**	**6,030**	**5,519**	7,456	4,361	3,839	3,756
In dollars per share								
Earnings (loss) per share - Basic & Diluted	**0.25**	**0.19**	**0.17**	**0.13**	(0.05)	(0.05)	0.09	0.11
Adjusted Earnings per share [1]	**0.25**	**0.19**	**0.17**	**0.15**	0.21	0.12	0.11	0.12
In millions of shares								
Weighted average number of common diluted shares outstanding	**36.2**	**36.2**	**36.1**	**36.0**	36.1	36.0	36.0	31.9

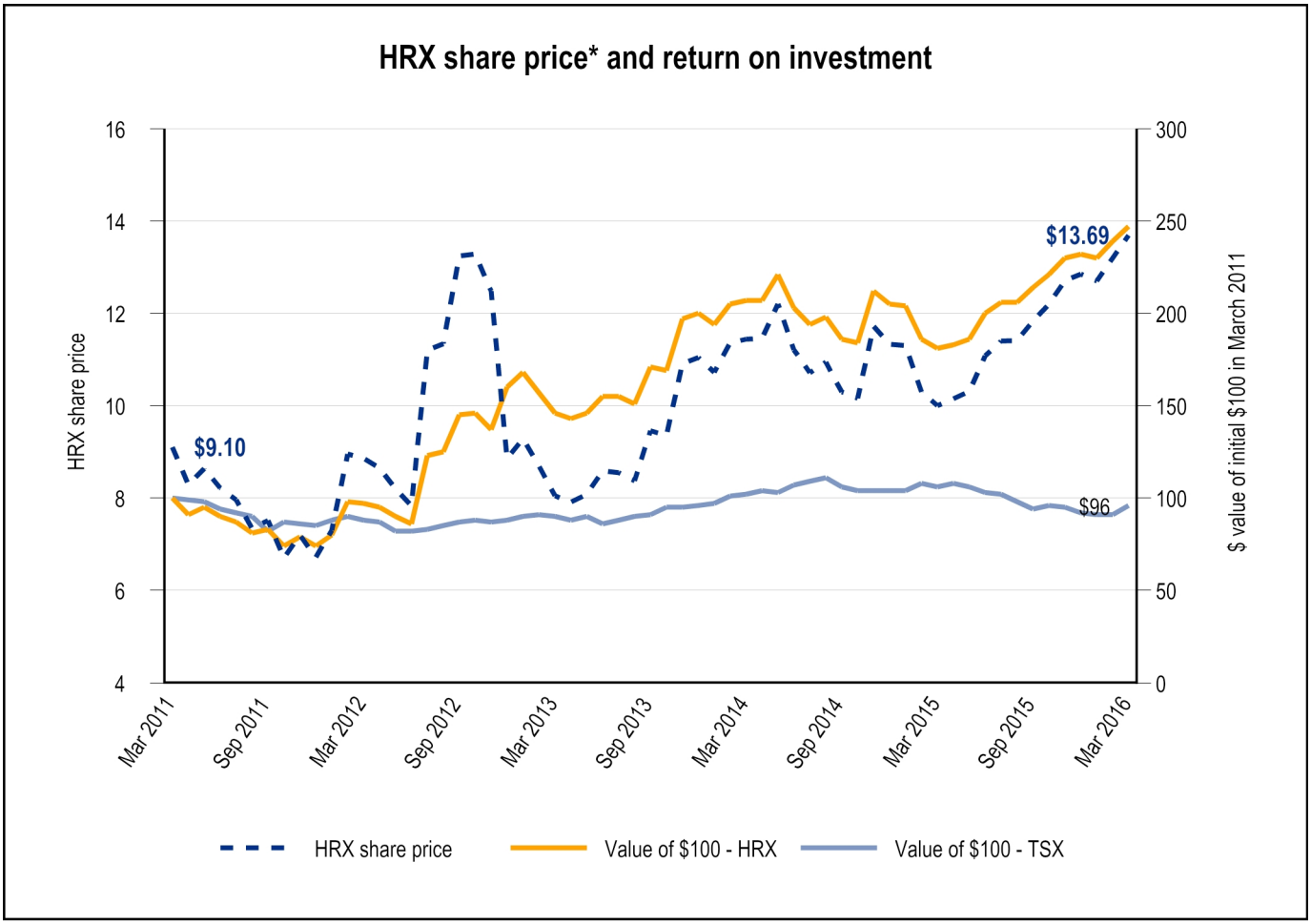
[1] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

Selected financial information is as follows, for fiscal years:

	2016	2015	2014
Sales	**$ 406,812**	$ 364,916	$ 272,034
EBITDA[1]	**62,590**	24,921	28,899
Adjusted EBITDA[1]	**64,070**	47,781	35,800
Net income	**26,641**	3,224	9,236
Adjusted net income[1]	**27,650**	19,412	15,258
Earnings per share ($) - basic and diluted	**0.74**	0.09	0.29
Adjusted earnings per share[1] ($)	**0.77**	0.55	0.48
Cash and cash equivalents	**19,268**	35,098	47,347
Total assets	**609,403**	575,453	513,967
Long-term financial liabilities[2]	**156,267**	127,729	158,046

[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 long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.*



**Note: Héroux-Devtek paid a special dividend to shareholders of record in December of 2012 of $5.00 per share.*

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 24, 2016. Additional information about the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.