HÉROUX DEVTEK

LEVERAGING
OUR EXPERTISE

QUARTERLY REPORT: SECOND QUARTER ENDED SEPTEMBER 30, 2016

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Second quarter ended September 30, 2016

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CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	September 30, 2016	March 31, 2016
Assets	10		
Current assets			
Cash and cash equivalents		**$ 15,827**	$ 19,268
Accounts receivable		**62,015**	75,241
Income tax receivable		**3,193**	3,553
Inventories		**157,454**	146,721
Derivative financial instruments	8	**3,966**	4,938
Other current assets	9	**22,957**	13,416
		265,412	263,137
Property, plant and equipment, net	3	**192,622**	192,954
Finite-life intangible assets, net	3	**45,790**	48,745
Deposits on machinery and equipment	3	**—**	189
Derivative financial instruments	8	**1,425**	2,823
Deferred income tax assets		**10,048**	8,302
Goodwill		**87,189**	93,253
Total assets		**$ 602,486**	$ 609,403
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 60,193**	$ 64,279
Accounts payable - other and other liabilities		**2,482**	4,655
Provisions		**18,530**	21,003
Customer advances		**7,348**	3,855
Progress billings		**4,434**	4,755
Income tax payable		**814**	1,284
Derivative financial instruments	8	**4,095**	6,493
Current portion of long-term debt	10	**8,945**	6,334
		106,841	112,658
Long-term debt	10	**136,533**	139,950
Provisions		**6,530**	5,990
Progress billings		**—**	216
Derivative financial instruments	8	**669**	1,313
Deferred income tax liabilities		**4,129**	5,357
Other liabilities		**13,857**	12,805
		268,559	278,289
Shareholders' equity			
Issued capital	11	**76,742**	75,916
Contributed surplus		**3,441**	3,283
Accumulated other comprehensive income	12	**7,599**	18,788
Retained earnings		**246,145**	233,127
		333,927	331,114
Total liabilities and shareholders' equity		**$ 602,486**	$ 609,403

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per share data) (Unaudited)

	Notes	Quarters ended September 30, 2016	Quarters ended September 30, 2015	Six months ended September 30, 2016	Six months ended September 30, 2015
Sales		**$ 91,571**	$ 94,518	**$ 187,161**	$ 192,755
Cost of sales	3, 4	**75,530**	76,997	**155,015**	158,676
Gross profit		**16,041**	17,521	**32,146**	34,079
Selling and administrative expenses	3, 4	**8,168**	8,837	**16,272**	17,944
Non-recurring items	6	**(3,711)**	—	**(3,306)**	1,480
Operating income		**11,584**	8,684	**19,180**	14,655
Financial expenses	5	**1,501**	1,501	**3,107**	2,533
Income before income tax expense		**10,083**	7,183	**16,073**	12,122
Income tax expense		**564**	1,153	**1,375**	1,582
Net income		**$ 9,519**	$ 6,030	**$ 14,698**	$ 10,540
Earnings per share – basic and diluted	7	**$ 0.26**	$ 0.17	**$ 0.41**	$ 0.29

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended September 30,		Six months ended September 30,	
		2016	2015	**2016**	2015
	12				
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		**$ 612**	$ 9,927	**$ (10,498)**	$ 15,494
Cash flow hedges:					
Net losses on valuation of derivative financial instruments		**(2,625)**	(6,440)	**(1,284)**	(2,057)
Net losses on derivative financial instruments transferred to net income		**841**	1,085	**1,000**	754
Deferred income taxes		**478**	1,429	**83**	349
		(1,306)	(3,926)	**(201)**	(954)
Losses on hedge of net investments in foreign operations		**(840)**	(3,591)	**(546)**	(3,333)
Deferred income taxes		**86**	366	**56**	291
		(754)	(3,225)	**(490)**	(3,042)
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains (losses) from remeasurement		**(1,860)**	547	**(2,293)**	1,375
Deferred income taxes		**497**	(146)	**613**	(367)
		(1,363)	401	**(1,680)**	1,008
Other comprehensive income (loss)		**$ (2,811)**	$ 3,177	**$ (12,869)**	$ 12,506
Comprehensive income					
Net income		**$ 9,519**	$ 6,030	**$ 14,698**	$ 10,540
Other comprehensive income (loss)		**(2,811)**	3,177	**(12,869)**	12,506
Comprehensive income		**$ 6,708**	$ 9,207	**$ 1,829**	$ 23,046

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars) (Unaudited)

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2016		**$**	**75,916**	**$**	**3,283**	**$**	**18,788**	**$**	**233,127**	**$**	**331,114**
Common shares:	11										
Issued under the Stock option plan			540		(190)		—		—		350
Issued under the Stock purchase and ownership incentive plan			286		—		—		—		286
Stock-based compensation expense	11		—		348		—		—		348
Net income			—		—		—		14,698		14,698
Other comprehensive loss			—		—		(11,189)		(1,680)		(12,869)
Balance as at September 30, 2016		**$**	**76,742**	**$**	**3,441**	**$**	**7,599**	**$**	**246,145**	**$**	**333,927**

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2015		**$**	**75,304**	**$**	**2,403**	**$**	**9,056**	**$**	**206,692**	**$**	**293,455**
Common shares:	11										
Issued under the Stock purchase and ownership incentive plan			255		—		—		—		255
Issued under the Stock option plan			27		(22)		—		—		5
Stock-based compensation expense	11		—		505		—		—		505
Net income			—		—		—		10,540		10,540
Other comprehensive income			—		—		11,498		1,008		12,506
Balance as at September 30, 2015		**$**	**75,586**	**$**	**2,886**	**$**	**20,554**	**$**	**218,240**	**$**	**317,266**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

	Notes	Quarters ended September 30, 2016	Quarters ended September 30, 2015	Six months ended September 30, 2016	Six months ended September 30, 2015
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		**$ 9,519**	$ 6,030	**$ 14,698**	$ 10,540
Items not requiring an outlay of cash:					
Amortization expense	4	**6,222**	5,923	**12,542**	11,556
Deferred income taxes		**(697)**	(54)	**(1,574)**	417
Loss (gain) on sale of property, plant and equipment		**8**	(116)	**8**	(116)
Non-cash financial expenses	5	**833**	900	**1,759**	1,480
Stock-based compensation expense	11	**170**	256	**348**	505
Cash flows from operations		**16,055**	12,939	**27,781**	24,382
Net change in non-cash items	13	**(9,807)**	(9,648)	**(16,298)**	(28,798)
Cash flows related to operating activities		**6,248**	3,291	**11,483**	(4,416)
Investing activities					
Net additions to property, plant and equipment		**(4,548)**	(7,146)	**(11,196)**	(23,032)
Deposits on machinery and equipment		**—**	(3,602)	**—**	(10,119)
Net increase in finite-life intangible assets		**(1,027)**	(2,125)	**(1,283)**	(3,515)
Proceeds on disposal of property, plant and equipment		**—**	201	**—**	201
Cash flows related to investing activities		**(5,575)**	(12,672)	**(12,479)**	(36,465)
Financing activities					
Increase in long-term debt		**10,390**	528	**11,695**	14,178
Repayment of long-term debt		**(3,385)**	(2,547)	**(14,524)**	(5,081)
Issuance of common shares	11	**388**	144	**636**	260
Cash flows related to financing activities		**7,393**	(1,875)	**(2,193)**	9,357
Effect of changes in exchange rates on cash and cash equivalents		**95**	695	**(252)**	669
Change in cash and cash equivalents during the periods		**8,161**	(10,561)	**(3,441)**	(30,855)
Cash and cash equivalents at beginning of periods		**7,666**	14,804	**19,268**	35,098
Cash and cash equivalents at end of periods		**$ 15,827**	$ 4,243	**$ 15,827**	$ 4,243
Interest and income taxes reflected in operating activities:					
Interest paid		**$ 675**	$ 606	**$ 1,355**	$ 1,073
Interest received		**$ 6**	$ 5	**$ 7**	$ 20
Income taxes paid		**$ 1,296**	$ 1,632	**$ 2,911**	$ 3,596

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarters and six-month periods ended September 30, 2016 and 2015

(In thousands of Canadian dollars, except per share data) (Unaudited)

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 658, East Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic flight control actuators and fracture-critical components. It also includes the manufacture of electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls through its Magtron operations as well as fluid filters products through its Bolton operations.

The Corporation only operates in one reporting segment, which is the Aerospace segment.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "HRX".

NOTE 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the quarter ended September 30, 2016 were prepared in accordance with IAS 34, *Interim Financial Reporting,* therefore certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the fiscal year ended March 31, 2016.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on November 3, 2016.

NOTE 3. GOVERNMENT ASSISTANCE

Government assistance deducted from the cost of the related assets or recognized as a reduction of expenses, was as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Finite-life intangible assets	**$ 57**	$ 197	**$ 96**	$ 270
Property, plant and equipment	**254**	901	**481**	901
Deposits on machinery and equipment	**—**	—	**—**	56
Cost of sales and, selling and administrative expenses	**1,217**	497	**2,220**	816

The government assistance includes mainly research and development tax credits, other credits and grants.

NOTE 4. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Raw materials and purchased parts	**$ 29,843**	$ 29,677	**$ 58,971**	$ 63,198
Employee costs	**32,814**	32,999	**68,625**	67,364
Amortization of property, plant and equipment and finite-life intangible assets	**6,222**	5,923	**12,542**	11,556
Others	**14,819**	17,235	**31,149**	34,502
	$ 83,698	$ 85,834	**$ 171,287**	$ 176,620

Foreign exchange gains or losses resulting from the conversion of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. During the quarter ended September 30, 2016, the foreign exchange gain amounted to $497 (gain of $210 in 2015), compared to a gain of $1,215 for the six-month period ended September 30, 2016 (loss of $386 in 2015).

NOTE 5. FINANCIAL EXPENSES

Financial expenses comprise the following:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Interest accretion on governmental authorities loans	**$ 647**	$ 642	**$ 1,311**	$ 1,286
Interest on net defined benefit obligations	**81**	77	**162**	153
Amortization of deferred financing costs (note 10)	**80**	69	**159**	148
Other interest accretion expense and discount rate adjustments	**25**	112	**127**	(107)
Non-cash financial expenses	**833**	900	**1,759**	1,480
Interest expense	**674**	606	**1,355**	1,073
Interest income on cash and cash equivalents	**(6)**	(5)	**(7)**	(20)
	$ 1,501	$ 1,501	**$ 3,107**	$ 2,533

NOTE 6. NON-RECURRING ITEMS

Non-recurring items comprise the following:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Gain on settlement of litigation	**$ (5,247)**	$ —	**$ (5,247)**	$ —
Legal and other professional fees	**1,536**	—	**1,941**	1,480
	$ (3,711)	$ —	**$ (3,306)**	$ 1,480

The Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During the quarter ended September 30, 2016, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4,000 ($5,247) settlement. The related amount receivable is included in Other current assets at September 30, 2016. Legal and other professional fees incurred during the quarter and six-month period ended September 30, 2016 totaled $1,531 and $1,941, respectively.

Non-recurring charges incurred during the six-month period ended September 30, 2015 were comprised of legal fees totaling $1,480, related to the final settlement of a litigation on May 29, 2015 regarding the alleged violation of a non-compete covenant by a wholly-owned subsidiary of the Corporation.

NOTE 7. EARNINGS PER SHARE

The following table sets forth the elements used to compute basic and diluted earnings per share:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Weighted-average number of common shares outstanding	**36,064,377**	35,970,563	**36,041,642**	35,963,573
Effect of dilutive stock options of the Corporation	**233,075**	124,806	**246,431**	119,350
Weighted-average number of common diluted shares outstanding	**36,297,452**	36,095,369	**36,288,073**	36,082,923
Options excluded from diluted earnings per share calculation(1)	**113,000**	502,500	**113,000**	598,845

(1) *Excluded due to anti-dilutive impact*

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

The Corporation had the following forward foreign exchange contracts outstanding:

As at	**September 30, 2016**	March 31, 2016
Notional amount outstanding	**US$ 184,300**	US$ 165,200
Average exchange rate	**1.3032**	1.2900

As at September 30, 2016, these contracts mature at various dates between October 2016 and March 2020, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at September 30, 2016 the Corporation had entered into the following interest rate swap agreements:

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

The interest-rate swap rates mentioned above exclude the additional bank relevant margin (see Note 10). 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 fixing 150,000 common shares of the Corporation at a price of $11.45. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2017.

NOTE 9. OTHER CURRENT ASSETS

As at	**September 30, 2016**	March 31, 2016
Investment and other tax credits receivable	**$ 4,460**	$ 3,423
Sales tax receivable	**2,477**	2,354
Prepaid expenses	**3,377**	3,478
Others	**12,643**	4,161
	$ 22,957	$ 13,416

At September 30, 2016, Others includes $5,247 receivable following the settlement of a litigation. See Note 6 for further details.

NOTE 10. LONG-TERM DEBT

As at	September 30, 2016	March 31, 2016
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility")	**$ 71,091**	$ 70,745
Governmental authorities loans	**53,463**	53,774
Obligations under finance leases	**21,721**	22,721
Deferred financing costs, net	**(797)**	(956)
	145,478	146,284
Less: current portion	**8,945**	6,334
Long-term debt	**$ 136,533**	$ 139,950

Credit Facility

The relevant terms and drawings on the Credit Facility are as follows:

As at	September 30, 2016	March 31, 2016
Limit, in Canadian, US$, Euro or British Pound equivalent	**$ 200,000**	$ 200,000
US$ Drawings		
Amount	**US$ 42,000**	US$ 42,000
Rate	**Libor + 1.4%**	Libor + 1.4%
Effective rate	**1.9%**	1.8%
Canadian drawing		
Amount	**$ 16,000**	$ 16,200
Rate	**BA[(1)] + 1.4%**	BA + 1.4%
Effective rate	**2.3%**	2.3%

[(1)] *BA: Banker's acceptance*

Finance leases

Obligations under finance leases bear fixed interest rates between 2.4% and 3.7% as at September 30, 2016 (2.4% and 6.5% as at March 31, 2016), maturing from July 2019 to June 2023, with amortization periods of seven years, secured by the related property, plant and equipment, net of interest of $1,916 ($2,178 as at March 31, 2016).

NOTE 11. ISSUED CAPITAL

Variations in common shares issued and fully paid were as follows:

	Quarter Ended September 30, 2016		Six months ended September 30, 2016	
	Number	**Issued capital**	**Number**	**Issued capital**
Balance at beginning of periods	36,045,565	$ 76,258	36,006,935	$ 75,916
Issued for cash on exercise of stock options	21,750	341	49,250	540
Issued for cash under the stock purchase and ownership incentive plan	10,750	143	21,880	286
Balance at end of periods	36,078,065	$ 76,742	36,078,065	$ 76,742

A. Stock option plan

The Corporation grants stock options at a subscription price representing the average closing price of the Corporation's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. Options granted under the plan vest over a period of four years, with the exception of certain key management employees for which the vesting period is one to three years following the grant date. The options are exercisable over a period not greater than seven years after the grant date.

For the quarters ended September 30, variances in stock options outstanding and related compensation expense were as follows:

	2016		2015	
	Number of stock options	**Weighted-average exercise price**	Number of stock options	Weighted-average exercise price
Balance at beginning of the quarters	**961,045**	**$ 10.76**	892,846	$ 9.98
Granted	**4,000**	**14.97**	—	—
Exercised	**(21,750)**	**11.28**	(2,400)	2.02
Balance at end of the quarters	**943,295**	**$ 10.77**	890,446	$ 10.00
Stock-based compensation expense		**$ 170**		$ 256

For the six-month periods ended September 30, variances in stock options outstanding and related compensation expense were as follows:

	2016		2015	
	Number of stock options	**Weighted-average exercise price**	Number of stock options	Weighted-average exercise price
Balance at beginning of periods	**879,545**	**$ 10.02**	747,346	$ 9.84
Granted	**113,000**	**15.01**	145,500	10.71
Exercised	**(49,250)**	**7.10**	(2,400)	2.02
Balance at end of periods	**943,295**	**$ 10.77**	890,446	$ 10.00
Stock-based compensation expense		**$ 348**		$ 505

As at September 30, 2016, 2,808,257 common shares are reserved for issuance of stock options, of which 1,584,731 remained to be issued, compared to 1,633,981 as at March 31, 2016.

B. Stock purchase and ownership incentive plan

	Quarters ended September 30,		**Six months ended September 30,**	
	2016	2015	**2016**	2015
In number of common shares				
Issued under the stock purchase and ownership incentive plan	**10,750**	13,648	**21,880**	26,301
Attributed to participating employees	**4,333**	5,592	**7,974**	10,807
Expense related to common shares attributed	**$ 64**	$ 63	**$ 116**	$ 116

As at September 30, 2016, 340,000 shares were reserved for issuance under the stock purchase and ownership incentive plan, of which 129,123 remained to be issued, compared to 151,003 as at March 31, 2016.

C. Deferred Share Unit ("DSU") and Performance Share Unit ("PSU") plans

Movements in outstanding DSUs and PSUs and related expenses were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
DSUs				
In number of DSUs				
Opening balance	**124,333**	83,158	**124,333**	83,158
Issued	**33,740**	41,175	**33,740**	41,175
Exercised	**(22,258)**	—	**(22,258)**	—
Closing balance of DSUs outstanding	**135,815**	124,333	**135,815**	124,333
DSU expense for the period	**$ 111**	$ 343	**$ 371**	$ 455
Fair value of vested outstanding DSUs, end of period	**$ 1,615**	$ 1,256	**$ 1,615**	$ 1,256

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
PSUs				
In number of PSUs				
Opening balance	**209,892**	153,303	**151,392**	115,879
Issued	**—**	—	**58,500**	37,424
Cancelled/Forfeited	**(401)**	—	**(401)**	—
Closing balance of PSUs outstanding	**209,491**	153,303	**209,491**	153,303
PSU expense for the period	**$ (72)**	$ 214	**$ 182**	$ 378
Fair value of vested outstanding PSUs, end of period	**$ 2,019**	$ 1,330	**$ 2,019**	$ 1,330

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at June 30, 2016	$ 14,581	$ 462	$ (5,996)	$ 9,047
Other comprehensive income (loss)	612	(1,306)	(754)	(1,448)
Balance as at September 30, 2016	$ 15,193	$ (844)	$ (6,750)	$ 7,599
Balance as at March 31, 2016	$ 25,691	$ (643)	$ (6,260)	$ 18,788
Other comprehensive loss	(10,498)	(201)	(490)	(11,189)
Balance as at September 30, 2016	$ 15,193	$ (844)	$ (6,750)	$ 7,599

		Exchange differences on conversion of foreign operations		Cash flow hedges		Hedge of net investments in foreign operations		Total
Balance as at June 30, 2015	$	30,788	$	(8,625)	$	(4,385)	$	17,778
Other comprehensive income (loss)		9,927		(3,926)		(3,225)		2,776
Balance as at September 30, 2015	$	40,715	$	(12,551)	$	(7,610)	$	20,554
Balance as at March 31, 2015	$	25,221	$	(11,597)	$	(4,568)	$	9,056
Other comprehensive income (loss)		15,494		(954)		(3,042)		11,498
Balance as at September 30, 2015	$	40,715	$	(12,551)	$	(7,610)	$	20,554

NOTE 13. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items were detailed as follows:

	Quarters ended September 30,				Six months ended September 30,			
		2016		2015		**2016**		2015
Accounts receivable	**$**	**(2,767)**	$	1,648	**$**	**13,226**	$	5,105
Income tax receivable		**(305)**		(711)		**360**		(2,517)
Inventories		**(3,503)**		(5,708)		**(10,733)**		(8,892)
Other current assets		**(6,292)**		891		**(9,541)**		3,823
Accounts payable and accrued liabilities, accounts payable – other and other liabilities		**(2,087)**		(4,121)		**(7,699)**		(13,288)
Provisions		**(1,667)**		413		**(2,060)**		(7,491)
Progress billings		**1,315**		(1,246)		**(537)**		(1,033)
Customer advances		**5,094**		(5,446)		**3,493**		(9,035)
Income tax payable		**204**		138		**(470)**		(53)
Effect of changes in exchange rates[1]		**201**		4,494		**(2,337)**		4,583
	$	**(9,807)**	$	(9,648)	**$**	**(16,298)**	$	(28,798)

[1] *Reflects the total impact of changes in exchange rates during the period on non-cash items listed above for the Corporation's foreign subsidiaries.*

NOTE 14. GEOGRAPHIC INFORMATION

The geographic segmentation of assets was as follows:

As at	September 30, 2016				March 31, 2016			
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	**$ 106,349**	**$ 75,791**	**$ 10,482**	**$ 192,622**	$ 108,798	$ 72,661	$ 11,495	$ 192,954
Finite-life intangible assets, net	**27,325**	**3,201**	**15,264**	**45,790**	27,293	3,594	17,858	48,745
Goodwill	**13,838**	**9,858**	**63,493**	**87,189**	13,838	9,761	69,654	93,253

Geographic sales based on customers' locations were detailed as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Canada	**$ 20,327**	$ 20,026	**$ 39,738**	$ 41,400
United States of America	**49,092**	51,818	**100,677**	103,943
United Kingdom	**10,335**	8,331	**20,404**	19,856
Other countries	**11,817**	14,343	**26,342**	27,556
	$ 91,571	$ 94,518	**$ 187,161**	$ 192,755

MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 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, 2016 and September 30, 2016. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 2016 to those of the same periods of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended September 30, 2016, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2016, all of which are available on the Corporation's website at www.herouxdevtek.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

In the interest of providing shareholders and potential investors with information regarding Héroux-Devtek, including Management's assessment of future plans and operations, certain statements in this MD&A (including those presented in the Outlook section) are forward-looking statements subject to risks, uncertainties and other important factors that could cause the Corporation's actual performance to differ materially from those expressed in or implied by such statements.

Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2016. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although management believes 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.

FOREIGN EXCHANGE ("FX")

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

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

	September 30, 2016	March 31, 2016
USD (Canadian equivalent of US$1.0)	**1.3117**	1.2987
GBP (Canadian equivalent of £1.0)	**1.7004**	1.8654

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

	Quarters ended September 30,		**Six months ended September 30,**	
	2016	2015	**2016**	2015
USD (Canadian equivalent of US$1.0)	**1.3051**	1.3094	**1.2968**	1.2694
GBP (Canadian equivalent of £1.0)	**1.7126**	2.0280	**1.7807**	1.9562

The Corporation manages its exposure to fluctuations in FX rates using FFEC; therefore the variances in the rates presented above may not be representative of the actual impact of FX on financial results.

HIGHLIGHTS

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Sales	**$ 91,571**	$ 94,518	**$ 187,161**	$ 192,755
Operating income	**11,584**	8,684	**19,180**	14,655
Adjusted operating income(1)	**7,873**	8,684	**15,874**	16,135
Adjusted EBITDA(1)	**14,095**	14,607	**28,416**	27,691
Net income	**9,519**	6,030	**14,698**	10,540
Adjusted net income(1)	**5,677**	6,030	**11,261**	11,549
In dollars per share				
EPS - basic and diluted	**$ 0.26**	$ 0.17	**$ 0.41**	$ 0.29
Adjusted EPS(1)	**0.16**	0.17	**0.31**	0.32
In thousands of shares				
Weighted average number of common diluted shares outstanding	**36,297**	36,095	**36,288**	36,083
In millions of dollars, as at			**September 30, 2016**	March 31, 2016
Funded backlog(2)			**$ 437**	$ 460

(1) *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*
(2) *Represents firm orders*

Key Events

- During the quarter, the Corporation reached an agreement outside of arbitration with the counterparty of a claim it had filed with regards to representations and warranties made to it in the context of a completed business acquisition. The settlement resulted in a gain of $3.7 million in non-recurring items for the quarter, net of legal and other professional fees. See *Non-Recurring Items* under *Operating Results* for further details.
- On August 30, 2016, the Corporation announced that it has signed a long-term contract with Hanwha Corporation ("Hanwha") of the Republic of Korea for the Design and Development phase of the KF-X fighter aircraft. This contract follows the signature of a Memorandum of Agreement with Hanwha, announced on February 17, 2016.
- This quarter, the Corporation achieved consolidated sales of $91.6 million and adjusted EBITDA of $14.1 million, compared to $94.5 million and $14.6 million during the same quarter last fiscal year.

Update on the Boeing 777 and 777X contract

With the delivery of the first shipsets of 777 landing gear to Boeing during the quarter ended September 30, 2016, capital expenditures for this contract are substantially complete, with a total of $108.6 million invested. Héroux-Devtek is continuing to ramp up production in order to meet customer requirements, with more deliveries expected prior to the end of the fiscal year.

More progress has been made on the customer qualification and approval process of the Corporation's new surface treatment equipment at the finishing sub-assembly centre in Strongsville, Ohio, which management expects to be completed during the fiscal year. In the meantime, Héroux-Devtek is utilizing its supply chain for the surface treatment process in order to maintain required inventory, which is negatively impacting the expected margin of the first units of production.

OPERATING RESULTS

	Quarters ended September 30,			Six months ended September 30,		
	2016	2015	*Variance*	**2016**	2015	*Variance*
Sales	**$ 91,571**	$ 94,518	*$ (2,947)*	**$ 187,161**	$ 192,755	*$ (5,594)*
Gross profit	**16,041**	17,521	*(1,480)*	**32,146**	34,079	*(1,933)*
Selling and administrative expenses	**8,168**	8,837	*(669)*	**16,272**	17,944	*(1,672)*
Adjusted operating income(1)	**7,873**	8,684	*(811)*	**15,874**	16,135	*(261)*
Non-recurring items	**(3,711)**	—	*(3,711)*	**(3,306)**	1,480	*(4,786)*
Operating income	**11,584**	8,684	*2,900*	**19,180**	14,655	*4,525*
Financial expenses	**1,501**	1,501	*—*	**3,107**	2,533	*574*
Income tax expense	**564**	1,153	*(589)*	**1,375**	1,582	*(207)*
Net income	**$ 9,519**	$ 6,030	*$ 3,489*	**$ 14,698**	$ 10,540	*$ 4,158*
Adjusted net income(1)	**$ 5,677**	$ 6,030	*$ (353)*	**$ 11,261**	$ 11,549	*$ (288)*
As a percentage of sales						
Gross profit	**17.5%**	18.5%	*-100 bps*	**17.2%**	17.7%	*-50 bps*
Selling and Administrative expenses	**8.9%**	9.3%	*-40 bps*	**8.7%**	9.3%	*-60 bps*
Operating income	**12.7%**	9.2%	*350 bps*	**10.2%**	7.6%	*260 bps*
Adjusted operating income(1)	**8.6%**	9.2%	*-60 bps*	**8.5%**	8.4%	*10 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.26**	$ 0.17	*$ 0.09*	**$ 0.41**	$ 0.29	*$ 0.12*
Adjusted EPS(1)	**$ 0.16**	$ 0.17	*$ (0.01)*	**$ 0.31**	$ 0.32	*$ (0.01)*

(1) *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section for definitions and reconciliations to the most comparable IFRS measures.*

Sales

Sales can be broken down by sector as follows:

	Quarters ended September 30,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 48,689**	$ 49,964	$ 125	$ (1,400)	(2.8)%
Defence(1)	**42,882**	44,554	100	(1,772)	(4.0)%
Total	**$ 91,571**	$ 94,518	$ 225	$ (3,172)	(3.4)%

	Six months ended September 30,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 99,280**	$ 101,435	$ 2,746	$ (4,901)	(4.8)%
Defence(1)	**87,881**	91,320	2,431	(5,870)	(6.4)%
Total	**$ 187,161**	$ 192,755	$ 5,177	$ (10,771)	(5.6)%

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

Commercial

The $1.4 million net decrease in commercial sales for the quarter was mainly driven by lower Tier 1 customer requirements for certain business jet and large commercial programs, partly offset by the delivery of the first production shipsets of the Boeing 777 program and higher engineering sales.

The $4.9 million net decrease in commercial sales for the six-month period was mainly driven by:

- Lower customer Tier 1 requirements for certain business jet and large commercial programs; and,
- Lower aftermarket sales in support of the Saab 340 program due mainly to higher-than-normal volume last year.

These negative factors were partly offset by the delivery of the first production shipsets of the Boeing 777 program and greater content and a higher production rate for the Boeing 787 program.

Defence

The $1.8 million and $5.9 million respective net decreases in defence sales for the quarter and six-month periods were mainly driven by:

- Lower spare parts requirements and delayed deliveries with the U.S. government; and,
- Lower engineering sales following the completion of certain development phases.

These negative factors were partially offset by higher repair and overhaul sales to European customers and the U.S. Government as well as higher throughput.

Gross Profit

The decreases in gross profit margin from 18.5% to 17.5% this quarter and from 17.7% to 17.2% for the six-month period compared to the same periods last fiscal year were driven by less favourable sales mix and higher under-absorption, including excess processing and finishing costs related to the Boeing 777 program. These costs are expected to normalize upon completion of the customer qualification and approval of Héroux-Devtek's surface treatment process. These negative factors were partly offset by favourable U.S. dollar exchange rate fluctuations representing 1.5% and 1.3% of sales, respectively.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 9.5% and 9.3% of sales for the quarter and six-month period, respectively, compared to 9.6% and 9.1% for the same periods last fiscal year.

The increase as a percentage of sales for the six-month period was mainly related to the decrease in sales this quarter versus the same period last fiscal year without an associated decrease in selling and administrative expenses.

Non-recurring items

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Gain on settlement of litigation	**$ (5,247)**	$ —	**$ (5,247)**	$ —
Legal and other professional fees	**1,536**	—	**1,941**	1,480
	$ (3,711)	$ —	**$ (3,306)**	$ 1,480

The Corporation has filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During the quarter ended September 30, 2016, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4.0 million ($5.2 million) settlement. Legal and other professional fees incurred during the quarter and six-month period ended September 30, 2016 totaled $1.5 million and $1.9 million, respectively.

Last year, non-recurring charges incurred during the six-month period were comprised of legal fees totaling $1.5 million, related to the final settlement of a litigation on May 29, 2015 regarding the alleged violation of a non-compete covenant by a wholly-owned subsidiary of the Corporation.

Operating Income

The increases in operating income from 9.2% to 12.7% of sales (decrease from 9.2% to 8.6% excluding non-recurring items) for the quarter and from 7.6% to 10.2% of sales (increase from 8.4% to 8.5% excluding non-recurring items) for the six-month period compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

Financial expenses for the quarter were flat compared to the same quarter last fiscal year, with higher interest expense being offset by a negative discount rate adjustment to a provision for asset retirement obligations during the quarter ended September 30, 2015 (none this year).

The $0.6 million increase during the six-month period compared to the same period last fiscal year was mainly driven by:

- an unfavourable discount rate adjustment related to a provision for asset retirement this year, compared to a favourable one during the same period last fiscal year; and,
- higher interest expense related to the higher average balances outstanding under finance leases and the Credit Facility.

Income Tax Expense

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Income before income tax expense	**$ 10,083**	$ 7,183	**$ 16,073**	$ 12,122
Income tax expense	**564**	1,153	**1,375**	1,582
Effective tax rate	**5.6%**	16.1%	**8.6%**	13.1%
Canadian blended statutory income tax rate	**26.7%**	26.7%	**26.7%**	26.7%

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

The effective income tax rate for the quarter ended September 30, 2015 mainly reflected the favourable impact of results in other tax jurisdictions ($0.8 million), partially offset by permanent differences ($0.1 million).

For the six-month period, the Corporation's effective income tax rate mainly reflects the favourable impact of results in other tax jurisdictions ($2.3 million) and the non-taxable gain on settlement of litigation ($0.8 million) partially offset by permanent differences ($0.1 million).

For the six-month period ended September 30, 2015, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($1.8 million), partially offset by permanent differences ($0.1 million).

Net Income

Net income increased from $6.0 million to $9.5 million (or decreased from $6.0 million to $5.7 million excluding non-recurring items net of taxes) during the quarter and increased from $10.5 million to $14.7 million (or decreased from $11.5 million to $11.3 million excluding non-recurring items net of taxes) during the six-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

This MD&A is based on earnings in accordance with IFRS and the following non-IFRS financial measures:

Adjusted operating income:	Operating income excluding non-recurring items.
EBITDA:	Earnings before financial expenses, income tax expense and amortization expense.
Adjusted EBITDA:	EBITDA as defined above excluding non-recurring items.
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities, less additions to property, plant and equipment and net increase in finite-life intangible assets.

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. 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 September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Operating income	**$ 11,584**	$ 8,684	**$ 19,180**	$ 14,655
Non-recurring items	**(3,711)**	—	**(3,306)**	1,480
Adjusted operating income	**$ 7,873**	$ 8,684	**$ 15,874**	$ 16,135

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

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Net income	**$ 9,519**	$ 6,030	**$ 14,698**	$ 10,540
Income tax expense	**564**	1,153	**1,375**	1,582
Financial expenses	**1,501**	1,501	**3,107**	2,533
Amortization expense	**6,222**	5,923	**12,542**	11,556
EBITDA	**$ 17,806**	$ 14,607	**$ 31,722**	$ 26,211
Non-recurring items	**(3,711)**	—	**(3,306)**	1,480
Adjusted EBITDA	**$ 14,095**	$ 14,607	**$ 28,416**	$ 27,691

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

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Net income	**$ 9,519**	$ 6,030	**$ 14,698**	$ 10,540
Non-recurring items, net of taxes	**(3,842)**	—	**(3,437)**	1,009
Adjusted net income	**$ 5,677**	$ 6,030	**$ 11,261**	$ 11,549
In dollars per share				
Earnings per share - basic and diluted	**$ 0.26**	$ 0.17	**$ 0.41**	$ 0.29
Non-recurring items, net of taxes	**(0.10)**	—	**(0.10)**	0.03
Adjusted earnings per share	**$ 0.16**	$ 0.17	**$ 0.31**	$ 0.32

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

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

As at September 30, 2016, the Corporation had $71.1 million drawn against the Credit Facility, compared to $70.7 million as at March 31, 2016. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

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

	September 30, 2016	March 31, 2016
Long-term debt, including current portion[1]	$ 146,275	$ 147,240
Less: Cash and cash equivalents	15,827	19,268
Net debt position	$ 130,448	$ 127,972

[1] Excluding net deferred financing costs of $0.8 million as at September 30, 2016 and $1.0 million as at March 31, 2016.

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

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	2016	2015
Cash and cash equivalents at beginning of periods	$ 7,666	$ 14,804	$ 19,268	$ 35,098
Cash flows related to operating activities	6,248	3,291	11,483	(4,416)
Cash flows related to investing activities	(5,575)	(12,672)	(12,479)	(36,465)
Cash flows related to financing activities	7,393	(1,875)	(2,193)	9,357
Effect of changes in exchange rates on cash and cash equivalents	95	695	(252)	669
Cash and cash equivalents at end of periods	$ 15,827	$ 4,243	$ 15,827	$ 4,243

Operating Activities

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

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	2016	2015
Cash flows from operations	$ 16,055	$ 12,939	$ 27,781	$ 24,382
Net change in non-cash items	(9,807)	(9,648)	(16,298)	(28,798)
Cash flows related to operating activities	$ 6,248	$ 3,291	$ 11,483	$ (4,416)

The increase in cash flows from operations over the three-and-six month periods essentially relate to higher EBITDA in the quarter ended September 30, 2016 than in the same periods last fiscal year.

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

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Accounts receivable	**$ (2,767)**	$ 1,648	**$ 13,226**	$ 5,105
Inventories	**(3,503)**	(5,708)	**(10,733)**	(8,892)
Other current assets	**(6,292)**	891	**(9,541)**	3,823
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(2,087)**	(4,121)	**(7,699)**	(13,288)
Income taxes payable and receivable	**(101)**	(573)	**(110)**	(2,570)
Customer advances	**5,094**	(5,446)	**3,493**	(9,035)
Provisions	**(1,667)**	413	**(2,060)**	(7,491)
Progress billings	**1,315**	(1,246)	**(537)**	(1,033)
Effect of changes in exchange rates	**201**	4,494	**(2,337)**	4,583
	$ (9,807)	$ (9,648)	**$ (16,298)**	$ (28,798)

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

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

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

For the six-month period ended September 30, 2016, the negative net change in non-cash items mainly reflects:

- An increase in inventories mainly related to the Boeing 777 program and an anticipated increase in level of activity in the second half of the fiscal year;
- An increase in other current assets following the settlement of a litigation; and,
- The seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of fiscal 2016.

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

For the quarter ended September 30, 2015, the negative net change in non-cash items related to continuing operations mainly reflected:

- An increase in inventories mainly related to the Boeing B-777 and B-787 programs;
- A net reduction in customer advances following revenue recognition; and,
- A decrease in accounts payable and receivable due to the higher level of activity in the first quarter of fiscal 2016 compared to the second quarter.

For the six-month period ended September 30, 2015, the negative net change in non-cash items mainly reflected:

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

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Net additions to property, plant and equipment	**$ (4,548)**	$ (7,146)	**$ (11,196)**	$ (23,032)
Deposits on machinery and equipment	**—**	(3,602)	**—**	(10,119)
Net increase in finite-life intangible assets	**(1,027)**	(2,125)	**(1,283)**	(3,515)
Proceeds on disposal of property, plant and equipment	**—**	201	**—**	201
Cash flows related to investing activities	**$ (5,575)**	$ (12,672)	**$ (12,479)**	$ (36,465)

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

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Gross additions to property, plant and equipment	**$ 4,437**	$ 7,840	**$ 10,169**	$ 25,739
Government assistance	**(254)**	(901)	**(481)**	(901)
Net additions to property, plant and equipment	**$ 4,183**	$ 6,939	**$ 9,688**	$ 24,838
Variation in unpaid additions included in Accounts payable - other and other liabilities	**365**	207	**1,697**	4,192
Deposits reclassified to property, plant and equipment upon completion [(1)]	**—**	—	**(189)**	(5,998)
Net additions, as per statements of cash flows	**$ 4,548**	$ 7,146	**$ 11,196**	$ 23,032

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

Net additions to property, plant and equipment stood at $9.7 million for the six-month period ($24.8 million for the comparative period) and were essentially related to the Boeing 777 and 777X contract.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Increase in long-term debt	**$ 10,390**	$ 528	**$ 11,695**	$ 14,178
Repayment of long-term debt	**(3,385)**	(2,547)	**(14,524)**	(5,081)
Issuance of common shares	**388**	144	**636**	260
Cash flows related to financing activities	**$ 7,393**	$ (1,875)	**$ (2,193)**	$ 9,357

The cash inflows from increases in long-term debt mainly relate to a $10.0 million drawing on the Credit Facility.

The cash outflows from repayment of long-term debt over the six-month period mainly relate to a $10.2 million repayment of the Credit Facility , as well as scheduled repayments of government loans.

As at September 30, 2016, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW[1]

	Quarters ended September 30,		Six months ended September 30,	
	2016	2015	**2016**	2015
Cash flows related to operating activities	**$ 6,248**	$ 3,291	**$ 11,483**	$ (4,416)
Net additions to property, plant and equipment	**(4,183)**	(6,939)	**(9,688)**	(24,838)
Net increase in finite-life intangible assets	**(1,027)**	(2,125)	**(1,283)**	(3,515)
Free cash flow	**$ 1,038**	$ (5,773)	**$ 512**	$ (32,769)

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

The $6.8 and $33.3 million respective increases in free cash flow over the three-and-six-month periods mainly relate to increased cash flows from operating activities and lower net additions to property, plant and equipment, as described previously.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended September 30, 2016		Six months ended September 30, 2016	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,045,565	$ 76,258	36,006,935	$ 75,916
Issued for cash on exercise of stock options	21,750	341	49,250	540
Issued for cash under the stock purchase and ownership incentive plan	10,750	143	21,880	286
Ending balance	36,078,065	$ 76,742	36,078,065	$ 76,742

As at November 3, 2016, the number of common shares outstanding stood at 36,082,119.

Stock options varied as follows:

	Quarter ended September 30, 2016		Six months ended September 30, 2016	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	961,045	$ 10.76	879,545	$ 10.02
Granted	4,000	14.97	113,000	15.01
Exercised	(21,750)	11.28	(49,250)	7.10
Ending balance	943,295	$ 10.77	943,295	$ 10.77

As at September 30, 2016, 1,584,731 common shares remained reserved for issuance upon exercise of stock options compared to 1,633,981 at March 31, 2016 and 129,123 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 151,003 at March 31, 2016.

As at November 3, 2016, the number of stock options outstanding stood at 943,295.

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

CONSOLIDATED BALANCE SHEETS

Working capital

As at		September 30, 2016		March 31, 2016		Variance	
Current assets	**$**	**265,412**	$	263,137	*$*	*2,275*	*0.9 %*
Current liabilities		**106,841**		112,658		*(5,817)*	*(5.2)%*
Working capital	**$**	**158,571**	$	150,479	*$*	*8,092*	*5.4 %*
Working capital ratio		**2.48**		2.34			

The $5.8 million decrease in current liabilities mainly reflects the seasonal decrease in accounts payable when compared to the fourth quarter of fiscal 2016 and relates to a lower level of activity than at the end of the fiscal year.

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

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

		September 30, 2016		March 31, 2016		Variance	
Long-term assets	**$**	**337,074**	$	346,266	*$*	*(9,192)*	*(2.7)%*
Long-term liabilities	**$**	**161,718**	$	165,631	*$*	*(3,913)*	*(2.4)%*
Shareholders' equity	**$**	**333,927**	$	331,114	*$*	*2,813*	*0.8 %*
Net debt-to-equity ratio[1]		**0.39:1**		0.39:1			

[1] Defined as total long-term debt, including the current portion but excluding deferred financing costs, less cash and cash equivalents over shareholders' equity.

The $9.2 million decrease in long-term assets is mainly explained by the decrease in the value of the British pound when compared to March 31, 2016.

The $2.8 million increase in Shareholders' equity is mainly explained by Comprehensive income of $1.8 million, essentially comprised of net income of $14.7 million and the unfavourable effect of foreign exchange fluctuations of $(11.2) million included in Other comprehensive income. The unfavourable effect of foreign exchange is largely related to the decrease in value of the British pound when compared to March 31, 2016. For further details, see the Statement of comprehensive income in the interim condensed consolidated financial statements for the six months ended September 30, 2016.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

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

	September 30, 2016		March 31, 2016	
Notional amount outstanding	**US$**	**184,300**	US$	165,200
Average exchange rate		**1.3032**		1.2900

As at September 30, 2016, these contracts mature at various dates between October 2016 and March 2020, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at September 30, 2016 the Corporation had entered into the following interest rate swap agreements:

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

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

Equity swap agreement

As at September 30, 2016 the Corporation had entered into an equity swap agreement fixing 150,000 common shares of the Corporation at a price of $11.45. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2017.

INTERNAL CONTROLS AND PROCEDURES

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

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

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

No changes were made to the Corporation's internal controls over financial reporting during the six-month period ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry segments that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2016. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

There was no significant change to these risks and uncertainties during the six months ended September 30, 2016, other than those described elsewhere in this MD&A.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	**2017**		2016				2015	
	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter
Sales	**$ 91,571**	$ 95,590	$117,496	$ 96,561	$ 94,518	$ 98,237	$106,054	$ 88,368
Operating income (loss)	**11,584**	7,596	13,334	9,794	8,684	5,971	(2,490)	(1,815)
Adjusted operating income (1)	**7,873**	8,001	13,334	9,794	8,684	7,451	10,730	6,711
EBITDA (1)	**17,806**	13,916	20,713	15,666	14,607	11,604	2,679	3,018
Adjusted EBITDA (1)	**14,095**	14,321	20,713	15,666	14,607	13,084	15,899	11,544
Net Income (loss)	**9,519**	5,179	9,091	7,010	6,030	4,510	(1,640)	(1,909)
Adjusted Net Income (1)	**5,677**	5,584	9,091	7,010	6,030	5,519	7,456	4,361
In dollars per share								
Earnings (loss) per share - Basic & Diluted	**$ 0.26**	$ 0.14	$ 0.25	$ 0.19	$ 0.17	$ 0.13	$ (0.05)	$ (0.05)
Adjusted earnings per share (1)	**0.16**	0.15	0.25	0.19	0.17	0.15	0.21	0.12
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.3**	36.3	36.2	36.2	36.1	36.0	36.1	36.0

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

Seasonal trends

Héroux-Devtek's second quarter is usually slower than the others due to seasonality such as plant shuttowns and summer vacations, whereas the fourth quarter is usually the strongest.

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 6.2% in the passenger market for calendar 2016, while air cargo volume is expected to rise 1.9% in calendar 2016 [2].

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

In the business jet sector, industry deliveries decreased slightly in the first six months of calendar 2016. Certain signs suggest relatively stable market conditions in the short term, such as modest growth in U.S. business aircraft movements and year-over-year stability in the proportion of the business aircraft fleet for sale. The current and future ramp-up of business jet models for which Héroux-Devtek has designed the landing gear should be favourable for the Corporation in this market [4].

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

GUIDANCE[1]

The following table summarizes guidance provided by management for fiscal year 2017 in the MD&A for the fiscal year ended March 31, 2016:

Metric	March 31, 2016 guidance	Revised guidance
Fiscal 2017 sales growth	Low single-digit growth, to approximately $420 million	Low single-digit growth
Long-term sales growth	$500 million of sales for fiscal 2019	$500 million of sales for fiscal 2019
Fiscal 2017 additions to PP&E	Approximately $20 million	Approximately $20 million
Fiscal 2017 free cash flow[5]	Positive free cash flow	Positive free cash flow

Management still expects low single-digit growth in sales when compared to Fiscal 2016, though no longer forecasts $420 million. This lowered expectation is mainly the result of the decrease in value of the British pound since March 31, 2016, which negatively impacts forecasted sales. Guidance on long-term sales growth, additions to property, plant and equipment and free cash flow for fiscal 2017 are maintained.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on November 3, 2016. Additional information about the Corporation, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com .

[1] *Refer to* Forward-Looking Statements *in* Overview *for further information regarding forward-looking statements and related risks.*

[2] *Source: Economic Performance of the Airline Industry, IATA, June 2016.*

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

[4] *Sources: General Aviation Manufacturers Association, Federal Aviation Administration, Amstat.*

[5] *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.*