HÉROUX DEVTEK

LEVERAGING
OUR EXPERTISE

QUARTERLY REPORT: THIRD QUARTER ENDED DECEMBER 31, 2016

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Third quarter ended December 31, 2016

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	December 31, 2016	March 31, 2016
Assets			
Current assets			
Cash and cash equivalents		**$ 18,856**	$ 19,268
Accounts receivable		**64,546**	75,241
Income tax receivable		**1,234**	3,553
Inventories		**158,384**	146,721
Derivative financial instruments	8	**3,481**	4,938
Other current assets	9	**16,408**	13,416
		262,909	263,137
Property, plant and equipment, net	3	**193,851**	192,954
Finite-life intangible assets, net	3	**45,387**	48,745
Deposits on machinery and equipment	3	**—**	189
Derivative financial instruments	8	**435**	2,823
Deferred income tax assets		**10,286**	8,302
Goodwill		**85,779**	93,253
Total assets		**$ 598,647**	$ 609,403
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 59,064**	$ 64,279
Accounts payable - other and other liabilities		**1,863**	4,655
Provisions		**18,020**	21,003
Customer advances		**8,845**	3,855
Progress billings		**3,536**	4,755
Income tax payable		**516**	1,284
Derivative financial instruments	8	**4,567**	6,493
Current portion of long-term debt	10	**8,132**	6,334
		104,543	112,658
Long-term debt	10	**129,867**	139,950
Provisions		**6,257**	5,990
Progress billings		**—**	216
Derivative financial instruments	8	**1,479**	1,313
Deferred income tax liabilities		**5,422**	5,357
Other liabilities		**7,600**	12,805
		255,168	278,289
Shareholders' equity			
Issued capital	11	**76,928**	75,916
Contributed surplus		**3,609**	3,283
Accumulated other comprehensive income	12	**4,169**	18,788
Retained earnings		**258,773**	233,127
		343,479	331,114
Total liabilities and shareholders' equity		**$ 598,647**	$ 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)

		Quarters ended December 31,		Nine months ended December 31,	
	Notes	**2016**	2015	**2016**	2015
Sales		**$ 98,489**	$ 96,561	**$ 285,650**	$ 289,316
Cost of sales	**3, 4**	**83,452**	78,507	**238,467**	237,183
Gross profit		**15,037**	18,054	**47,183**	52,133
Selling and administrative expenses	**3, 4**	**7,343**	8,260	**23,615**	26,204
Non-recurring items	**6**	**—**	—	**(3,306)**	1,480
Operating income		**7,694**	9,794	**26,874**	24,449
Financial expenses	**5, 6**	**(1,917)**	1,363	**1,190**	3,896
Income before income tax expense		**9,611**	8,431	**25,684**	20,553
Income tax expense		**1,436**	1,421	**2,811**	3,003
Net income		**$ 8,175**	$ 7,010	**$ 22,873**	$ 17,550
Earnings per share – basic and diluted	**7**	**$ 0.23**	$ 0.19	**$ 0.63**	$ 0.49

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 December 31,		Nine months ended December 31,	
		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		**$ (385)**	$ 5,550	**$ (10,883)**	$ 21,044
Cash flow hedges:					
Net losses on valuation of derivative financial instruments		**(3,944)**	(9,654)	**(5,228)**	(11,711)
Net losses on derivative financial instruments transferred to net income		**1,383**	9,989	**2,383**	10,743
Deferred income taxes		**685**	(91)	**768**	258
		(1,876)	244	**(2,077)**	(710)
Losses on hedge of net investments in foreign operations		**(1,301)**	(2,079)	**(1,847)**	(5,412)
Deferred income taxes		**132**	213	**188**	504
		(1,169)	(1,866)	**(1,659)**	(4,908)
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains from remeasurement		**6,077**	1,979	**3,784**	3,354
Deferred income taxes		**(1,624)**	(529)	**(1,011)**	(896)
		4,453	1,450	**2,773**	2,458
Other comprehensive income (loss)		**$ 1,023**	$ 5,378	**$ (11,846)**	$ 17,884
Comprehensive income					
Net income		**$ 8,175**	$ 7,010	**$ 22,873**	$ 17,550
Other comprehensive income (loss)		**1,023**	5,378	**(11,846)**	17,884
Comprehensive income		**$ 9,198**	$ 12,388	**$ 11,027**	$ 35,434

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		582	(212)	—	—	370
Issued under the stock purchase and ownership incentive plan		430	—	—	—	430
Stock-based compensation expense	11	—	538	—	—	538
Net income		—	—	—	22,873	22,873
Other comprehensive income (loss)	12	—	—	(14,619)	2,773	(11,846)
Balance as at December 31, 2016		**$ 76,928**	**$ 3,609**	**$ 4,169**	**$ 258,773**	**$ 343,479**

	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 option plan		27	(22)	—	—	5
Issued under the stock purchase and ownership incentive plan		396	—	—	—	396
Stock-based compensation expense	11	—	734	—	—	734
Net income		—	—	—	17,550	17,550
Other comprehensive income	12	—	—	15,426	2,458	17,884
Balance as at December 31, 2015		**$ 75,727**	**$ 3,115**	**$ 24,482**	**$ 226,700**	**$ 330,024**

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)

		Quarters ended December 31,		Nine months ended December 31,	
	Notes	**2016**	2015	**2016**	2015
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		**$ 8,175**	$ 7,010	**$ 22,873**	$ 17,550
Items not requiring an outlay of cash:					
Amortization expense	4	**6,157**	5,872	**18,699**	17,428
Deferred income taxes		**305**	(1,117)	**(1,269)**	(700)
Gain on sale of property, plant and equipment		**(247)**	(6)	**(239)**	(122)
Non-cash financial expenses	5	**(2,636)**	697	**(877)**	2,177
Stock-based compensation expense	11	**190**	229	**538**	734
Cash flows from operations		**11,944**	12,685	**39,725**	37,067
Net change in non-cash items	13	**3,572**	(2,311)	**(12,726)**	(31,109)
Cash flows related to operating activities		**15,516**	10,374	**26,999**	5,958
Investing activities					
Net additions to property, plant and equipment		**(5,316)**	(12,484)	**(16,512)**	(35,516)
Deposits on machinery and equipment		**—**	—	**—**	(10,119)
Increase in finite-life intangible assets		**(1,136)**	(471)	**(2,419)**	(3,986)
Proceeds on disposal of property, plant and equipment		**270**	91	**270**	292
Cash flows related to investing activities		**(6,182)**	(12,864)	**(18,661)**	(49,329)
Financing activities					
Increase in long-term debt		**10,611**	19,851	**22,306**	34,029
Repayment of long-term debt		**(17,280)**	(856)	**(31,804)**	(5,937)
Issuance of common shares	11	**164**	141	**800**	401
Cash flows related to financing activities		**(6,505)**	19,136	**(8,698)**	28,493
Effect of changes in exchange rates on cash and cash equivalents		**200**	484	**(52)**	1,153
Change in cash and cash equivalents during the periods		**3,029**	17,130	**(412)**	(13,725)
Cash and cash equivalents at beginning of periods		**15,827**	4,243	**19,268**	35,098
Cash and cash equivalents at end of periods		**$ 18,856**	$ 21,373	**$ 18,856**	$ 21,373
Interest and income taxes reflected in operating activities:					
Interest paid		**$ 728**	$ 672	**$ 2,083**	$ 1,745
Interest received		**$ 9**	$ 6	**$ 16**	$ 26
Income taxes paid (received)		**$ (533)**	$ (1,605)	**$ 2,378**	$ 1,991

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 nine-month periods ended December 31, 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 December 31, 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 February 6, 2017.

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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Finite-life intangible assets	**$ 17**	$ 33	**$ 113**	$ 303
Property, plant and equipment	**—**	3,178	**481**	4,079
Deposits on machinery and equipment	**—**	257	**—**	313
Cost of sales and, selling and administrative expenses	**327**	586	**2,547**	1,402

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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Raw materials and purchased parts	**$ 34,742**	$ 31,115	**$ 93,713**	$ 93,599
Employee costs	**33,130**	35,613	**101,755**	101,738
Amortization of property, plant and equipment and finite-life intangible assets	**6,157**	5,872	**18,699**	17,428
Others	**16,766**	14,167	**47,915**	50,622
	$ 90,795	$ 86,767	**$ 262,082**	$ 263,387

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 and nine-month period ended December 31, 2016, the foreign exchange gains amounted to $1,010 and $2,225, respectively, compared to $362 and a loss of $24 during the same respective periods last fiscal year.

NOTE 5. FINANCIAL EXPENSES

Financial expenses comprise the following:

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Interest accretion on governmental authorities loans	**$ 487**	$ 645	**$ 1,798**	$ 1,931
Adjustments to estimates related to governmental authorities loans	**(3,052)**	—	**(3,052)**	—
Interest on net defined benefit obligations	**81**	76	**243**	229
Amortization of deferred financing costs (note 10)	**80**	91	**239**	239
Other interest accretion expense and discount rate adjustments	**(232)**	(115)	**(105)**	(222)
Non-cash financial expenses	**(2,636)**	697	**(877)**	2,177
Interest expense	**728**	672	**2,083**	1,745
Interest income on cash and cash equivalents	**(9)**	(6)	**(16)**	(26)
	$ (1,917)	$ 1,363	**$ 1,190**	$ 3,896

As at December 31, 2016, the Corporation updated the estimated repayment schedule for certain of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts. This resulted in a non-cash gain of $2,949, comprised of a reduction of interest accretion amounting to $133 for the nine-month period ended December 31, 2016, included in Interest accretion on government authorities loans, and a catch-up adjustment of $2,816, included in Adjustments to estimates related to governmental authorities loans. This gain was classified by management as a Non-recurring item (see Note 6).

NOTE 6. NON-RECURRING ITEMS

Non-recurring items comprise the following:

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Non-recurring items in operating income				
Gain on settlement of litigation	**$ —**	$ —	**$ (5,247)**	$ —
Legal and other professional fees	**—**	—	**1,941**	1,480
	—	—	**(3,306)**	1,480
Non-recurring item in financial expenses				
Revision of governmental authorities loans repayment estimates (see note 5)	**(2,949)**	—	**(2,949)**	—
	$ (2,949)	$ —	**$ (2,949)**	$ —

Last fiscal year, the Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During the nine-month period ended December 31, 2016, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4,000 ($5,247) settlement. Non-recurring legal and other professional fees incurred during the nine-month period ended December 31, 2016 totaled $1,941.

Legal and other professional fees incurred during the nine-month period ended December 31, 2015 totaling $1,480 were 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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Weighted-average number of common shares outstanding	**36,089,346**	35,986,215	**36,056,364**	35,971,148
Effect of dilutive stock options of the Corporation	**237,494**	181,369	**237,713**	127,408
Weighted-average number of common diluted shares outstanding	**36,326,840**	36,167,584	**36,294,077**	36,098,556
Options excluded from diluted earnings per share calculation[1]	**113,000**	nil	**113,000**	495,000

[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	**December 31, 2016**	March 31, 2016
Notional amount outstanding	**US$ 166,750**	US$ 165,200
Average exchange rate	**1.3090**	1.2900

As at December 31, 2016, these contracts mature at various dates between January 2017 and March 2020, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at December 31, 2016 the Corporation had entered into the following interest rate swap agreements to fix the interest rate on certain loans:

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

The interest-rate swap rates mentioned above exclude the additional bank relevant margin (see Note 10). 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	December 31, 2016	March 31, 2016
Investment and other tax credits receivable	**$ 4,862**	$ 3,423
Sales tax receivable	**2,020**	2,354
Prepaid expenses	**3,576**	3,478
Others	**5,950**	4,161
	$ 16,408	$ 13,416

NOTE 10. LONG-TERM DEBT

As at	December 31, 2016	March 31, 2016
Senior Secured Syndicated Revolving Credit Facility (“Credit Facility“)	**$ 56,393**	$ 70,745
Governmental authorities loans	**51,539**	53,774
Obligations under finance leases	**30,784**	22,721
Deferred financing costs, net	**(717)**	(956)
	137,999	146,284
Less: current portion	**8,132**	6,334
Long-term debt	**$ 129,867**	$ 139,950

Credit Facility

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

As at	December 31, 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	**2.2%**	1.8%
Canadian drawing		
Amount	**$ —**	$ 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 December 31, 2016 (2.4% and 6.5% as at March 31, 2016), maturing from July 2019 to December 2023, with amortization periods of seven years, secured by the related property, plant and equipment, net of interest of $2,987 ($2,178 as at March 31, 2016).

NOTE 11. ISSUED CAPITAL

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

	Quarter Ended December 31, 2016			Nine months ended December 31, 2016		
	Number		Issued capital	Number		Issued capital
Balance at beginning of periods	36,078,065	$	76,742	36,006,935	$	75,916
Issued for cash on exercise of stock options	8,500		42	57,750		582
Issued for cash under the stock purchase and ownership incentive plan	11,075		144	32,955		430
Balance at end of periods	36,097,640	$	76,928	36,097,640	$	76,928

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 December 31, 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	**943,295**	**$**	**10.77**	890,446	$	10.00
Exercised	**(8,500)**		**2.31**	—		—
Cancelled / forfeited	**(7,500)**		**11.71**	(7,500)		11.71
Balance at end of the quarters	**927,295**	**$**	**10.84**	882,946	$	9.99
Stock-based compensation expense		**$**	**190**		$	229

For the nine-month periods ended December 31, 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	**(57,750)**		**6.39**	(2,400)		2.02
Cancelled / forfeited	**(7,500)**		**11.71**	(7,500)		11.71
Balance at end of periods	**927,295**	**$**	**10.84**	882,946	$	9.99
Stock-based compensation expense		**$**	**538**		$	734

As at December 31, 2016, 2,808,257 common shares are reserved for issuance of stock options, of which 1,576,231 remained to be issued, compared to 1,633,981 as at March 31, 2016.

B. Stock purchase and ownership incentive plan

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
In number of common shares				
Issued under the stock purchase and ownership incentive plan	**11,075**	12,902	**32,955**	39,203
Attributed to participating employees	**4,391**	5,187	**12,365**	15,994
Expense related to common shares attributed	**$ 65**	$ 64	**$ 181**	$ 180

As at December 31, 2016, 340,000 shares were reserved for issuance under the stock purchase and ownership incentive plan, of which 118,048 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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
DSUs				
In number of DSUs				
Opening balance	**135,815**	124,333	**124,333**	83,158
Issued	**—**	—	**33,740**	41,175
Settled	**—**	—	**(22,258)**	—
Closing balance of DSUs outstanding	**135,815**	124,333	**135,815**	124,333
DSU expense for the period	**$ 247**	$ 155	**$ 618**	$ 610
Fair value of vested outstanding DSUs, end of period	**$ 1,862**	$ 1,411	**$ 1,862**	$ 1,411

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
PSUs				
In number of PSUs				
Opening balance	**209,491**	153,303	**151,392**	115,879
Issued	**—**	—	**58,500**	37,424
Settled	**(88,650)**	—	**(88,650)**	—
Cancelled/Forfeited	**—**	(1,911)	**(401)**	(1,911)
Closing balance of PSUs outstanding	**120,841**	151,392	**120,841**	151,392
PSU expense for the period	**$ 318**	$ 249	**$ 500**	$ 627
Fair value of vested outstanding PSUs, end of period	**$ 1,167**	$ 1,579	**$ 1,167**	$ 1,579

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 September 30, 2016	$ 15,193	$ (844)	$ (6,750)	$ 7,599
Other comprehensive loss	(385)	(1,876)	(1,169)	(3,430)
Balance as at December 31, 2016	$ 14,808	$ (2,720)	$ (7,919)	$ 4,169
Balance as at March 31, 2016	$ 25,691	$ (643)	$ (6,260)	$ 18,788
Other comprehensive loss	(10,883)	(2,077)	(1,659)	(14,619)
Balance as at December 31, 2016	$ 14,808	$ (2,720)	$ (7,919)	$ 4,169

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2015	$ 40,715	$ (12,551)	$ (7,610)	$ 20,554
Other comprehensive income (loss)	5,550	244	(1,866)	3,928
Balance as at December 31, 2015	$ 46,265	$ (12,307)	$ (9,476)	$ 24,482
Balance as at March 31, 2015	$ 25,221	$ (11,597)	$ (4,568)	$ 9,056
Other comprehensive income (loss)	21,044	(710)	(4,908)	15,426
Balance as at December 31, 2015	$ 46,265	$ (12,307)	$ (9,476)	$ 24,482

NOTE 13. NET CHANGE IN NON-CASH ITEMS

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Accounts receivable	**$ (2,531)**	$ 5,801	**$ 10,695**	$ 10,906
Income tax receivable	**1,959**	3,332	**2,319**	815
Inventories	**(930)**	(13,503)	**(11,663)**	(22,395)
Other current assets	**6,549**	1,333	**(2,992)**	5,156
Accounts payable and accrued liabilities, accounts payable – other and other liabilities	**(1,336)**	4,589	**(9,035)**	(8,699)
Provisions	**(551)**	1,400	**(2,611)**	(6,091)
Progress billings	**(898)**	(1,565)	**(1,435)**	(2,598)
Customer advances	**1,497**	(5,725)	**4,990**	(14,760)
Income tax payable	**(298)**	732	**(768)**	679
Effect of changes in exchange rates[1]	**111**	1,295	**(2,226)**	5,878
	$ 3,572	$ (2,311)	**$ (12,726)**	$ (31,109)

[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	December 31, 2016				March 31, 2016			
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	**$ 105,595**	**$ 77,683**	**$ 10,573**	**$ 193,851**	$ 108,798	$ 72,661	$ 11,495	$ 192,954
Finite-life intangible assets, net	**27,982**	**3,043**	**14,362**	**45,387**	27,293	3,594	17,858	48,745
Goodwill	**13,838**	**10,091**	**61,850**	**85,779**	13,838	9,761	69,654	93,253

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Canada	**$ 18,699**	$ 19,918	**$ 58,437**	$ 61,318
United States of America	**58,703**	50,273	**159,380**	154,216
United Kingdom	**7,924**	13,225	**28,328**	33,081
Other countries	**13,163**	13,145	**39,505**	40,701
	$ 98,489	$ 96,561	**$ 285,650**	$ 289,316

NOTE 15. SUBSEQUENT EVENT

In February 2017, the Corporation announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which will be completed over the current calendar year, is expected to result in an an estimated non-recurring charge of approximately $4,800, which will mainly be accounted for during the last quarter of this fiscal year.

MANAGEMENT’S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2016

TABLE OF CONTENTS

OVERVIEW

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

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

They may be impacted by factors including, but not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 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 the expectations conveyed by these statements and although they are based on information available to it on the date such statements were made, there can be no assurance that such expectations will prove to be correct. All subsequent forward-looking statements, whether written or orally attributable to the Corporation or persons acting on its behalf, are expressly qualified in their entirety by these cautionary statements. Unless otherwise required by applicable securities laws, the Corporation expressly disclaims any intention, and assumes no obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise.

FOREIGN EXCHANGE ("FX")

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

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

	December 31, 2016	March 31, 2016
USD (Canadian equivalent of US$1.0)	**1.3427**	1.2987
GBP (Canadian equivalent of £1.0)	**1.6564**	1.8654

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

	Quarters ended December 31,		**Nine months ended December 31,**	
	2016	2015	**2016**	2015
USD (Canadian equivalent of US$1.0)	**1.3339**	1.3353	**1.3092**	1.2913
GBP (Canadian equivalent of £1.0)	**1.6564**	2.0253	**1.7392**	1.9792

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

HIGHLIGHTS

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Sales	**$ 98,489**	$ 96,561	**$ 285,650**	$ 289,316
Operating income	**7,694**	9,794	**26,874**	24,449
Adjusted operating income(1)	**7,694**	9,794	**23,568**	25,929
Adjusted EBITDA(1)	**13,851**	15,666	**42,267**	43,357
Net income	**8,175**	7,010	**22,873**	17,550
Adjusted net income(1)	**6,015**	7,010	**17,276**	18,559
In dollars per share				
EPS - basic and diluted	**$ 0.23**	$ 0.19	**$ 0.63**	$ 0.49
Adjusted EPS(1)	**0.17**	0.19	**0.48**	0.52
In thousands of shares				
Weighted average number of common diluted shares outstanding	**36,327**	36,168	**36,294**	36,099
In millions of dollars, as at			**December 31, 2016**	March 31, 2016
Funded backlog(2)			**$ 424**	$ 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*

Guidance

Following the announcement of reduced production rates for certain aircraft programs by Original Equipment Manufacturers ("OEMs"), including the Boeing 777, management withdrew its long-term sales guidance. Management also updated fiscal 2017 sales guidance, issued sales guidance for fiscal 2018, and issued new long-term sales guidance. See the *Guidance* section under *Additional Information* for further details.

Key Events

- In February 2017, following the production rate reductions mentioned above, the Corporation announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which will be completed over the current calendar year, is expected to result in an estimated non-recurring charge of approximately $4.8 million, which will mainly be accounted for during the last quarter of this fiscal year.
- During the quarter, Héroux-Devtek signed the following three agreements to supply components and complete landing gear systems for the defence sector:
    - Héroux- Devtek was awarded supplemental work by Embraer to provide landing gear components and assemblies for the KC-390 aircraft. The contract broadens the scope of an existing agreement and will span the life of the program;
    - BAE Systems awarded the Corporation a contract to manufacture and assemble complete landing gear replacement shipsets and hydraulic actuators for the Hawk advanced jet trainer aircraft; and,
    - The Corporation signed a contract with Swedish defence and security company Saab AB for the production of complete landing gear systems for 96 Gripen E fighter Aircraft.
- This quarter, the Corporation achieved consolidated sales of $98.5 million and adjusted EBITDA of $13.9 million, compared to $96.6 million and $15.7 million during the same quarter last fiscal year.

Update on the Boeing 777 and 777X contract

During the quarter ended December 31, 2016, the Corporation continued the ongoing production ramp-up of complete landing gear systems for this program. It also received customer approval for one of the three main surface treatment processes required under this contract in order to produce the most critical components internally.

Customer qualification and approval is progressing for the remainder of the surface treatment processes. Management expects this phase to be completed by the end of the first quarter of fiscal 2018. In the meantime, the Corporation continues to utilize its supply chain in order to meet the customer's delivery schedule, which is negatively impacting the margin of the first units delivered.

OPERATING RESULTS

	Quarters ended December 31,			Nine months ended December 31,		
	2016	2015	*Variance*	**2016**	2015	*Variance*
Sales	**$ 98,489**	$ 96,561	*$ 1,928*	**$ 285,650**	$ 289,316	*$ (3,666)*
Gross profit	**15,037**	18,054	*(3,017)*	**47,183**	52,133	*(4,950)*
Selling and administrative expenses	**7,343**	8,260	*(917)*	**23,615**	26,204	*(2,589)*
Adjusted operating income[(1)]	**7,694**	9,794	*(2,100)*	**23,568**	25,929	*(2,361)*
Non-recurring items	**—**	—	*—*	**(3,306)**	1,480	*(4,786)*
Operating income	**7,694**	9,794	*(2,100)*	**26,874**	24,449	*2,425*
Financial expenses[(2)]	**(1,917)**	1,363	*(3,280)*	**1,190**	3,896	*(2,706)*
Income tax expense	**1,436**	1,421	*15*	**2,811**	3,003	*(192)*
Net income	**$ 8,175**	$ 7,010	*$ 1,165*	**$ 22,873**	$ 17,550	*$ 5,323*
Adjusted net income[(1)]	**$ 6,015**	$ 7,010	*$ (995)*	**$ 17,276**	$ 18,559	*$ (1,283)*
As a percentage of sales						
Gross profit	**15.3%**	18.7%	*-340 bps*	**16.5%**	18.0%	*-150 bps*
Selling and Administrative expenses	**7.5%**	8.6%	*-110 bps*	**8.3%**	9.1%	*-80 bps*
Operating income	**7.8%**	10.1%	*-230 bps*	**9.4%**	8.5%	*90 bps*
Adjusted operating income[(1)]	**7.8%**	10.1%	*-230 bps*	**8.3%**	9.0%	*-70 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.23**	$ 0.19	*$ 0.04*	**$ 0.63**	$ 0.49	*$ 0.14*
Adjusted EPS[(1)]	**$ 0.17**	$ 0.19	*$ (0.02)*	**$ 0.48**	$ 0.52	*$ (0.04)*

[(1)] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section for definitions and reconciliations to the most comparable IFRS measures.*
[(2)] *Refer to the* Non-Recurring Items *section for more details.*

Sales

Sales can be broken down by sector as follows:

	Quarters ended December 31,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 50,744**	$ 50,810	$ 844	$ (910)	(1.8)%
Defence[(1)]	**47,745**	45,751	815	1,179	2.6 %
Total	**$ 98,489**	$ 96,561	$ 1,659	$ 269	0.3 %

	Nine months ended December 31,				
	2016	2015	FX impact	Net variance	
Commercial	**$ 150,024**	$ 152,245	$ 3,590	$ (5,811)	(3.8)%
Defence[(1)]	**135,626**	137,071	3,246	(4,691)	(3.4)%
Total	**$ 285,650**	$ 289,316	$ 6,836	$ (10,502)	(3.6)%

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

Commercial

The $0.9 million net decrease in commercial sales for the quarter was mainly driven by lower customer requirements for certain business jet and large commercial programs, partly offset by increasing deliveries for the Boeing 777 program.

The $5.8 million net decrease in commercial sales for the nine-month period was mainly driven by:

- Lower customer 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 increasing deliveries for the Boeing 777 program.

Defence

The $1.2 million net increase in defence sales for the quarter was mainly driven by higher new and spare part requirements from civil customers, notably for the F-35 program, partly offset by lower engineering sales following the completion of certain development phases.

The $4.7 million net decrease in defence sales for the nine-month period was 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 ("R&O") sales to European customers and higher spare parts and manufacturing requirements from civil customers, including for the F-35 program.

Gross Profit

The decreases in gross profit margin from 18.7% to 15.3% this quarter and from 18.0% to 16.5% for the nine-month period compared to the same periods last fiscal year were mainly driven by:

- 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 processes;
- Normal learning curve costs associated with the initial ramp-up of production for the Boeing 777 program; and,
- The impact of the integration of the Corporation's R&O facilities in Runcorn UK, which has now been completed.

These negative factors were partly offset by favourable exchange rate fluctuations representing 2.9% and 1.8% of sales for the quarter and nine-month period, respectively, mainly related to the U.S. Dollar.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses remained relatively stable in dollars and represented 8.5% and 9.0% of sales for the quarter and nine-month period, respectively, compared to 8.9% and 9.0% for the same periods last fiscal year.

Non-recurring items

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Non-recurring items in EBITDA				
Gain on settlement of litigation	**$ —**	$ —	**$ (5,247)**	$ —
Legal and other professional fees	**—**	—	**1,941**	1,480
	—	—	**(3,306)**	1,480
Non-recurring item in financial expenses				
Revision of governmental authorities loans repayment estimates	**(2,949)**	—	**(2,949)**	—
	$ (2,949)	$ —	**$ (2,949)**	$ —

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

Last fiscal year, the Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During the nine-month period ended December 31, 2016, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4.0 million ($5.2 million) settlement. Non-recurring legal and other professional fees incurred during the nine-month period ended December 31, 2016 totaled $1.9 million.

Legal and other professional fees incurred during the nine-month period ended December 31, 2015 totaling $1.5 million were 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 decrease in operating income from 10.1% to 7.8% of sales for the quarter and increase from 8.5% to 9.4% of sales (decrease from 9.0% to 8.3% excluding non-recurring items) for the nine-month period compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

The $3.3 million decrease in financial expenses for the quarter compared to the same period last fiscal year was mainly driven by:

- The $2.9 million impact of the revision of governmental authorities loans repayment schedules, described in *Non-Recurring Items* above; and,
- A higher favourable discount rate adjustment related to a provision for asset retirement.

The $2.7 million decrease during the nine-month period compared to the same period last fiscal year was mainly driven by the $2.9 million impact of the revision of governmental authorities loans repayment schedules, described in *Non-Recurring Items* above.

This positive factor was partly offset by:

- Higher interest expense related to the higher average balance outstanding under finance leases; and,
- A lower favourable discount rate adjustment related to a provision for asset retirement this year.

Income Tax Expense

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Income before income tax expense	**$ 9,611**	$ 8,431	**$ 25,684**	$ 20,553
Income tax expense	**1,436**	1,421	**2,811**	3,003
Effective tax rate	**14.9%**	16.9%	**10.9%**	14.6%
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 quarter ended December 31, 2016, the favourable impact of earnings in other tax jurisdictions ($1.3 million) partially offset by permanent differences ($0.1 million).

The effective income tax rate for the quarter ended December 31, 2015 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($1.0 million) partially offset by permanent differences ($0.1 million).

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

For the nine-month period ended December 31, 2015, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($2.8 million), partially offset by permanent differences ($0.2 million).

Net Income

Net income increased from $7.0 million to $8.2 million during the quarter (or decreased from $7.0 million to $6.0 million excluding non-recurring items net of taxes) and increased from $17.6 million to $22.9 million (or decreased from $18.6 million to $17.3 million excluding non-recurring items net of taxes) during the nine-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

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

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

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. However, the Corporation's management, 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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Operating income	**$ 7,694**	$ 9,794	**$ 26,874**	$ 24,449
Non-recurring items	**—**	—	**(3,306)**	1,480
Adjusted operating income	**$ 7,694**	$ 9,794	**$ 23,568**	$ 25,929

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Net income	**$ 8,175**	$ 7,010	**$ 22,873**	$ 17,550
Income tax expense	**1,436**	1,421	**2,811**	3,003
Financial expenses	**(1,917)**	1,363	**1,190**	3,896
Amortization expense	**6,157**	5,872	**18,699**	17,428
EBITDA	**$ 13,851**	$ 15,666	**$ 45,573**	$ 41,877
Non-recurring items	**—**	—	**(3,306)**	1,480
Adjusted EBITDA	**$ 13,851**	$ 15,666	**$ 42,267**	$ 43,357

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Net income	**$ 8,175**	$ 7,010	**$ 22,873**	$ 17,550
Non-recurring items, net of taxes	**(2,160)**	—	**(5,597)**	1,009
Adjusted net income	**$ 6,015**	$ 7,010	**$ 17,276**	$ 18,559
In dollars per share				
Earnings per share - basic and diluted	**$ 0.23**	$ 0.19	**$ 0.63**	$ 0.49
Non-recurring items, net of taxes	**(0.06)**	—	**(0.15)**	0.03
Adjusted earnings per share	**$ 0.17**	$ 0.19	**$ 0.48**	$ 0.52

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 December 31, 2016, the Corporation had $56.4 million drawn against the Credit Facility, compared to $70.7 million as at March 31, 2016. Year to date net repayments of $16.2 million were made against the Credit Facility, while finance lease obligations increased by $8.1 million. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

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

	December 31, 2016	March 31, 2016
Long-term debt, including current portion[(1)]	**$ 138,716**	$ 147,240
Less: Cash and cash equivalents	**18,856**	19,268
Net debt position	**$ 119,860**	$ 127,972

[(1)] *Excluding net deferred financing costs of $0.7 million as at December 31, 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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Cash and cash equivalents at beginning of periods	**$ 15,827**	$ 4,243	**$ 19,268**	$ 35,098
Cash flows related to operating activities	**15,516**	10,374	**26,999**	5,958
Cash flows related to investing activities	**(6,182)**	(12,864)	**(18,661)**	(49,329)
Cash flows related to financing activities	**(6,505)**	19,136	**(8,698)**	28,493
Effect of changes in exchange rates on cash and cash equivalents	**200**	484	**(52)**	1,153
Cash and cash equivalents at end of periods	**$ 18,856**	$ 21,373	**$ 18,856**	$ 21,373

Operating Activities

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Cash flows from operations	**$ 11,944**	$ 12,685	**$ 39,725**	$ 37,067
Net change in non-cash items	**3,572**	(2,311)	**(12,726)**	(31,109)
Cash flows related to operating activities	**$ 15,516**	$ 10,374	**$ 26,999**	$ 5,958

The increase in cash flows from operations over the nine month period mainly relates to higher EBITDA than in the same period last fiscal year.

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Accounts receivable	**$ (2,531)**	$ 5,801	**$ 10,695**	$ 10,906
Inventories	**(930)**	(13,503)	**(11,663)**	(22,395)
Other current assets	**6,549**	1,333	**(2,992)**	5,156
Accounts payable and accrued liabilities, accounts payable-other and other liabilities (referred to as "accounts payable")	**(1,336)**	4,589	**(9,035)**	(8,699)
Income taxes payable and receivable	**1,661**	4,064	**1,551**	1,494
Customer advances	**1,497**	(5,725)	**4,990**	(14,760)
Provisions	**(551)**	1,400	**(2,611)**	(6,091)
Progress billings	**(898)**	(1,565)	**(1,435)**	(2,598)
Effect of changes in exchange rates	**111**	1,295	**(2,226)**	5,878
	$ 3,572	$ (2,311)	**$ (12,726)**	$ (31,109)

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

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

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

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

For the quarter ended December 31, 2015, the negative net change in non-cash items mainly reflected:

- An increase in inventories mainly related to the Boeing B-777 and B-787 programs and an increased level of activity in repair and overhaul; and,
- A net reduction in customer advances following revenue recognition.

These factors were partly offset by a decrease in accounts receivable reflecting a lower number of days in receivables and an increase in accounts payable mainly associated to the increased inventories described above.

For the nine-month period ended December 31, 2015, the negative net change in non-cash items mainly reflected:

- An increase in inventories mainly related to the Boeing B-777 and B-787 programs and an increased level of activity in repair and overhaul; and,
- A net reduction in customer advances following revenue recognition.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Net additions to property, plant and equipment	**$ (5,316)**	$ (12,484)	**$ (16,512)**	$ (35,516)
Deposits on machinery and equipment	**—**	—	**—**	(10,119)
Net increase in finite-life intangible assets	**(1,136)**	(471)	**(2,419)**	(3,986)
Proceeds on disposal of property, plant and equipment	**270**	91	**270**	292
Cash flows related to investing activities	**$ (6,182)**	$ (12,864)	**$ (18,661)**	$ (49,329)

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

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Gross additions to property, plant and equipment	**$ 4,679**	$ 43,349	**$ 14,848**	$ 69,088
Government assistance	**—**	(3,178)	**(481)**	(4,079)
Net additions to property, plant and equipment	**$ 4,679**	$ 40,171	**$ 14,367**	$ 65,009
Variation in unpaid additions included in Accounts payable - other and other liabilities	**637**	(449)	**2,334**	3,743
Deposits reclassified to property, plant and equipment upon completion [(1)]	**—**	(27,238)	**(189)**	(33,236)
Net additions, as per statements of cash flows	**$ 5,316**	$ 12,484	**$ 16,512**	$ 35,516

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

The decreases in net additions to property, plant and equipment for the three- and nine-month periods compared to the same periods last fiscal year mainly relate to the completion of planned investments related to the Boeing 777 and 777X contract.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Increase in long-term debt	**$ 10,611**	$ 19,851	**$ 22,306**	$ 34,029
Repayment of long-term debt	**(17,280)**	(856)	**(31,804)**	(5,937)
Issuance of common shares	**164**	141	**800**	401
Cash flows related to financing activities	**$ (6,505)**	$ 19,136	**$ (8,698)**	$ 28,493

The cash inflows from increases in long-term debt over the quarter mainly relate to $9.8 million of new finance leases, while repayment of long-term debt included repayments of $16.0 million of the Credit Facility.

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

As at December 31, 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 December 31,		Nine months ended December 31,	
	2016	2015	**2016**	2015
Cash flows related to operating activities	**$ 15,516**	$ 10,374	**$ 26,999**	$ 5,958
Net additions to property, plant and equipment	**(4,679)**	(40,171)	**(14,367)**	(65,009)
Net increase in finite-life intangible assets	**(1,136)**	(471)	**(2,419)**	(3,986)
Free cash flow	**$ 9,701**	$ (30,268)	**$ 10,213**	$ (63,037)

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

The $40.0 million and $73.3 million respective increases in free cash flow over the three- and nine-month periods mainly relate to lower net additions to property, plant and equipment and increased cash flows from operating activities, as described previously.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended December 31, 2016			Nine months ended December 31, 2016		
	Number of shares	Issued capital		Number of shares	Issued capital	
Opening balance	36,078,065	$	76,742	36,006,935	$	75,916
Issued for cash on exercise of stock options	8,500		42	57,750		582
Issued for cash under the stock purchase and ownership incentive plan	11,075		144	32,955		430
Ending balance	36,097,640	$	76,928	36,097,640	$	76,928

As at February 6, 2017, the number of common shares outstanding stood at 36,101,419.

Stock options varied as follows:

	Quarter ended December 31, 2016			Nine months ended December 31, 2016		
	Number of stock options	Weighted-average exercise price		Number of stock options	Weighted-average exercise price	
Opening balance	943,295	$	10.77	879,545	$	10.02
Granted	—		—	113,000		15.01
Exercised	(8,500)		2.31	(57,750)		6.39
Cancelled / forfeited	(7,500)		11.71	(7,500)		11.71
Ending balance	927,295	$	10.84	927,295	$	10.84

As at December 31, 2016, 1,576,231 common shares remained reserved for issuance upon exercise of stock options compared to 1,633,981 at March 31, 2016 and 118,048 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 151,003 at March 31, 2016.

As at February 6, 2017, the number of stock options outstanding stood at 927,295.

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	December 31, 2016	March 31, 2016	Variance	
Current assets	**$ 262,909**	$ 263,137	*$ (228)*	*(0.1)%*
Current liabilities	**104,543**	112,658	*(8,115)*	*(7.2)%*
Working capital	**$ 158,366**	$ 150,479	*$ 7,887*	*5.2 %*
Working capital ratio	**2.51**	2.34		

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

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

	December 31, 2016	March 31, 2016	Variance	
Long-term assets	**$ 335,738**	$ 346,266	*$ (10,528)*	*(3.0)%*
Long-term liabilities	**$ 150,625**	$ 165,631	*$ (15,006)*	*(9.1)%*
Shareholders' equity	**$ 343,479**	$ 331,114	*$ 12,365*	*3.7 %*
Net debt-to-equity ratio(1)	**0.35:1**	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 $10.5 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 $15.0 million decrease in long-term liabilities is mainly explained by a $10.1 million decrease in long-term debt, as described in *Credit Facility and Cash and Cash Equivalents* under *Liquidity and Capital Resources,* and a $5.2 million decrease in other long-term liabilities, mainly related to gains from remeasurement in the Corporation's net defined benefit pension liability.

The $12.4 million increase in Shareholders' equity is mainly explained by Comprehensive income of $11.0 million, essentially comprised of net income of $22.9 million and the unfavourable effect of foreign exchange fluctuations of $(14.6) million included in Other comprehensive income. The unfavourable effect of foreign exchange fluctuations 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 nine months ended December 31, 2016.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

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

	December 31, 2016		March 31, 2016	
Notional amount outstanding	**US$**	**166,750**	US$	165,200
Average exchange rate		**1.3090**		1.2900

As at December 31, 2016, these contracts mature at various dates between January 2017 and March 2020, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at December 31, 2016 the Corporation had entered into the following interest rate swap agreements to fix the interest rate on certain loans:

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

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

Equity swap agreement

As at December 31, 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 nine-month period ended December 31, 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 sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 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 nine months ended December 31, 2016, other than those described elsewhere in this MD&A.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2017			2016				2015
	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Sales	**$ 98,489**	$ 91,571	$ 95,590	$117,496	$ 96,561	$ 94,518	$ 98,237	$106,054
Operating income (loss)	**7,694**	11,584	7,596	13,334	9,794	8,684	5,971	(2,490)
Adjusted operating income (1)	**7,694**	7,873	8,001	13,334	9,794	8,684	7,451	10,730
EBITDA (1)	**13,851**	17,806	13,916	20,713	15,666	14,607	11,604	2,679
Adjusted EBITDA (1)	**13,851**	14,095	14,321	20,713	15,666	14,607	13,084	15,899
Net Income (loss)	**8,175**	9,519	5,179	9,091	7,010	6,030	4,510	(1,640)
Adjusted Net Income (1)	**6,015**	5,677	5,584	9,091	7,010	6,030	5,519	7,456
In dollars per share								
Earnings (loss) per share - Basic & Diluted	**$ 0.23**	$ 0.26	$ 0.14	$ 0.25	$ 0.19	$ 0.17	$ 0.13	$ (0.05)
Adjusted earnings per share (1)	**0.17**	0.16	0.15	0.25	0.19	0.17	0.15	0.21
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.3**	36.3	36.3	36.2	36.2	36.1	36.0	36.1

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

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

ECONOMIC OUTLOOK (1)

In the commercial aerospace market, The International Air Transport Association's ("IATA") most recent forecast calls for a 5.1% growth in the passenger market for calendar 2017, a figure in line with historical average, following a solid 5.9% growth estimated for calendar 2016. Meanwhile, air cargo volume is expected to rise 3.3% in calendar 2017, a progression relatively similar to the 3.2% growth rate estimated for calendar 2016 (2).

In the large commercial aircraft sector, Boeing and Airbus are proceeding with production rate adjustments ahead of introducing certain more fuel efficient aircraft variants on several leading programs through calendar 2019. Their backlogs remain strong despite a reduction in new firm orders in calendar 2016 versus the previous year (3).

In the defence aerospace market, the new U.S. administration may bring a shift in priorities, the impact of which on military spending is uncertain at this time.

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

GUIDANCE[1]

Metric	March 31, 2016 guidance	**Revised guidance**
Fiscal 2017 sales growth	Low single-digit growth, to approximately $420 million	**Relatively stable sales**
Long-term sales growth	$500 million of sales for fiscal 2019	**Sales of $480-520 million for FY2021**
Fiscal 2017 additions to PP&E	Approximately $20 million	Approximately $20 million
Fiscal 2017 free cash flow[4]	Positive free cash flow	Positive free cash flow
Fiscal 2018 sales growth	**None**	**Low single-digit decrease in sales**

Along with fiscal 2017 second quarter results, management announced that it no longer forecasted $420 million of sales for fiscal 2017, mainly as a result of the decrease in value of the British pound since March 31, 2016.

Since then, aircraft OEMs have announced reduced production rates for certain programs, including the Boeing 777. As a result of this additional change in assumptions related to forecasted sales, management:

- Withdrew the long-term sales growth guidance issued with the fiscal 2016 financial results, which previously forecasted $500 million of sales for fiscal 2019;
- Now expects relatively stable sales in fiscal 2017, when compared to fiscal 2016;
- Forecasts, a low single-digit decrease in sales in 2018, when compared to expected sales for fiscal 2017; and,
- Following a transition year in fiscal 2018, expects sales to grow progressively to reach between $480 million and $520 million in fiscal year 2021.

Guidance for additions to property, plant and equipment and free cash flow for fiscal 2017 remain unchanged.

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

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

Refer to the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2016 for discussion of certain factors which may cause future results to differ from this guidance.

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on February 6, 2017. Additional information about the Corporation, including the Annual Report and Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.

[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 2016.*
[3] *Sources: Airbus press releases July 12, 2016; February 24, 2016; October 30, 2015 : February 27, 2015. Boeing press releases January 21, 2016; October 2, 2014*
[4] *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.*