

# LEVERAGING OUR EXPERTISE

2016 ANNUAL REPORT



# FINANCIAL HIGHLIGHTS

## FISCAL YEARS ENDED MARCH 31

(in millions of dollars, except per share data and ratios)

	2016	2015	2014	2013	2012
<b>OPERATING RESULTS <sup>(1)</sup></b>					
Sales	<b>406.8</b>	364.9	272.0	257.0	253.5
Operating income	<b>37.8</b>	6.6	15.6	20.4	23.8
Adjusted operating income <sup>(2)</sup>	<b>39.3</b>	29.4	22.5	20.4	23.8
Adjusted EBITDA <sup>(2)</sup>	<b>64.1</b>	47.8	35.8	33.0	37.4
Net income	<b>26.6</b>	3.2	9.2	13.4	15.9
Adjusted net income <sup>(2)</sup>	<b>27.7</b>	19.4	15.3	13.4	15.9
Cash flows from operations	<b>55.4</b>	29.3	20.9	29.0	31.7
<b>FINANCIAL POSITION</b>					
Cash and cash equivalents	<b>19.3</b>	35.1	47.3	101.3	62.0
Working capital	<b>150.5</b>	109.7	160.8	191.2	179.5
Total assets	<b>609.4</b>	575.5	514.0	389.1	499.1
Long-term debt <sup>(3)</sup>	<b>147.2</b>	114.2	150.5	64.3	120.9
Shareholders' equity	<b>331.1</b>	293.5	240.1	222.7	244.0
<b>PER SHARE DATA <sup>(1)</sup></b>					
Earnings per share - basic and diluted	<b>0.74</b>	0.09	0.29	0.43	0.52
Adjusted earnings per share <sup>(2)</sup>	<b>0.77</b>	0.55	0.48	0.43	0.52
Average number of shares outstanding (diluted, in 000's)	<b>36,119</b>	35,016	31,662	31,114	30,682
<b>FINANCIAL RATIOS <sup>(1)</sup></b>					
Adjusted EBITDA margin <sup>(2)</sup>	<b>15.7%</b>	13.1%	13.2%	12.8%	14.8%
Working capital ratio	<b>2.34</b>	1.75	2.59	3.59	2.76
Net debt-to-equity (cash-to-equity) <sup>(4)</sup>	<b>0.39</b>	0.27	0.43	(0.17)	0.24

(1) From continuing operations for fiscal 2013 and 2012.

(2) These are non-IFRS financial measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable financial measures.

(3) Including the current portion, but excluding net deferred financing costs.

(4) Defined as the total long-term debt, including the current portion, but excluding net deferred financing costs, less cash and cash equivalents over shareholders' equity.

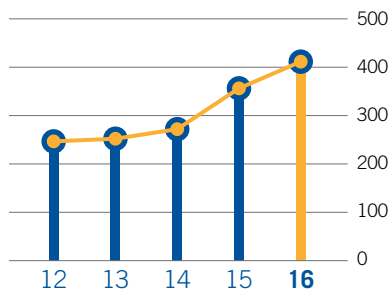
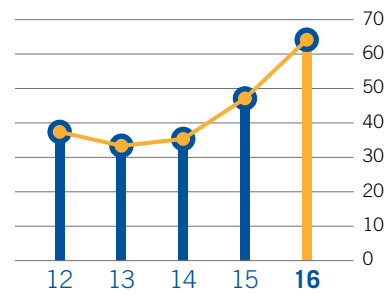
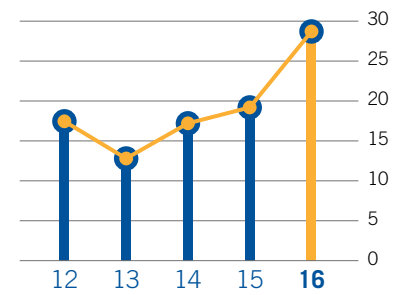




BAE Hawk

IN MILLIONS OF DOLLARS <sup>(1)</sup>

## SALES

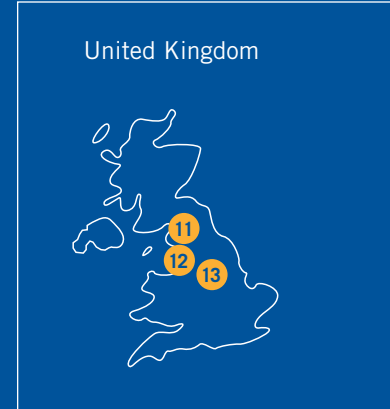
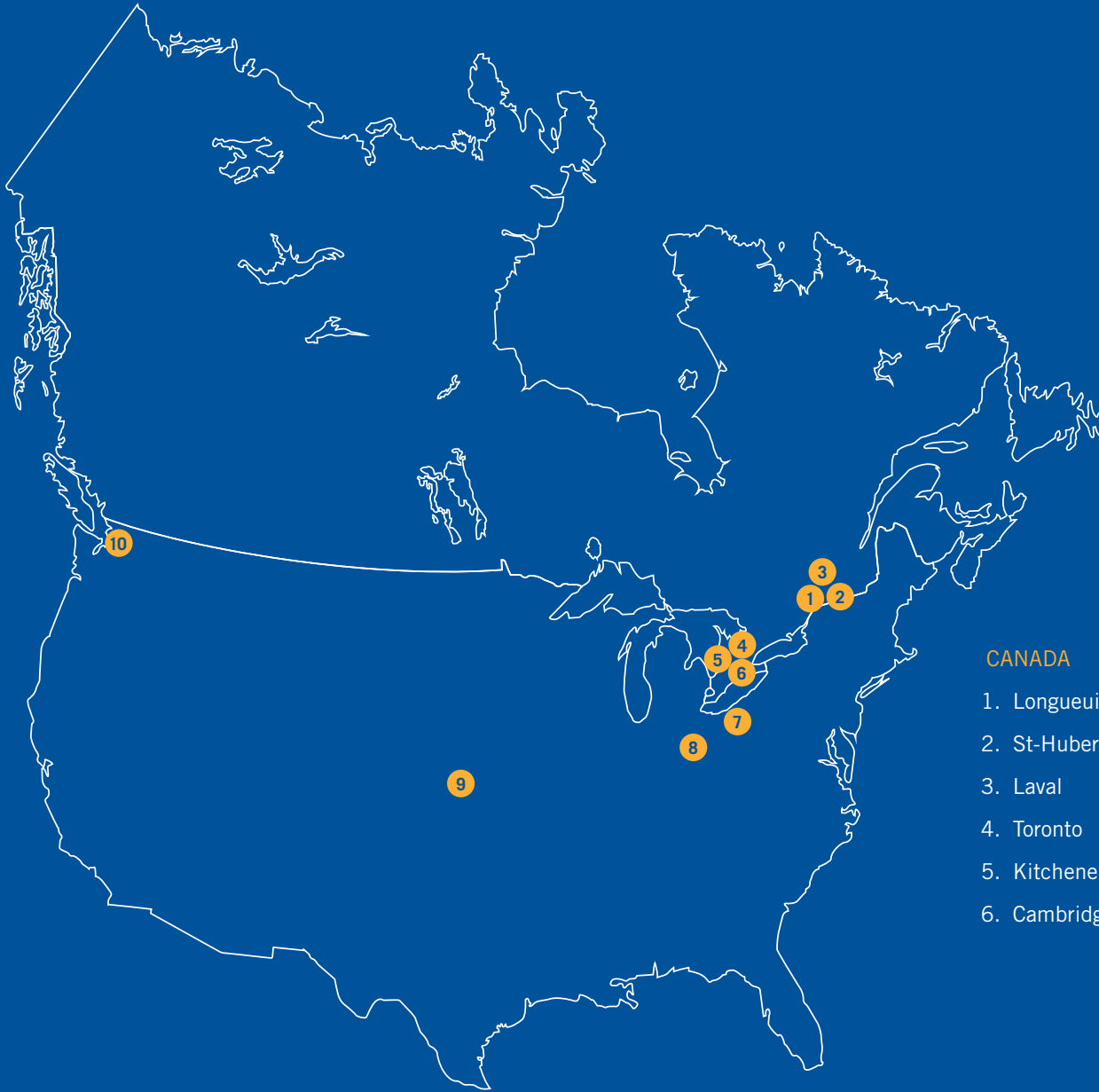
ADJUSTED EBITDA <sup>(2)</sup>ADJUSTED NET INCOME <sup>(2)</sup>

(1) From continuing operations for fiscal 2013 and 2012.

(2) These are non-IFRS financial measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.



# LEVERAGING OUR NETWORK



**CANADA**

- 1. Longueuil
- 2. St-Hubert
- 3. Laval
- 4. Toronto
- 5. Kitchener
- 6. Cambridge

**UNITED STATES**

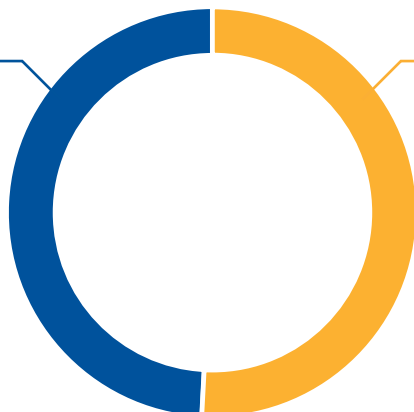
- 7. Strongsville
- 8. Springfield
- 9. Wichita
- 10. Everett

**UNITED KINGDOM**

- 11. Bolton
- 12. Runcorn
- 13. Nottingham



49%  
DEFENCE



51%  
COMMERCIAL

HÉROUX-DEVTEK'S SALES ARE WELL BALANCED BETWEEN THE COMMERCIAL AND DEFENCE SECTORS OF THE AEROSPACE MARKET.



# FISCAL 2016 HIGHLIGHTS

## STRONG OPERATING RESULTS

- Sales of \$406.8 million, up 11.5% from a year earlier.
- Operating income of \$37.8 million, or 9.3% of sales, compared with \$6.6 million, or 1.8% of sales, in the previous year.
- Adjusted EBITDA<sup>(1)</sup> of \$64.1 million, or 15.7% of sales, versus \$47.8 million, or 13.1% of sales, last year.
- Net income of \$26.6 million, or \$0.74 per diluted share, versus \$3.2 million, or \$0.09 per diluted share, a year earlier.
- Adjusted net income<sup>(1)</sup> of \$27.7 million, or \$0.77 per share, compared with \$19.4 million, or \$0.55 per share, in the previous year.

## THE CAPITAL INVESTMENT PLAN TO CARRY OUT A LONG-TERM CONTRACT TO SUPPLY THE BOEING COMPANY (“BOEING”) WITH COMPLETE LANDING GEAR SYSTEMS FOR THE BOEING 777 AND 777X AIRCRAFT WAS ESSENTIALLY COMPLETED

- The 108,000 square-foot facility in Cambridge, Ontario started its operations, primarily manufacturing large-scale, complex landing gear components.
- Component finishing and sub-assembly work commenced at the expanded Strongsville, Ohio facility.
- New machinery and equipment is operational at the Springfield, Ohio and Laval, Québec plants that mainly manufacture smaller complex and critical components.
- Completion of a new 21,000 square-foot final assembly facility in Everett, Washington.

## NEW CONTRACTS AND CONTRACT RENEWALS

- Life-cycle mandate from Leonardo-Finmeccanica to supply complete landing gear systems for the AW609 TiltRotor aircraft.
- New long-term contract from Boeing to provide actuator assemblies for the Boeing 777 and 777X aircraft beginning in January 2017.
- Extension of a global strategic maintenance agreement to operators of all variants of the Saab 340 and Saab 2000 aircraft families.
- Renewal through September 2021 of an important contract with the U.S. Air Force to provide landing gear repair and overhaul services for the C-130, E-3 and KC-135R aircraft.
- Five-year extension through the end of calendar 2023 of a preferred supplier agreement with a leading aerospace manufacturer to fabricate major, complex landing gear components for three commercial aircraft programs.
- Memorandum of Agreement with Hanwha Corporation of South Korea to jointly design and develop the landing gear system for the KF-X fighter aircraft.

(1) These are non-IFRS financial measures. Please refer to the “Non-IFRS financial measures” section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.





Gilles Labbé, FCPA, FCA  
President and Chief  
Executive Officer



Réal Raymond  
Chairman of the Board

## MESSAGE TO SHAREHOLDERS

IN THE LAST FISCAL YEAR, HÉROUX-DEVTEK METHODICALLY EXECUTED ITS BUSINESS STRATEGY AND GAINED ADDITIONAL RECOGNITION AS A WORLD-CLASS ORGANIZATION IN ITS CORE LANDING GEAR MARKET. WE GENERATED STRONG FINANCIAL RESULTS WHILE ACHIEVING SIGNIFICANT PROGRESS ON OUR GROWTH PLATFORMS.

During the fiscal year ended March 31, 2016, Héroux-Devtek further strengthened its status as one of the world's leading landing gear designers and manufacturers.

We completed most of our capital investment plan in preparation for the Boeing 777 and 777X contract and, on June 1 2016, completed the final assembly of the pre-production shipset. Héroux-Devtek was also awarded new design contracts that widened its market reach, renewed important long-term agreements and further enhanced its product support in the aftermarket.

### STRONG OPERATING RESULTS AND HEALTHY FINANCIAL POSITION

Héroux-Devtek concluded fiscal 2016 with sales of \$406.8 million, representing an increase of 11.5% over the previous year. This improvement mainly reflects solid growth in the commercial aerospace market and a higher currency conversion rate on US-dollar denominated sales.

This greater business volume and a more favourable product mix led to a significant profitability improvement. Operating income amounted to \$37.8 million, or 9.3% of sales, and the adjusted EBITDA<sup>(1)</sup> margin reached 15.7%, up from 13.1% a year earlier. Net income totalled \$26.6 million, or \$0.74 per share.

(1) These are non-IFRS financial measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.



Héroux-Devtek ended fiscal 2016 with a healthy financial position. Cash and cash equivalents stood at \$19.3 million and we had nearly \$130 million available from our authorized Credit Facility of \$200 million. This financial strength was maintained while proceeding with cash investments of \$37.6 million, mainly related to the Boeing 777 and 777X contract.

As at March 31, 2016, our firm order backlog, which includes business for which we have received purchase orders, amounted to \$460 million and remains well diversified.

### LEVERAGING OUR EXPERTISE

In fiscal 2016, Héroux-Devtek's world-class engineering team was selected to design two new landing gear systems. First, we were awarded a life-cycle mandate by the Italian company Leonardo-Finmeccanica to design, develop, fabricate, assemble, test and deliver complete landing gear systems for the AW609 TiltRotor aircraft. We also expanded our geographical reach to Asia by signing a Memorandum of Agreement with Hanwha Corporation of South Korea, to jointly design and develop the landing gear system for the new KF-X fighter aircraft.

We also signed a new long-term contract to manufacture actuator assemblies for the Boeing 777 and 777X aircraft. This contract broadens the scope of an existing agreement to include the 777X. In addition, we are providing Boeing with value-added engineering support in the development and qualification of the main landing gear retract actuator for the 777X.

Finally, we extended several important agreements that attest to our reputation for high quality, on-time delivery and second-to-none customer service. These agreements include our longstanding business with the U.S. Air Force to provide repair and overhaul services for several defence aircraft, a preferred supplier agreement with a leading systems manufacturer to fabricate major, complex components for three large commercial aircraft programs, and the widening of a global maintenance agreement to operators of all variants of the Saab 340 and Saab 2000 aircraft.

### FAVOURABLE MARKET TRENDS

According to industry forecasts, passenger air traffic is expected to grow above historical average in calendar 2016. This should provide further stimulus to the commercial aerospace industry. The long-term also remains favourable, as passenger traffic should continue to grow, on average, at an annual growth rate of nearly 5.0% over the next twenty years.

Large commercial aircraft manufacturers delivered a record number of new aircraft in calendar 2015 and with a steady influx of new orders, a majority of which are for more fuel-efficient aircraft variants, industry

backlogs remain very strong. Production rates are being adjusted to reflect the forthcoming introduction of these new variants.

The business jet market held steady in calendar 2015 with the entry into service of new aircraft, including models for which we designed the landing gear, offsetting the effect of weaker economic growth in certain emerging markets. Meanwhile, rising aircraft utilization and a stable proportion of used aircraft for sale in proportion to the fleet suggest the market could further improve. Going forward, the current and future ramp-up of models equipped with our proprietary landing gear will generate sustained growth for Héroux-Devtek in this sector.

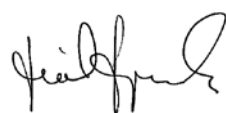
The defence aerospace market should recover modestly, as evidenced by increased short-term funding in the United States, our most important defence market. Meanwhile, our UK operations provide diversification as well as opportunities to gain further exposure on existing and new international defence programs.

### OUTLOOK

Héroux-Devtek is well-positioned to further enhance its reach in the global landing gear market driven by its fully-integrated world-class capabilities and proven ability to execute large-scale mandates. Our management, engineering and operational teams are concentrated on executing our strategic plan in order to create lasting value for shareholders.

We are making constant progress towards our goal of achieving annual sales of \$500 million in fiscal 2019. While this target is based on existing contracts, we remain on the lookout for new business opportunities and for strategic acquisitions that would complement current activities. As for the fiscal year ending March 31, 2017, we anticipate sales of approximately \$420 million.

We take this opportunity to thank all employees of Héroux-Devtek for another year of dedication and accomplishments. At the end of the day, it is our people's skills that set us apart. We also express gratitude to the members of the Board of Directors for their guidance throughout the year and we acknowledge the important contribution of Mr. Jean-Louis Fontaine, who will be retiring after more than 25 years as a Director of Héroux-Devtek. Our appreciation is also extended to our business partners, customers and suppliers for their support. Finally, we thank our shareholders for their trust.



Réal Raymond  
Chairman of the Board



Gilles Labbé, FCPA, FCA  
President and  
Chief Executive Officer

# OPERATING REVIEW



Martin Brassard  
Vice-President and Chief  
Operating Officer

IN FISCAL 2016, HÉROUX-DEVTEK MADE SIGNIFICANT PROGRESS ON ITS MAIN GROWTH PLATFORMS. BY LEVERAGING NUMEROUS EXPERTISE, THESE PLATFORMS FURTHER ATTEST TO OUR WORLD-CLASS CAPABILITIES IN THE GLOBAL LANDING GEAR MARKET.

## **READY TO EXECUTE THE BOEING 777 AND 777X CONTRACT**

As we begin the new fiscal year, Héroux-Devtek is all set to execute the largest landing gear contract in its history to supply Boeing with complete landing gear systems for the Boeing 777 and 777X aircraft.

At the end of fiscal 2016, we had essentially completed our comprehensive capital investment plan. During the year, we installed additional leading-edge machinery and equipment at the Cambridge, Ontario; Laval, Québec; and Springfield, Ohio facilities. These initiatives will further improve our productivity in fabricating landing gear components of various size and complexity. We also finalized the expansion of the Strongsville, Ohio plant through new capacity to host component finishing and a state-of-the-art sub-assembly centre. Finally, we opened a dedicated facility for final landing gear assembly in Everett, Washington, in close proximity to Boeing's aircraft assembly plant.

At the Everett facility, we completed the final assembly of the pre-production shipset on June 1, 2016. This important milestone was a great moment of pride for the entire organization. As we draw closer to initial deliveries scheduled for early calendar 2017, we are eager to show our world-class capabilities. More importantly, we believe our expanded network will allow us to leverage our expertise and to pursue other opportunities to supply complex landing gear systems to the world's largest Original Equipment Manufacturers ("OEMs").





### GROWING PROPRIETARY PRODUCT AND AFTERMARKET SALES

Héroux-Devtek is proud to have a strong engineering team. Spanning two continents, it allows us to provide OEMs with a fully integrated product and service offering. In fiscal 2016, we were awarded two new landing gear design and development mandates, which were made possible by combining the skills of our resources located in St-Hubert, Québec and Runcorn, UK.

We also continued to manage the progression of our own designed landing gear systems through the various development stages, and into the production ramp-up phase. During the fiscal year, we proudly saluted the factory roll-out of the Dassault Falcon 5X business jet and the first flight of the Sikorsky CH-53K King Stallion heavy-lift helicopter, both equipped with landing gear systems designed by Héroux-Devtek.

Proprietary products accounted for approximately 34% of sales in fiscal 2016, exceeding a target of 30% we had initially set for fiscal 2020. This proportion also includes aftermarket sales made in support of programs for which we had previously carried out design and development work. In this regard, Héroux-Devtek made an important stride by extending a supply agreement to support operators of the Saab 340 and Saab 2000 aircraft, further adding to similar alliances covering the United States and the Australasian market.

Our enhanced product support capability for commercial aircraft, combined with longstanding relationships with civil and government

customers for spare part manufacturing, as well as repair and overhaul services for defence aircraft, uniquely position Héroux-Devtek to address in-service requirements.

### LEVERAGING OUR EUROPEAN PLATFORM

In the UK, the pending combination of maintenance, repair, and overhaul activities with finishing operations under one roof in Runcorn will maximize efficiency and improve our competitiveness. We expect to achieve synergies from this initiative in fiscal 2017 with full benefits the following year.

We are increasingly benefitting from the solid reputation and expertise of our European platform, as evidenced by the design and product support agreements signed in fiscal 2016. Going forward, our multi-continent, integrated product and service offering will allow Héroux-Devtek to capture more business opportunities and further enhance its relationships with major OEMs.

Martin Brassard  
Vice-President and Chief Operating Officer





**LEVERAGING OUR  
EXPERTISE FOR  
THE BOEING 777  
AND 777X**





IN FISCAL 2016, HÉROUX-DEVTEK ESSENTIALLY COMPLETED ITS COMPREHENSIVE CAPITAL INVESTMENT PLAN IN PREPARATION TO SUPPLY COMPLETE LANDING GEAR SYSTEMS FOR THE BOEING 777 AND 777X AIRCRAFT.

The plan included the expansion of Héroux-Devtek's facility network and investments in highly-automated, leading-edge machinery and equipment for component manufacturing and system assembly. It leveraged the strengths of our centres of excellence, while adding capacity in providing cost-effective products of superior quality.

In the first quarter of fiscal 2017, Héroux-Devtek completed the final assembly of the pre-production shipset for the Boeing 777 landing gear. Reaching this important milestone was a major step forward for Héroux-Devtek. The entire organization is looking forward to production ramp-up and to meet production requirements related to deliveries, scheduled to begin in early calendar year 2017, and that could extend through 2028 under a contract option.

Furthermore, our expanded network also builds a foundation for Héroux-Devtek to pursue other opportunities to demonstrate its world-class capabilities in manufacturing large-scale, complete landing gear systems for leading OEMs.





KF-X



CH-53K



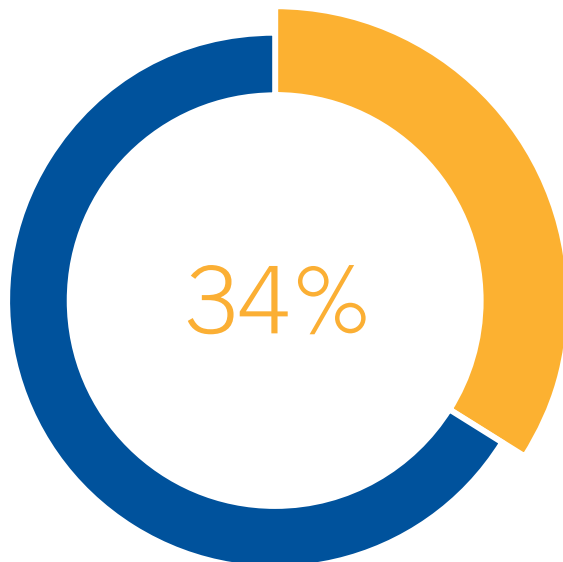
Gripen E



AW609 TiltRotor

## DESIGN PROGRAMS

**IN FISCAL 2016, PROPRIETARY PRODUCTS ACCOUNTED FOR APPROXIMATELY 34% OF HÉROUX-DEVTEK'S TOTAL SALES.**



THE INCREASE REFLECTS THE SUSTAINED PRODUCTION RAMP-UP OF THE EMBRAER LEGACY 450/500 BUSINESS JET PROGRAM AND CONTINUED PROGRESS THROUGH THE DEVELOPMENT PHASE OF SEVERAL OTHER AIRCRAFT EQUIPPED WITH OUR OWN LANDING GEAR SYSTEMS, INCLUDING:

- First flight for the Sikorsky CH-53K King Stallion heavy lift helicopter (U.S.)
- Roll-out of the Dassault Falcon 5X business jet (France)
- Roll-out of the Saab Gripen E (Sweden)

We further expanded our reach in the global landing gear market through agreements to design landing gear systems for the AW609 TiltRotor aircraft (Italy) and the new KF-X fighter (South Korea).

The high-quality of Héroux-Devtek's designed systems gained important recognition through the award, in May 2016, of a Top Supplier Award by Lockheed Martin Aeronautics to the Laval facility which produces door uplock systems for the F-35 Lightning II program. The systems were designed and qualified by Héroux-Devtek's engineering team under a contract signed in 2004 and have since been produced for all F-35 variants. Héroux-Devtek also extended its current agreement with Lockheed Martin for the production of the F-35 door uplock systems at the Laval facility. This contract covers deliveries in calendar years 2017 and 2018.





EH101



C-130



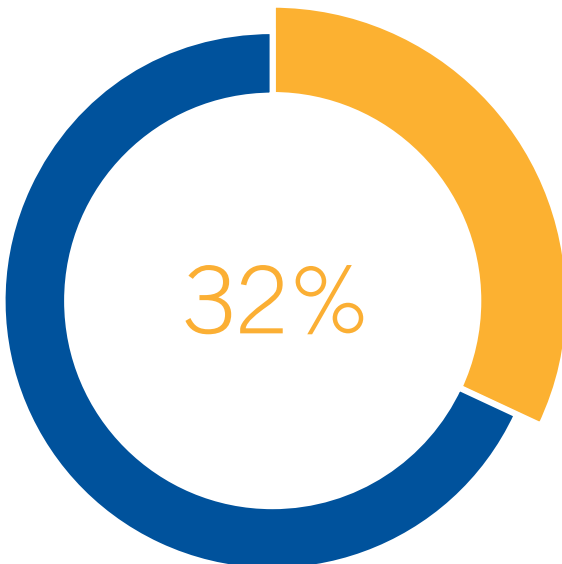
Saab 340



C-27J

## AFTERMARKET AND PRODUCT SUPPORT

**AFTERMARKET PRODUCTS AND SERVICES ACCOUNTED FOR 32% OF REVENUES IN FISCAL 2016.**



PRODUCT SUPPORT IS AN ESSENTIAL CONSTITUENT OF HÉROUX-DEVTEK'S FULLY-INTEGRATED PRODUCT AND SERVICE OFFERING, RANGING FROM INITIAL DESIGN TO IN-SERVICE ASSISTANCE.

A team of specialists provides full assistance to all operators of Héroux-Devtek's existing products through technical support and publications, spare parts and access to repair and overhaul ("R&O") services.

Reflecting our constantly growing product base, fiscal 2016 aftermarket revenues represented approximately 32% of our overall business volume, mainly driven by greater aftermarket sales to the commercial market in support of the Saab 340 aircraft and higher R&O sales to the U.S. Air Force.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Réal Raymond**  
Chairman of the Board  
Montreal, Québec

**Gilles Labbé**  
President and  
Chief Executive Officer  
Montreal, Québec

**Jean-Louis Fontaine**  
Vice-Chairman of the Board  
and Director  
Bombardier Inc.  
Montreal, Québec

**Louis Morin**  
President, Busrel  
Montreal, Québec

**Brian A. Robbins**  
President and  
Chief Executive Officer  
Exco Technologies Limited  
Toronto, Ontario

**Paule Doré**  
Corporate Director  
Montreal, Québec

**James J. Morris**  
Corporate Director  
Seattle, Washington

**Andrew John Stevens**  
Corporate Director  
Cheltenham, U.K.

**Nathalie Bourque**  
Corporate Director  
Montreal, Québec

## CORPORATE MANAGEMENT

**Gilles Labbé**  
President and Chief  
Executive Officer

**Réal Bélanger**  
Executive Vice President,  
Business Development and  
Special Projects

**Martin Brassard**  
Vice President and Chief  
Operating Officer

**Stéphane Arsenault**  
Chief Financial Officer

**Michel Robillard**  
Vice President, Corporate Controller

**Stéphane Rainville**  
Vice President,  
Human Resources

**Rémy Langelier**  
Director, Business Development

**Fanny D'Ambroise**  
Manager, Internal Audit and  
Conformity

**Patrick Gagnon**  
Director, Financial Reporting

**Jean-Philippe Sanche**  
Manager, Legal Affairs

## LANDING GEAR OPERATIONS

**Longueuil**  
755 Thurber Street  
Longueuil, Québec  
Canada J4H 3N2  
450 679-5454

**Laval**  
3675 Industrial Blvd.  
Laval, Québec  
Canada H7L 4S3  
450 629-3454

**Kitchener**  
1665 Highland Rd. W.  
Kitchener, Ontario  
Canada N2N 3K5  
519 576-8910

**Cambridge**  
47 Heroux Devtek Drive  
Cambridge, Ontario  
Canada N3E 0A7  
519 576-8910

**Saint-Hubert**  
4925, Chemin de la Savane  
Saint-Hubert, Québec  
Canada J3Y 9G1  
450 646-9432

**Everett**  
6301, 36th Avenue West,  
Building A. Unit #140.  
Everett, Washington  
U.S.A. 98203  
440 783-5255

**Strongsville**  
15900 Foltz  
Industrial Parkway  
Strongsville, Ohio  
U.S.A. 44149  
440 783-5255

**Springfield**  
663 Montgomery Ave.  
Springfield, Ohio  
U.S.A. 45506  
937 325-1586

**Wichita**  
1445 Sierra Drive,  
Wichita, Kansas  
U.S.A. 67209  
316 943-5752

**Nottingham**  
Urban Rd  
Kirkby in Ashfield, Nottingham  
Nottinghamshire  
NG17 8AP  
United Kingdom  
+44(0) 1623 754355

**Runcorn**  
8 Pembroke Court,  
Manor Park,  
Runcorn, Cheshire  
WA7 1TG  
United Kingdom  
+44(0) 1928 530530

## OTHER OPERATIONS

### ELECTRONIC ENCLOSURES

**Toronto**  
1480 Birchmount Rd.  
Toronto, Ontario  
Canada M1P 2E3  
416 757-2366

### FILTERS

**Bolton**  
Unit 1003  
Great Bank Road  
Westhoughton, Lancashire  
BL5 3XU  
United Kingdom  
+44(0) 1928 530530





# **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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# **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE FISCAL YEAR ENDED MARCH 31, 2016**







# MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2016

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# OVERVIEW

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

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

## IFRS and non-IFRS financial measures

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

## Materiality for disclosures

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

## Forward-Looking Statements

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

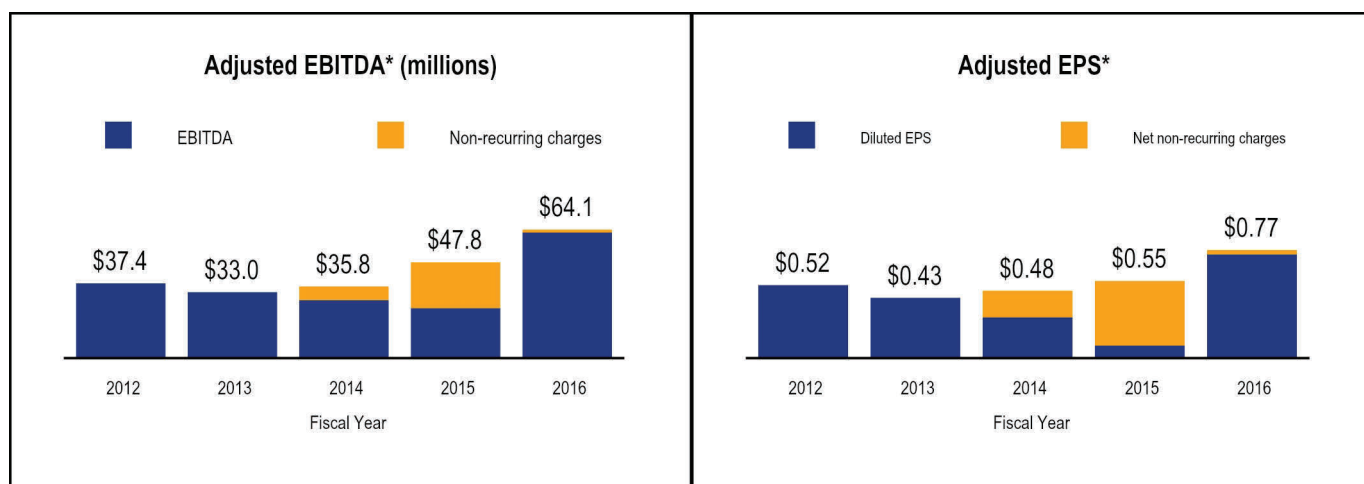
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity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

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

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

## HIGHLIGHTS OF THE YEAR

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



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

### Key Events

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



## OVERVIEW OF THE BUSINESS

### Profile

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

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

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

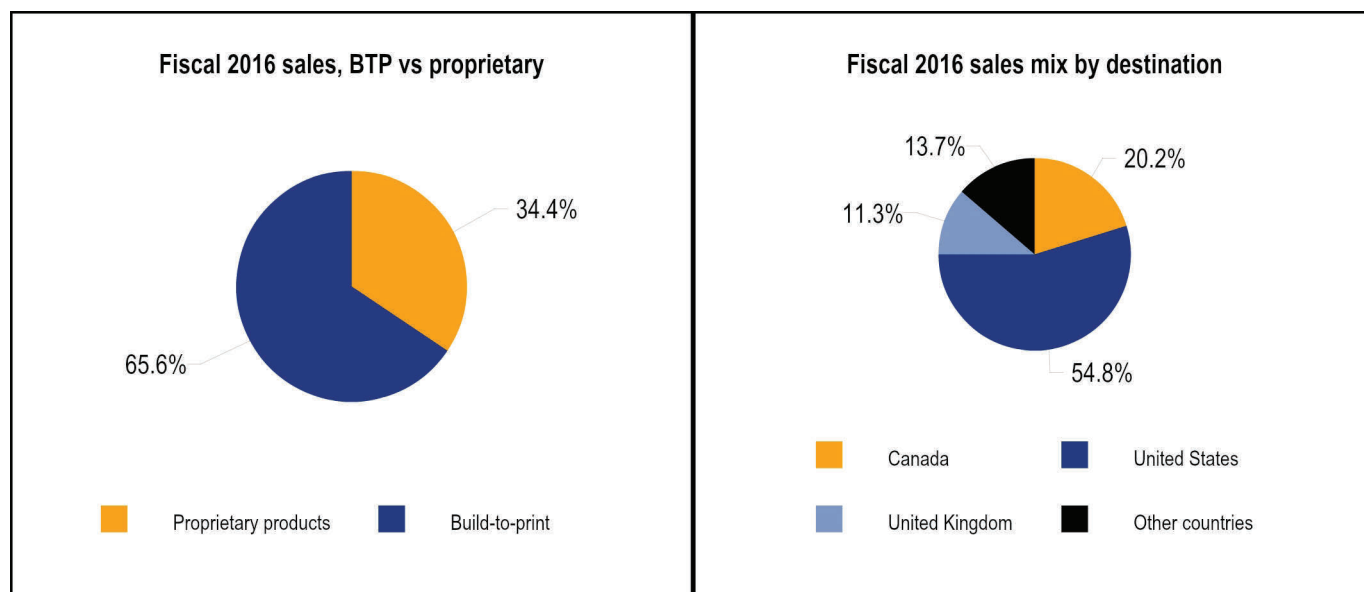
Héroux-Devtek sells to Original Equipment Manufacturers ("OEM") such as Boeing, Lockheed Martin and Finmeccanica Helicopters (formerly AgustaWestland); to Tier 1 suppliers such as UTC Aerospace Systems and Messier-Bugatti-Dowty; and to end users in the aftermarket where its main customer is the US Air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

### History

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

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

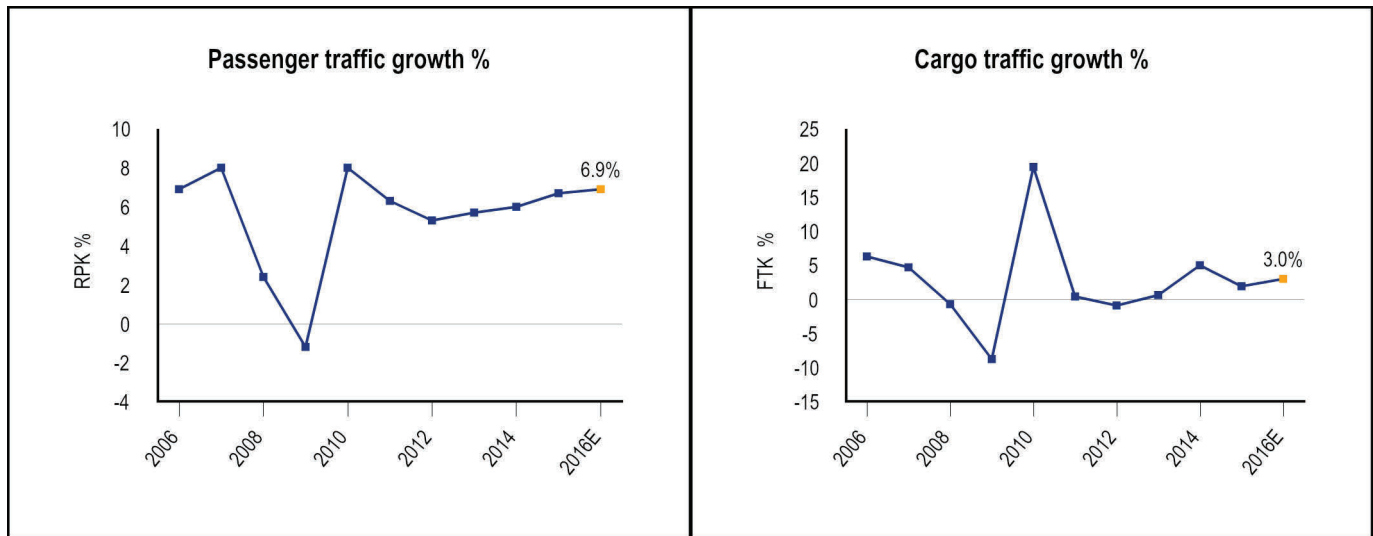
On February 3, 2014, the Corporation acquired the entire share capital of U.K.-based APPH Limited and U.S.-based APPH Wichita, Inc. (collectively "UK and Wichita"). The UK and Wichita operations are integrated providers of landing gear and hydraulic systems and assemblies for OEMs and aftermarket applications.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



BTP: Build to Print

## ECONOMIC OUTLOOK<sup>(1)</sup>

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



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

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

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

<sup>(1)</sup> Refer to *Forward-Looking Statements in Overview* for further information regarding forward-looking statements and related risks.

<sup>(2)</sup> Source: *Economic Performance of the Airline Industry*, IATA, December 2015.

<sup>(3)</sup> Sources: Airbus press releases February 24, 2016; October 30, 2015; February 27, 2015; November 4, 2014. Boeing press releases January 21, 2016; October 2, 2014.

<sup>(4)</sup> Sources: General Aviation Manufacturers Association, Federal Aviation Administration, JetNet, Teal Group.

## KEY PERFORMANCE INDICATORS

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

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



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

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

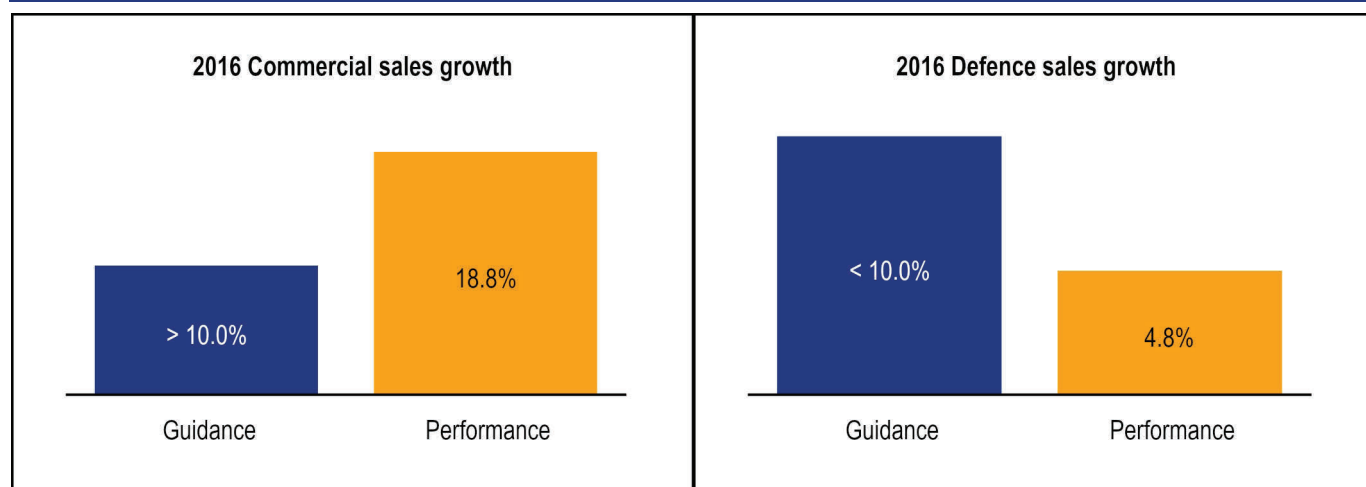
<sup>(1)</sup> Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

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

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

## GUIDANCE

### FISCAL 2016 OPERATING RESULTS COMPARED TO GUIDANCE

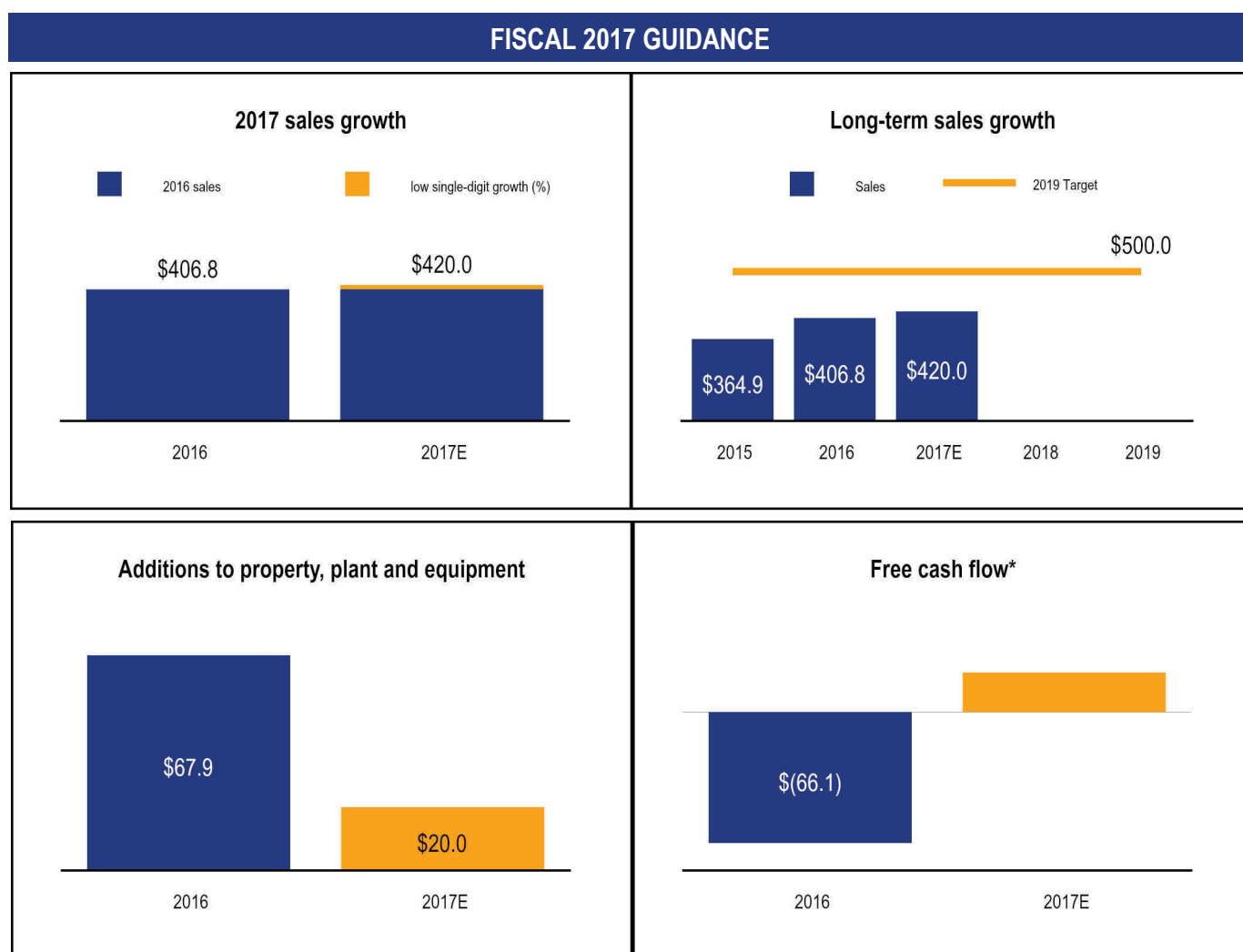


Overall sales increased by 11.5% , compared to guidance of 10%, on the strength of favourable currency variations.

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

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

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



2017E: 2017 guidance

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

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

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

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

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

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

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



## RISK MANAGEMENT

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

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

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

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

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

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

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

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

### Strategic Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
<b>Boeing 777 and 777X program execution</b>	The Boeing 777 and 777X programs are integral to the long-term growth of Héroux-Devtek and have, to date, engendered over \$105 million of investments. Solid execution of this contract is crucial in order for the Corporation to, among other objectives: <ul style="list-style-type: none"> <li>- Recover invested capital</li> <li>- Achieve forecasted sales and profitability growth</li> <li>- Demonstrate the Corporation's ability to compete as a Tier-1 producer of landing gear for larger commercial aircraft</li> </ul>	The Boeing 777 and 777X programs are subject to constant oversight by senior management and represent a company-wide effort. Furthermore: <ul style="list-style-type: none"> <li>- The Corporation has invested in state-of-the-art facilities to ensure proper execution;</li> <li>- Execution is subject to rigorous internal and external qualification processes;</li> <li>- Héroux-Devtek works very closely with Boeing in order to ensure requirements are consistently met or exceeded.</li> </ul>
<b>Reliance on large customers</b>	The top 6 of Héroux-Devtek's customers represent approximately 55% of sales. The loss of any of such customers would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio.  In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.

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

## Financial Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
<b>Foreign currency fluctuations</b>	Refer to the <i>Foreign exchange</i> section under <i>Overview</i> for details of Héroux-Devtek's exposure to foreign exchange rate fluctuations and related risk management practices.	
<b>Liquidity, capital resources and related covenants</b>	<p>The Corporation requires continued access to capital markets to finance its activities. The long-term nature and up-front cost structure of certain programs can require significant amounts of start-up capital. Inability to access such capital could impede the Corporation's ability to bid on significant contracts, or negatively impact ongoing operations.</p> <p>Héroux-Devtek has access to such financing from its banking syndicate, as well as from loans from government authorities and capital lease facilities. These agreements subject the Corporation to the financial covenants as described in the <i>Liquidity and capital resources</i> section. They furthermore restrict the Corporation's ability to sell all or substantially all of its assets, incur secured or certain other indebtedness, engage in mergers or consolidations or engage in transactions with affiliates.</p> <p>These restrictions and covenants could impede access to capital or prevent the Corporation from engaging in business activities that may be in its interest.</p>	<p>In order to maintain proper liquidity, Héroux-Devtek makes cash management a daily priority. Liquidity balances, receivables, cash projections and market rates of foreign exchange and interest are monitored constantly.</p> <p>In order to ensure stability and long term financial viability, the Corporation also:</p> <ul style="list-style-type: none"> <li>- Ensures proper bid approval in order to ensure proper forecasting and risk assessment of revenue and costs;</li> <li>- Structures contracts in order to obtain customer advances and progress billings;</li> <li>- Develops long-term agreements with suppliers and goes through bid processes for key costs;</li> <li>- Performs long-term cash projections as part of the annual budget and strategic plan process;</li> <li>- Maintains positive relationships with all major creditors.</li> </ul> <p>Management also monitors covenants on an ongoing basis in order to ensure they are met and identify trends which could indicate future risks.</p>
<b>Changing interest rates</b>	<p>The Corporation is exposed to fluctuations in interest rates through the floating rate of its credit facility as well as the impact on the cost of future capital requirements.</p> <p>Fluctuations in interest rates may also negatively impact profitability by their impact on rates used by Héroux-Devtek to discount provisions and pension obligations, among other balances. Lower interest rates would result in higher present obligations, with resulting adjustments impacting financial results.</p>	<p>Héroux-Devtek's risk management policies specifically address the management of interest rate risk by allowing the use of derivatives such as interest rate swaps. The goal of this policy is to obtain an overall fixed rate debt ratio between 40% and 70% of overall long-term debt.</p> <p>Outstanding derivatives are detailed in the <i>Derivative Financial Instruments</i> section under <i>Additional Information</i>.</p> <p>Risks associated with pensions, in addition, are managed through investment policies put in place by the Corporation and pension committee.</p>

## Operational Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
<b>Litigation</b>	<p>Héroux-Devtek is subject to possible litigation in the ordinary course of business by, among others, customers, suppliers, competitors, shareholders or government agencies. Such litigation can vary both in terms of financial magnitude and in duration, either of which could remain unknown for substantial periods of time.</p> <p>Regardless of outcome, litigation could result in substantial costs to the Corporation in addition to potentially material losses, both of which would negatively impact financial results. Litigation, in addition, could divert management's attention and resources away from day-to-day operations and strategic objectives.</p>	<p>The Corporation employs legal professionals who advise senior management on the subject of ongoing legal and regulatory compliance and related risk management.</p> <p>The Corporation also subscribes to several forms of insurance which may, in the event of liability of certain types, partially or entirely compensate for potential losses.</p>
<b>Collective bargaining agreements</b>	<p>The Corporation is party to certain collective bargaining agreements which govern the working relationship with certain employees. Failure to renew such agreements upon mutually agreeable terms could result in work stoppages or other labour disturbances which could have adverse effects on financial results, operational execution and customer satisfaction.</p>	<p>In order to minimize this risk, Héroux-Devtek endeavours to maintain cooperative and professional relationships with union leadership and plans the negotiation of renewals to allow reasonable time to achieve positive results.</p>
<b>Availability of skilled labour</b>	<p>The market for skilled labour in the aerospace industry is highly competitive and is expected to remain so in the future. Execution of key programs and customer satisfaction are heavily reliant on employing top talent. The Corporation relies on such labour, particularly engineers, machinists and programmers, for all levels of operations.</p>	<p>Héroux-Devtek targets top candidates for key roles and carefully evaluates hires for long-term fit and growth. Retention of employees is addressed through solid human resources practices, competitive remuneration and, in the case of key management, incentive-based pay such as bonuses, stock options, performance share units and stock purchase and ownership incentive plans.</p>
<b>Information technology</b>	<p>Information technology systems are essential to most of Héroux-Devtek's operations. These systems could be vulnerable to cyber-attacks or spying, viruses and any other form of hardware or software failures, intentional or not.</p> <p>The non-availability of these systems would directly and negatively affect the Corporation's operations. Unauthorized access to first or third-party confidential data in Héroux-Devtek's possession would also negatively affect the Corporation's reputation and, consequently, its business and results.</p>	<p>In order to reduce technology-related risks, Héroux-Devtek has implemented a variety of measures, including:</p> <ul style="list-style-type: none"> <li>- Strict policies governing the use of information technology equipment;</li> <li>- Server redundancy;</li> <li>- Data encryption, anti-virus software, e-mail filters, firewalls and other hardware or software-based security measures;</li> <li>- Frequent penetration tests and other security audits.</li> </ul>
<b>Warranty casualty claim losses</b>	<p>The complex and sophisticated nature of the Corporation's products creates a risk that defects may be found in them after they have been delivered to customers. Such defects may result in warranty claims or customer losses for which Héroux-Devtek may be liable. Furthermore, the primary use of these products being for air travel may compound the magnitude of such warranty claims or losses. Liability for such losses, or the inability to correct such errors, may have material adverse effect on the Corporation's business and results.</p>	<p>Héroux-Devtek's rigorous dedication to quality standards and systems in all stages of design, production or repair and overhaul partially mitigate the risk of product-related failure which could lead to warranty claims or litigation.</p> <p>The Corporation furthermore subscribes to product liability and aerospace-specific insurance which may mitigate potential losses.</p>
<b>Supplier performance</b>	<p>The increasing growth, integration and automation of the Corporation's business result in increased reliance on, and exposure to, the performance of its supply chain. Reductions in quality, reliability, availability of supply chain performance could result in material adverse effects on the Corporation's business and results.</p>	<p>Héroux-Devtek manages supplier-related risks through frequent supplier audits and maintaining high standards, such as requiring AS9100 and Nadcap certification.</p> <p>The Corporation also tracks and monitors supplier performance and partly mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management.</p>



## Environmental Risks

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

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

## FOREIGN EXCHANGE

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

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

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, excluding the impact of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the period. Balance sheet items are translated at the spot rate on the reporting date.

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

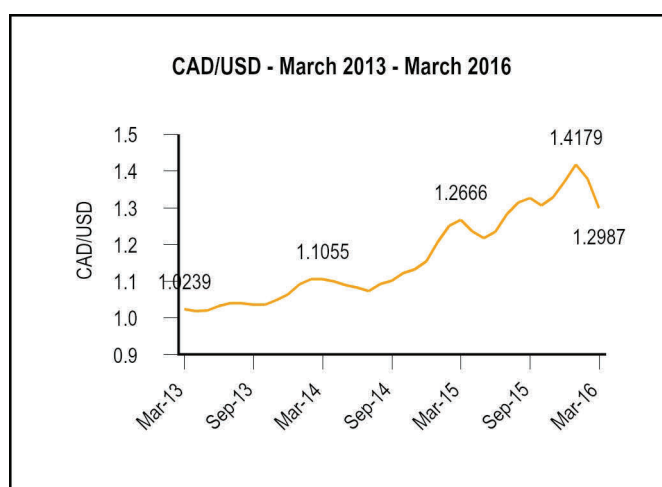
	March 31, 2016	March 31, 2015
USD (Canadian equivalent of US\$1.0)	1.2987	1.2666
GBP (Canadian equivalent of £1.0)	1.8654	1.8792

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

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

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

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



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

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

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

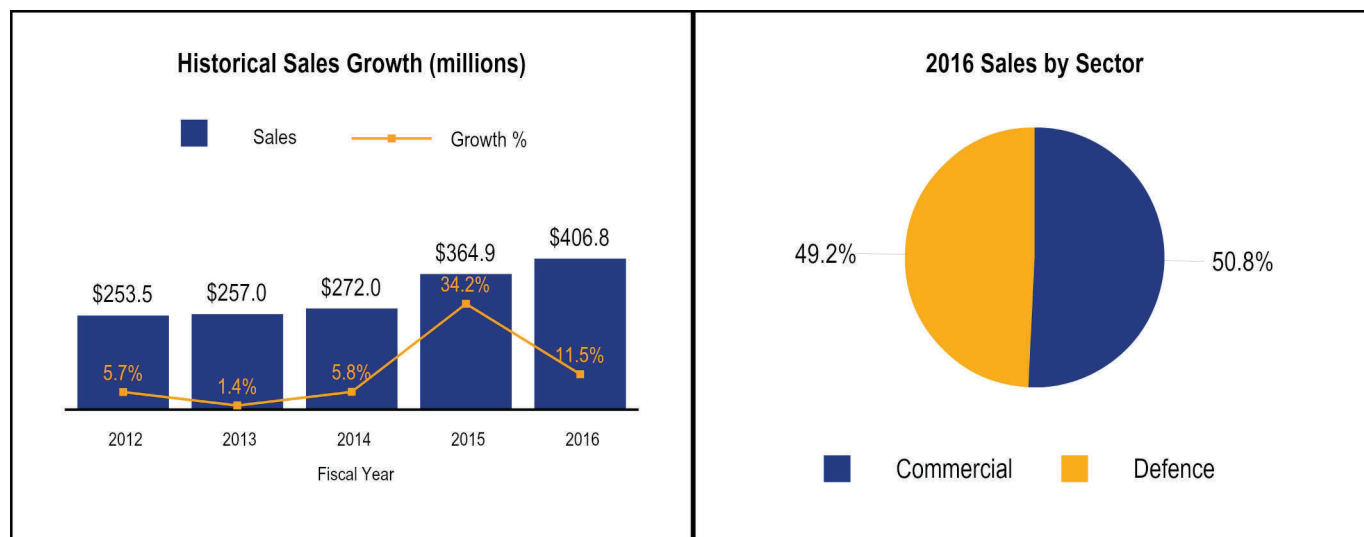
Foreign exchange had a net positive impact of 1.5% on Héroux-Devtek's gross margin, mainly related to the higher FX rate of FFEC delivered in fiscal 2016 as compared to fiscal 2015. As at March 31, 2016, a 1% strengthening of the CAD versus the USD would result in a \$215 decrease in the Corporation's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

# OPERATING RESULTS

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

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

## Sales





Sales can be broken down by sector as follows:

Quarters ended March 31,					
	2016	2015	FX impact	Net variance	
Commercial	\$ 54,288	\$ 53,090	\$ 4,395	\$ (3,197)	(6.0)%
Defence <sup>(1)</sup>	63,208	52,964	5,394	4,850	9.2 %
<b>Total</b>	<b>\$ 117,496</b>	<b>\$ 106,054</b>	<b>\$ 9,789</b>	<b>\$ 1,653</b>	<b>1.6 %</b>

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

<sup>(1)</sup> Includes defence sales to civil customers and governments.

### Commercial

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

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

These positive factors were partly offset by:

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

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

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

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

### Defence

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

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

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

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

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

These positive factors were partially offset by:

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

## Gross Profit

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

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

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

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

## Selling and Administrative Expenses

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

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

## Non-recurring charges

Non-recurring charges comprise the following:

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

### *Settlement of a litigation*

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

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

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

### *Impairment of finite-life intangible assets*

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

### *Restructuring charges*

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

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

## Operating Income

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

## Financial Expenses

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

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

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

## Income Tax Expense

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

nmf: Information not meaningful

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

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

## Net Income

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

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



## NON-IFRS FINANCIAL MEASURES

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

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

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. The Corporation's management, however, considers these metrics to be useful information to assist investors in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations and capital investment needs.

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

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

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

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

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

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

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

## BOEING 777 AND 777X CONTRACT

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

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

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

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

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

## LIQUIDITY AND CAPITAL RESOURCES

### CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

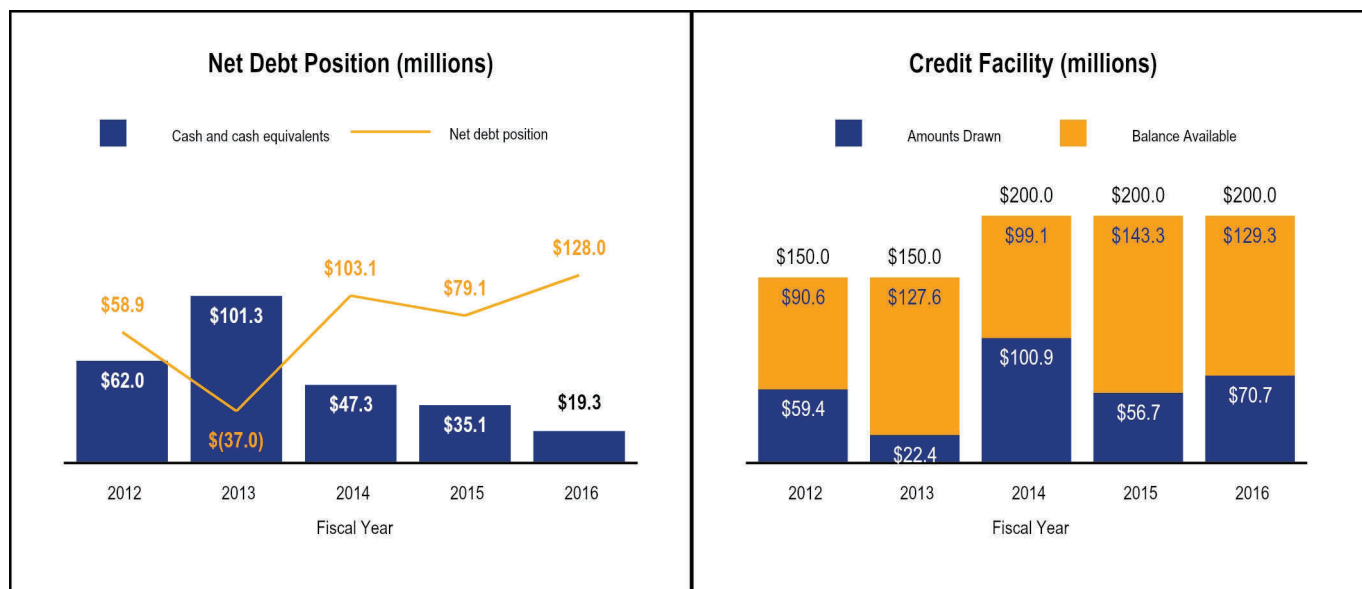
The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to the equivalent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

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

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

	March 31, 2016	March 31, 2015
Long-term debt, including current portion <sup>(1)</sup>	\$ 147,240	\$ 114,202
Less: Cash and cash equivalents	19,268	35,098
Net debt position	\$ 127,972	\$ 79,104

<sup>(1)</sup> Excluding net deferred financing costs of \$1.0 million as at March 31, 2016 and \$1.3 million as at March 31, 2015.



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

## GOVERNMENT AUTHORITIES LOANS

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

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

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

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

## VARIATIONS IN CASH AND CASH EQUIVALENTS

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



## Operating Activities

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

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

<sup>(1)</sup> The corporation divested substantially all of its Aerostructure and Industrial product line operations during fiscal 2013.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Investing Activities

The Corporation's investing activities were as follows:

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

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

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

<sup>(1)</sup> Includes machinery financed through finance leases for which deposits had been made.

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

## Financing Activities

The Corporation's financing activities were as follows:

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

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

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

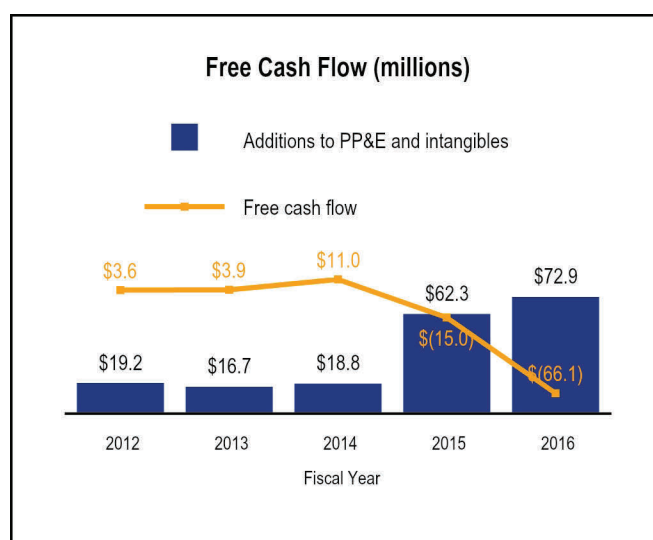
## FREE CASH FLOW<sup>(1)</sup>

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

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

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

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



## LIQUIDITY REQUIREMENTS

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

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

<sup>(1)</sup> Credit Facility matures on March 16, 2019.

<sup>(2)</sup> Excluding defined benefit pension plan obligations presented in the Pension Plans section.



# FINANCIAL POSITION

## CAPITAL STRUCTURE

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

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

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

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

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

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

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

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

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

## ISSUED CAPITAL

Capital stock varied as follows:

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

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

Stock options varied as follows:

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

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

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

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

## CONSOLIDATED BALANCE SHEETS

### Working capital

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

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

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

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

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

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

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

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

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

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

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

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

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

## PENSION PLANS

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

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

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

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

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

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

# ADDITIONAL INFORMATION

## DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### Forward foreign exchange contracts

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

### Interest rate swap agreements

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

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

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

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

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

### Equity swap agreement

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

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

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



## **CRITICAL ACCOUNTING ESTIMATES**

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

Key estimates and assumptions are as follows:

### **Impairment of non-financial assets**

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

### **Deferred income tax assets**

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

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

### **Pensions and other retirement benefits**

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

### **Capitalized development costs**

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

### **Provisions**

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

## INTERNAL CONTROLS AND PROCEDURES

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

### Disclosure controls and procedures

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

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

### Internal controls over financial reporting

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

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

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

### Changes in internal controls over financial reporting

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

## FUTURE CHANGES IN ACCOUNTING POLICIES

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

### IFRS 9 - Financial Instruments

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

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

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

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

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

## **IFRS 15 - Revenue from Contracts with Customers**

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

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

## **IFRS 16 - Leases**

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

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

## **SELECTED FINANCIAL INFORMATION**

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

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

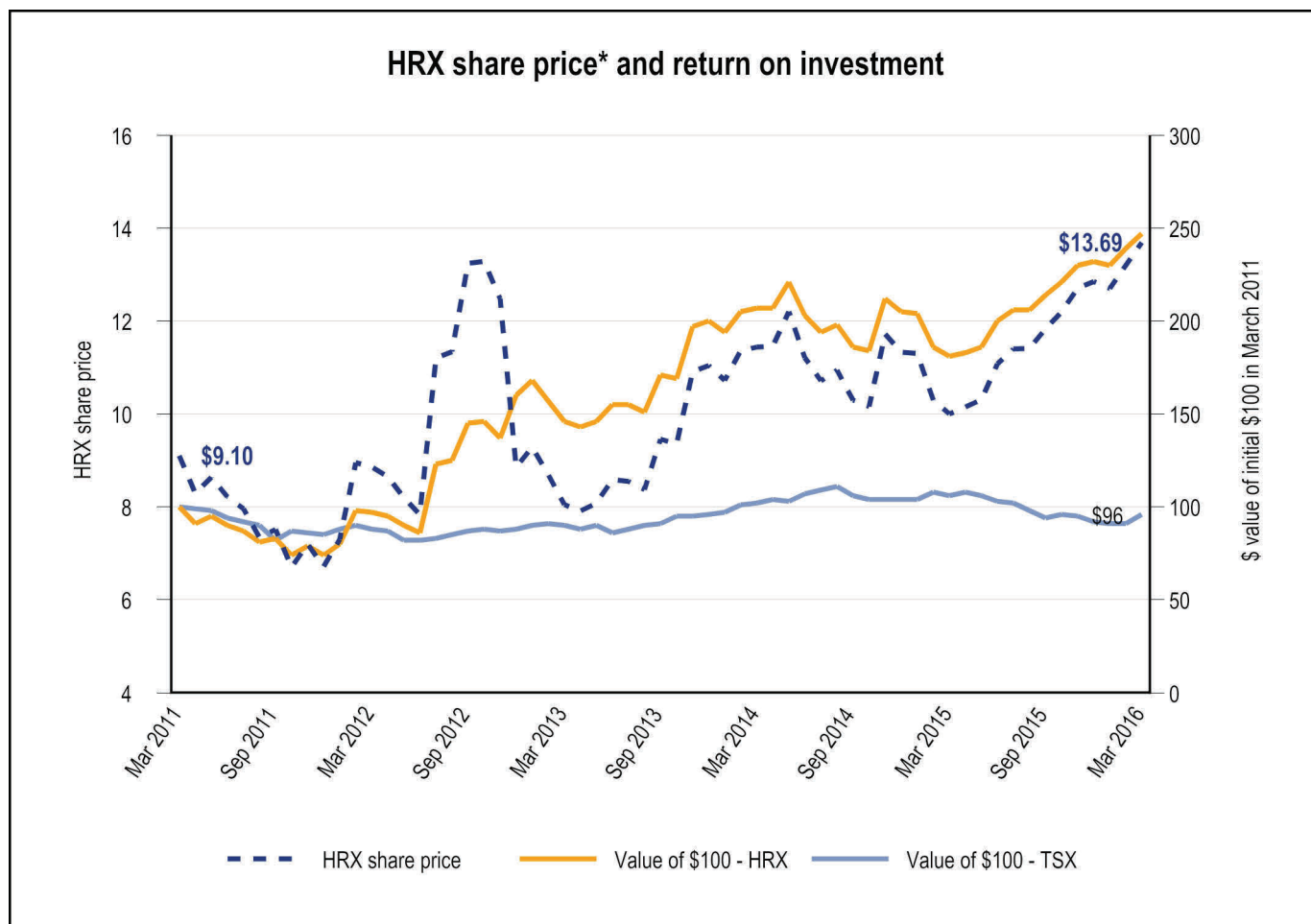
<sup>(1)</sup> Non-IFRS financial measure. Refer to the Non-IFRS financial measures section under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

Selected financial information is as follows, for fiscal years:

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

<sup>(1)</sup> 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.

<sup>(2)</sup> Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.



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

## ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

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







# CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2016

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# MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis of Financial Position and Operating Results ("MD&A") of Héroux-Devtek Inc. (the "Corporation") and all other information in this Annual Report are the responsibility of management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements. All figures presented in these consolidated financial statements are expressed in Canadian dollars unless otherwise indicated.

Héroux-Devtek Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as of the end of fiscal year 2016. As of March 31, 2016, management concludes that the ICFR and DC&P effectively provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been disclosed in the consolidated financial statements and MD&A. Also, based on this assessment, the CEO and the CFO determined that there were no material weaknesses in the ICFR and DC&P.

Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Regulation 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss ICFR and DC&P, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Gilles Labbé, FCPA, FCA  
President and Chief Executive Officer



Stéphane Arsenault, CPA, CA  
Chief Financial Officer

May 24, 2016



# INDEPENDENT AUDITORS' REPORT

## TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

We have audited the accompanying consolidated financial statements of Héroux-Devtek Inc., which comprise the consolidated balance sheets as at March 31, 2016 and 2015 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Héroux-Devtek Inc. as at March 31, 2016 and 2015 and its financial performance and its cash flows for fiscal years then ended in accordance with International Financial Reporting Standards.

*Ernst & Young LLP*<sup>1</sup>

Montréal, Québec  
May 24, 2016

<sup>1</sup> CPA Auditor, CA, public accountancy permit no. A118111

# CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2016	March 31, 2015
<b>Assets</b>	19		
<b>Current assets</b>			
Cash and cash equivalents		\$ 19,268	\$ 35,098
Accounts receivable		75,241	71,511
Income tax receivable		3,553	3,771
Inventories	10	146,721	130,954
Derivative financial instruments	11	4,938	283
Other current assets	12	13,416	14,326
		<b>263,137</b>	<b>255,943</b>
<b>Property, plant and equipment, net</b>	5, 13	<b>192,954</b>	<b>142,112</b>
<b>Finite-life intangible assets, net</b>	5, 8, 14	<b>48,745</b>	<b>50,557</b>
<b>Deposits on machinery and equipment</b>	5, 25	<b>189</b>	<b>23,306</b>
<b>Derivative financial instruments</b>	11	<b>2,823</b>	<b>4</b>
<b>Deferred income tax assets</b>	23	<b>8,302</b>	<b>10,004</b>
<b>Goodwill</b>	15	<b>93,253</b>	<b>93,527</b>
<b>Total assets</b>		<b>\$ 609,403</b>	<b>\$ 575,453</b>
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	16	\$ 64,279	\$ 69,182
Accounts payable - other and other liabilities	17	4,655	8,196
Provisions	18	21,003	26,241
Customer advances		3,855	18,326
Progress billings		4,755	6,405
Income tax payable		1,284	220
Derivative financial instruments	11	6,493	11,685
Current portion of long-term debt	19	6,334	5,972
		<b>112,658</b>	<b>146,227</b>
<b>Long-term debt</b>	19	<b>139,950</b>	<b>106,955</b>
<b>Provisions</b>	18	<b>5,990</b>	<b>5,967</b>
<b>Progress billings</b>		<b>216</b>	<b>347</b>
<b>Derivative financial instruments</b>	11	<b>1,313</b>	<b>5,527</b>
<b>Deferred income tax liabilities</b>	23	<b>5,357</b>	<b>3,331</b>
<b>Other liabilities</b>	20	<b>12,805</b>	<b>13,644</b>
		<b>278,289</b>	<b>281,998</b>
<b>Shareholders' equity</b>			
Issued capital	21	75,916	75,304
Contributed surplus	21	3,283	2,403
Accumulated other comprehensive income	22	18,788	9,056
Retained earnings		233,127	206,692
		<b>331,114</b>	<b>293,455</b>
		<b>\$ 609,403</b>	<b>\$ 575,453</b>

Commitments and Contingencies (notes 25 and 26)

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

On behalf of the Board of Directors



Louis Morin  
Director



Gilles Labbé  
Director

# CONSOLIDATED STATEMENTS OF INCOME

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

For the fiscal year ended March 31,	Notes	2016	2015
Sales		\$ 406,812	\$ 364,916
Cost of sales	5, 6, 10	332,487	305,740
Gross profit		74,325	59,176
Selling and administrative expenses	5, 6	35,062	29,755
Non-recurring charges	8	1,480	22,860
Operating income		37,783	6,561
Financial expenses	7	5,638	5,860
Income before income tax expense		32,145	701
Income tax expense (recovery)	23	5,504	(2,523)
Net income		\$ 26,641	\$ 3,224
Earnings per share – basic and diluted	9	\$ 0.74	\$ 0.09

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

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

For the fiscal year ended March 31,	Notes	2016	2015
Other comprehensive income (loss):			
Items that may be reclassified to net income			
Gains arising from translating the financial statements of foreign operations	22	\$ 470	\$ 12,065
Cash flow hedges:			
Losses on valuation of derivative financial instruments	22	(877)	(10,053)
Net losses on derivative financial instruments transferred to net income		15,828	619
Deferred income taxes		(3,997)	2,517
		10,954	(6,917)
Losses on hedge of net investments in foreign operations	22	(1,829)	(3,151)
Deferred income taxes		137	291
		(1,692)	(2,860)
Items that are never reclassified to net income			
Defined benefit pension plans:			
Losses from remeasurement	24	(281)	(3,368)
Deferred income taxes		75	899
		(206)	(2,469)
<b>Other comprehensive income (loss)</b>		<b>\$ 9,526</b>	<b>\$ (181)</b>
Comprehensive income			
Net income		\$ 26,641	\$ 3,224
Other comprehensive income (loss)		9,526	(181)
<b>Comprehensive income</b>		<b>\$ 36,167</b>	<b>\$ 3,043</b>

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



# CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Shareholders' equity
<b>Balance as at March 31, 2015</b>		<b>\$ 75,304</b>	<b>\$ 2,403</b>	<b>\$ 9,056</b>	<b>\$ 206,692</b>	<b>\$ 293,455</b>
Common shares:	21					
Issued under the stock purchase and ownership incentive plan		541	—	—	—	541
Issued under the stock option plan		71	(59)	—	—	12
Stock-based compensation expense	21	—	939	—	—	939
Net income		—	—	—	26,641	26,641
Other comprehensive income (loss)		—	—	9,732	(206)	9,526
<b>Balance as at March 31, 2016</b>		<b>\$ 75,916</b>	<b>\$ 3,283</b>	<b>\$ 18,788</b>	<b>\$ 233,127</b>	<b>\$ 331,114</b>

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Shareholders' equity
<b>Balance as at March 31, 2014</b>		<b>\$ 26,187</b>	<b>\$ 1,247</b>	<b>\$ 6,768</b>	<b>\$ 205,937</b>	<b>\$ 240,139</b>
Common shares:	21					
Issued pursuant to the public offering and concurrent private placements		48,428	—	—	—	48,428
Issued under the stock purchase and ownership incentive plan		369	—	—	—	369
Issued under the stock option plan		320	(136)	—	—	184
Stock-based compensation expense	21	—	1,292	—	—	1,292
Net income		—	—	—	3,224	3,224
Other comprehensive income (loss)		—	—	2,288	(2,469)	(181)
<b>Balance as at March 31, 2015</b>		<b>\$ 75,304</b>	<b>\$ 2,403</b>	<b>\$ 9,056</b>	<b>\$ 206,692</b>	<b>\$ 293,455</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

For the fiscal year ended March 31,	Notes	2016	2015
<b>Cash and cash equivalents provided by (used for):</b>			
<b>Operating activities</b>			
Net income		\$ 26,641	\$ 3,224
Items not requiring an outlay of cash:			
Amortization expense and impairment of finite-life intangible assets	8, 13, 14	24,807	26,316
Deferred income taxes	23	(96)	(5,101)
Gain on sale of property, plant and equipment		(122)	(40)
Non-cash financial expenses	7	3,245	3,656
Stock-based compensation expense	21	939	1,292
Cash flows from operations		55,414	29,347
Net change in non-cash items related to continuing operations	27	(48,602)	17,955
<b>Cash flows related to operating activities from continuing operations</b>		<b>6,812</b>	<b>47,302</b>
Cash flows related to operating activities from discontinued operations		—	(1,082)
<b>Cash flows related to operating activities</b>		<b>6,812</b>	<b>46,220</b>
<b>Investing activities</b>			
Additions to property, plant and equipment	13	(37,604)	(52,292)
Deposits on machinery and equipment		(10,119)	(10,438)
Net increase in finite-life intangible assets	14	(5,018)	(2,643)
Proceeds on disposal of property, plant and equipment		292	415
<b>Cash flows related to investing activities</b>		<b>(52,449)</b>	<b>(64,958)</b>
<b>Financing activities</b>			
Increase in long-term debt		35,679	22,873
Repayment of long-term debt		(6,932)	(67,772)
Issuance of common shares	21	553	48,406
<b>Cash flows related to financing activities</b>		<b>29,300</b>	<b>3,507</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>		<b>507</b>	<b>2,982</b>
<b>Change in cash and cash equivalents during the year</b>		<b>(15,830)</b>	<b>(12,249)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>35,098</b>	<b>47,347</b>
<b>Cash and cash equivalents, end of year</b>		<b>\$ 19,268</b>	<b>\$ 35,098</b>
<b>Interest and income taxes reflected in operating activities:</b>			
Interest paid		\$ 2,438	\$ 2,411
Interest received		\$ 45	\$ 207
Income taxes paid for continuing operations		\$ 4,321	\$ 5,753
Income taxes paid for discontinued operations		\$ —	\$ 507

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2016 and 2015

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

## 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 operates as one reporting segment, which is the Aerospace segment.

## NOTE 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for cash and cash equivalents and for derivative financial instruments that have been measured at fair value.

### Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and were approved for issue by the Board of Directors of the Corporation on May 24, 2016.

### Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned. The principal wholly-owned subsidiaries included in these consolidated financial statements are the following:

Name	Location
Devtek Aerospace Inc.	Canada
HDI Landing Gear USA Inc.	United States
APPH Limited	United Kingdom

Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Héroux-Devtek Inc., using consistent accounting policies.

All inter-company transactions and account balances are eliminated in full.

## NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

### A. Foreign currency

The consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation accounts for transactions in its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

The functional currency of Héroux-Devtek Inc. and of the Canadian operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar and the functional currency of the U.K. operations is the British pound. The functional currency is the currency that is representative of an operation’s primary economic environment.

#### *Conversion of transactions and account balances*

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. All differences are included in the consolidated statements of income.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transactions.

#### *Translation of financial statements of foreign operations*

Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the statements of income are translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

### B. Cash and cash equivalents

Cash and cash equivalents comprise cash.

### C. Inventories

Inventories include raw materials, direct labour and related manufacturing overhead costs.

Inventories consist of raw materials, work-in-progress and finished goods which are valued at the lower of cost (unit cost method except for certain raw materials that are valued at the weighted average cost method) and net realizable value.

The unit cost method is the cost method under which the actual production costs are charged to each unit produced and recognized in the consolidated statements of income as the unit is delivered. Estimates of net realizable value are based on the most reliable evidence available of the amount for which the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

### D. Property, plant and equipment

#### *Assets acquired*

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see H). Such cost may include the cost of replacing a major part of the property, plant and equipment and, in this situation, the carrying amount of the replaced part is derecognized. Cost also includes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (see F).

Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

- Buildings and leasehold improvements - 5 to 50 years,
- Machinery and equipment - 3 to 25 years,
- Tooling related to specific contracts - based on pre-determined contract quantities, not exceeding the lower of ten years or the useful life. Contract quantities are assessed at the beginning of the production stage considering, among other factors, existing firm orders and options. The Corporation's management conducts quarterly and annual reviews of the contract quantities,
- Standard and general tooling - 5 years,
- Automotive equipment – 3 to 10 years,
- Computer and office equipment – 3 to 5 years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the net carrying amount of the asset) is included in the consolidated statement of income in the fiscal year the asset is derecognized. The asset's residual value, useful life and method of amortization are reviewed and adjusted annually at year-end, or when warranted by specific circumstances.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to section L of this note and *Note 4 - Significant accounting estimates and assumptions* for further information about provisions for asset retirement obligations.



### *Assets leased*

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Corporation. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments are apportioned between interest expense and the reduction of the lease obligation. Interest expense is reflected in the consolidated statements of income. Capitalized leased assets are accounted for in the categories of property, plant and equipment corresponding to their nature. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense as incurred.

## E. Finite-life intangible assets

Finite-life intangible assets include capitalized development costs, customer relationships and contracts and software. They are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

Finite-life intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for finite-life intangible assets are reviewed at each fiscal year-end or when warranted by specific circumstances. Changes in the expected useful life or the expected pattern of consumption of future economic benefits associated with finite-life intangible assets are accounted for as changes in accounting estimates.

The gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the net carrying amount of the asset and is recognized in the consolidated statement of income.

### *Development costs*

Development costs of an individual sales contract are capitalized as an intangible asset when the Corporation can demonstrate:

- the feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development and to use or sell the intangible asset; and,
- the ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Capitalized development costs (design engineering, manufacturing engineering costs and other related costs) related to sales contracts are amortized based on predetermined expected quantities to be sold. They are presented net of related government assistance and amounts contributed by customers.

The expected quantities to be sold are established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders and options. The Corporation's management conducts quarterly reviews as well as a detailed annual review in the fourth quarter of the contract quantities, its capitalized development costs and their recoverability.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment charges, if any. Amortization begins when development is complete and the asset is available for use. Usually, the development phase represents a period of 4 to 7 years. During the period of development, the asset is tested for impairment annually.

### *Customer relationships and contracts*

Customer relationships and contracts are amortized based on sales over estimated related customer relationships and contracts sales, which represent a period of up to 15 years.

### *Software*

Software is amortized over 3 to 5 years.

## F. Borrowing costs

Borrowing costs are recognized as an expense when incurred, except when they are capitalized as part of the cost of a qualifying asset. Borrowing costs are capitalized when the Corporation:

- incurs expenditures for the asset;
- incurs borrowing costs; and
- undertakes activities that are necessary to prepare the asset for its intended use or sale, to the extent that these activities are performed over a period exceeding the normal operating cycle of the Corporation (12 months).

Conversely, the Corporation ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

## G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of a business acquisition is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition-related costs associated with the business combinations are expensed as incurred.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

## H. Impairment of goodwill and other non-financial assets

Goodwill is tested for impairment annually on March 31 or when warranted by specific circumstances. A prior year's impairment test may be used in the annual impairment test when specific criteria are met. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent budget and strategic plan, which cover five years, approved by the Corporation's management and Board of Directors. These future cash flows consider each CGU's past performance, market share, economic trends, specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this five-year period. The perpetual growth rate is determined with regard to the specific markets in which the CGUs participate. The discount rate used by the Corporation for cash flows is a pre-tax rate based on the weighted-average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risks specific to the assets. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For non-financial assets other than goodwill, the Corporation assesses at each reporting date whether there is an indication that the carrying amount may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the CGU's value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For non-financial assets other than goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statement of income.

## I. Financial assets

### *Initial recognition*

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss (“FVTPL”), loans and receivables (“L&R”) or effective hedging instruments (“Hedges”).

When financial assets are recognized initially, they are measured at fair value, plus in the case of a financial asset other than FVTPL, the directly attributable transaction costs. Purchases and sales of financial assets are recognized on the transaction date, which is the date that the Corporation commits to purchase or sell the assets.

### *FVTPL*

FVTPL are acquired for the purpose of selling in the near term. They include cash and cash equivalents and derivative financial instruments, except those that are designated as Hedges. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract.

### *L&R*

L&R are non-derivative financial assets with fixed or determinable payments not quoted in an active market. L&R are mainly comprised of accounts receivable. L&R are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of income. In the event that there is objective evidence that an impairment loss on L&R has been incurred (such as the probability of insolvency or significant financial difficulties of the debtor), the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the financial asset’s effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance for doubtful accounts and the loss is recognized in the consolidated statement of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance for doubtful account. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income.

### *Hedges*

These include forward foreign exchange contracts and interest rate swap agreements. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statement of income.

The Corporation assesses at each reporting date whether any financial asset is impaired.

## J. Financial liabilities

### *Liabilities at fair value*

Financial liabilities classified at fair value through profit or loss (FVTPL) are comprised of derivative financial instruments, except those that are designated as Hedges. They are carried at fair value with gains and losses recognized in the consolidated statements of income. Gains and losses on Hedges are recognized in other comprehensive income.

### *Other financial liabilities*

All debts, accounts payable and accrued liabilities are initially recognized at fair value less directly attributable transaction costs when they have not been designated as FVTPL.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

### *Derecognition of financial liabilities*

A financial liability is derecognized when the obligation underlying the liability is discharged, cancelled or has expired.

## K. Derivative financial instruments and hedges

### *Derivative financial instruments*

The Corporation uses derivative financial instruments such as forward foreign exchange contracts, interest rate swap agreements and equity swap agreements to hedge its risks associated with foreign currency, interest rate and other price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

### *Cash flow hedges*

For the purpose of hedge accounting, all hedges are classified as cash flow hedges except for hedges of net investments in foreign operations (see below). Hedging exposure to variability in cash flows is attributable to a risk associated with a recognized liability or a highly probable forecast transaction in foreign currency.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed quarterly to determine that they actually have been highly effective throughout the designated periods.

The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statement of income. Amounts recognized in other comprehensive income are transferred to the consolidated statement of income when the hedged transaction affects income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. In the event that the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in accumulated other comprehensive income are transferred to the consolidated statement of income.

### *Hedge of net investments in foreign operations*

The Corporation designates certain long-term debt as a hedge of its net investments in foreign operations. The portion of gains or losses from the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recorded in the consolidated statement of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statement of income upon disposal of the related net investments.

## L. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) 1) as a result of a past event; 2) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and, 3) when a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statement of income, net of any reimbursement.

If the known expected settlement date exceeds twelve months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

### *Onerous contracts*

These represent anticipated negative margins on sales contracts in progress or in the funded backlog (firm customer purchase orders).

### *Asset retirement obligations*

The Corporation's asset retirement obligations mainly consist of environmental rehabilitation costs related to one of the Corporation's manufacturing sites in Canada. The present value of these obligations is measured in the year in which they are identified and when a reasonable estimate of their present value can be made. The present value of the obligations is determined as the sum of the estimated discounted future cash flows of the costs associated with the legal obligations for future rehabilitation. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives. The discount fluctuation is expensed as incurred and recognized in the consolidated statement of income as financial expenses. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs or in the discount rate applied are recognized in the consolidated statement of income as changes occur.

### *Product warranty*

This provision covers the cost of known or anticipated defects on products under terms of warranties.



### *Litigations and other*

Due to the nature of its business activities including the purchase or sale of businesses, the Corporation is exposed to the risks of technical and business litigations. On the basis of information at its disposal at the reporting date, the Corporation carried out a review of the financial risks to which the Corporation could be exposed. The recorded provision covers the risks associated with these litigations.

Restructuring provisions are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create a constructive obligation. Restructuring provisions include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations.

### M. Progress billings

Progress billings represent amounts received from customers for costs incurred on specific contracts. These amounts are reversed to sales at such time as the related units are delivered and billed to customers.

### N. Deferred financing costs

Deferred financing costs related to long-term debt are amortized using the effective interest rate method over a five-year period which represents the duration of the related long-term debt.

### O. Pensions and other retirement benefits

The Corporation has defined contribution pension plans as well as funded and unfunded defined benefit pension plans that provide pension benefits to its employees. The current and past service costs of these pension plans are recorded within the cost of sales and selling and administrative expenses under "Employee costs" in the consolidated statement of income while the administrative costs related to these pension plans are included in selling and administrative expenses. The net interest income or expense on the net surplus or deficit is recorded in financial expenses.

The actuarial determination of the defined benefit obligations for pensions uses the projected unit credit method which incorporates management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees, discount rates and other actuarial factors.

The Pension and other retirement benefit plans liabilities included in Other liabilities in the consolidated balance sheets represent the present value of the defined benefit obligations reduced by the fair value of plan assets.

Actuarial gains or losses arise from the difference between the actual rate of return on plan assets for a period and the interest income for that period and from changes in actuarial assumptions used to determine the defined benefit obligations. Actuarial gains and losses are recognized in full immediately outside the consolidated statements of income in other comprehensive income.

Past service costs arising from the plan amendments are recognized in full immediately in the income statement.

### P. Share-based payments

#### *Stock option plan*

The Corporation has a stock option plan in which options to purchase common shares are issued to officers and key employees. The Corporation uses a binomial valuation model to determine the fair value of stock options when granted. The resulting fair value is amortized to income over their earned period using the graded amortization method. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in contributed surplus.

#### *Stock purchase and ownership incentive plan*

The Corporation has a stock purchase and ownership incentive plan allowing key members of management to subscribe, by payroll deductions of a maximum of 10% of their annual base salary, to a number of common shares issued by the Corporation. The subscription price of the common shares represents 90% of the average closing quoted price (based on the five preceding days) of the Corporation's common share on the Toronto Stock Exchange ("TSE"). Common shares thus issued are accounted for as issued capital. The Corporation matches 50% of such employee contributions in the form of additional common shares acquired on the TSE at market price. The Corporation's matching award cannot exceed 4% of the employee's annual base salary. Common shares purchased by the Corporation on behalf of the employee are accounted for in selling and administrative expenses.

#### *Deferred share unit (“DSU”) plan*

The Corporation has a DSU plan under which rights are issued to its non-employee directors. The DSU enables the participants to receive compensation at the end of their mandate as a member of the Board of Directors, representing a cash amount equal to one time the quoted price of the Corporation’s common share for each DSU.

These DSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 100% of his director’s annual retainer fees converted into DSUs. These DSUs vest over a one-year period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the DSUs are exercised and paid at the end of each director’s mandate.

#### *Performance share unit (“PSU”) plan*

The Corporation has a PSU plan as part of the incentive plan for management and key employees. PSUs vest over a period of three years. The PSU enables the participants to receive compensation at the expiry or termination date representing a cash amount equal to the quoted price of the Corporation’s common share for each PSU vested, conditional on the achievement of certain financial targets.

PSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the PSUs are paid or cancelled at the expiry or termination date.

### Q. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales tax and duties. The following specific recognition criteria must also be met before revenue is recognized:

#### *Sale of goods*

Revenue from the sale of goods, which includes repair and overhaul works, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the sales price is determinable and collectability is reasonably assured. Generally these conditions are met upon delivery of goods.

### R. Government assistance

Government assistance, which mainly includes investment and other tax credits, grants and the discount portion of the governmental authorities loans, is recognized when there is reasonable assurance that it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs that it is intended to subsidize. Where government assistance relates to an asset, it is deducted from the cost of the related asset.

Forgivable loans from governmental authorities are accounted for as government assistance when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Benefits derived from government authority loans with below-market interest rates are measured at the inception of the loans as the difference between the cash received and the amount at which the loans are initially recognized in the consolidated balance sheet. At initial recognition, the fair value of a loan with a below-market rate of interest is estimated as the present value of all future cash disbursements, discounted using a prevailing market rate of interest for a similar instrument with a similar credit rating.

### S. Income taxes

#### *Current income tax*

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in shareholders’ equity is recognized in shareholders’ equity and not in the consolidated statement of income or in the consolidated statement of comprehensive income.

#### *Deferred income tax*

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible and taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all other deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date. Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in shareholders' equity is recognized directly in shareholders' equity and not in the consolidated statement of income or in the consolidated statement of comprehensive income. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. All deferred income tax assets and liabilities are classified as non-current.

#### *Sales tax*

Sales, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other current assets or accounts payable and accrued liabilities in the consolidated balance sheet.

### T. Earnings per share

The earnings per share amounts are determined using the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share takes into consideration the exercise of all dilutive elements. This method assumes that the proceeds of the Corporation's in-the-money stock options would be used to purchase common shares at the average market price during the year.

### U. Future changes in accounting policies

#### *IFRS 9 - Financial Instruments*

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

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

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

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

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

#### *IFRS 15 - Revenue from Contracts with Customers*

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

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

#### *IFRS 16 - Leases*

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

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

## **NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS**

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

Key estimates and assumptions are as follows:

### A. Impairment of non-financial assets

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

### B. Deferred income tax assets

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

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

### C. Pensions and other retirement benefits

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



#### D. Capitalized development costs

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

#### E. Provisions

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

### **NOTE 5. GOVERNMENT ASSISTANCE**

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

	2016	2015
Finite-life intangible assets	\$ 357	\$ 1,565
Property, plant and equipment	7,818	1,494
Deposits on machinery and equipment	—	2,097
Cost of sales and, selling and administrative expenses	1,885	3,120

Government assistance includes research and development tax credits, other credits and grants.

### **NOTE 6. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES**

The main components of these expenses were as follows, for fiscal year:

	2016	2015
Raw materials and purchased parts	\$ 132,025	\$ 135,440
Employee costs	136,607	121,772
Amortization of property, plant and equipment and finite-life intangible assets (notes 13, 14)	24,807	18,360
Others	74,110	59,923
	\$ 367,549	\$ 335,495

Foreign exchange gains or losses resulting from the translation of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. During the fiscal year ended March 31, 2016, the foreign exchange loss amounted to \$321, compared to a gain of \$1,831 in 2015.

## NOTE 7. FINANCIAL EXPENSES

Financial expenses comprise the following, for fiscal year:

	2016	2015
Interest accretion on governmental authorities loans	\$ 2,567	\$ 2,406
Interest on net defined benefit obligations (note 24)	297	239
Amortization of deferred financing costs	319	319
Other interest accretion expense and discount rate adjustments	62	692
<b>Non-cash financial expenses</b>	<b>3,245</b>	<b>3,656</b>
Interest expense	2,112	2,050
Standby fees	326	361
Interest income on cash and cash equivalents	(45)	(207)
	<b>\$ 5,638</b>	<b>\$ 5,860</b>

## NOTE 8. NON-RECURRING CHARGES

Non-recurring charges comprise the following, for fiscal year:

	2016	2015
Settlement of a litigation	\$ 1,480	\$ 11,610
Impairment of finite-life intangible assets	—	7,924
Restructuring charges	—	3,326
	<b>\$ 1,480</b>	<b>\$ 22,860</b>

### *Settlement of a litigation*

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

On May 29, 2015, the Corporation concluded a final settlement with UTAS in regards to this litigation following the execution of a Memorandum of Settlement on May 27, 2015, which was accounted for in fiscal 2015. The final agreement included the extension of two existing contracts with UTAS for the supply of various aircraft parts. As at March 31, 2016, an amount of \$3,448 remained in the short-term provision (\$10,133 as at March 31, 2015) in regards to the litigation settlement. See note 18 - Provisions for further details.

The Corporation incurred legal fees of \$1,480 during the fiscal year ended March 31, 2016.

### *Impairment of finite-life intangible assets*

On January 15, 2015, Bombardier announced a pause of the Learjet 85 business aircraft program. They subsequently announced, on October 28, 2015, the cancellation of the program. The Corporation was the developer and supplier of the complete landing gear system for this aircraft and recorded an impairment charge of \$7,924 on the related capitalized development costs in the fiscal year ended March 31, 2015.

To determine the related impairment charge, the Corporation established a recoverable amount for the capitalized development costs based on the best estimate of expected future cash flows. The calculation is most sensitive to the discount rate used, established at 7.76%, and the timing of future cash flows.

### Restructuring charges

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

Consequently, during the fiscal year ended March 31, 2015, the Corporation recorded restructuring charges of \$3,326, including termination benefits of \$2,126 and other related costs of \$1,200 related to the optimization and consolidation of manufacturing capacity. As at March 31, 2016 \$288 of the unpaid portion of these amounts is presented under short-term provisions (\$1,447 as at March 31, 2015) and \$290 is presented under other liabilities (\$360 as at March 31, 2015). See notes 18 and 24 for further details.

## NOTE 9. EARNINGS PER SHARE

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

	2016	2015
Weighted-average number of common shares outstanding	35,978,071	34,901,780
Effect of dilutive stock options of the Corporation	141,220	114,616
Weighted-average number of common diluted shares outstanding	36,119,291	35,016,396
Options excluded from diluted earnings per share calculation <sup>(1)</sup>	—	598,845

<sup>(1)</sup> Excluded due to anti-dilutive impact

## NOTE 10. INVENTORIES

As at	March 31, 2016	March 31, 2015
Raw materials	\$ 70,038	\$ 62,193
Work-in-progress	74,165	66,923
Finished goods	2,518	1,838
	\$ 146,721	\$ 130,954

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2016 is \$271,298 (\$249,757 in 2015).

Write-downs related to inventories are as follows, for fiscal year:

	2016	2015
Write-downs recognized as cost of sales	\$ 10,841	\$ 7,758
Reversal of prior-period write-downs recognized as a reduction of cost of sales	10,809	5,964

For fiscal year 2016, the reversal of prior-period write-downs includes the charges against the inventory reserve of \$5,936 (\$1,153 in 2015) for products delivered or written-off during the year for which a net realizable value reserve was required and recorded in prior years. It also includes the results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts and production costs. The revaluation takes into consideration the variations in selling price and number of units to deliver for contracts signed and also the reduction in production costs resulting from improvements in manufacturing processes.

## NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

As at	March 31, 2016	March 31, 2015
<b>Current Assets</b>		
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 2,884	\$ 283
Equity swap agreement	2,054	—
	\$ 4,938	\$ 283
<b>Long-term Assets</b>		
Forward foreign exchange contracts	\$ 2,823	\$ 4
	\$ 2,823	\$ 4
<b>Current Liabilities</b>		
Forward foreign exchange contracts and embedded derivative financial instruments	\$ 6,227	\$ 11,374
Interest rate swap agreements	266	311
	\$ 6,493	\$ 11,685
<b>Long-term Liabilities</b>		
Forward foreign exchange contracts	\$ 847	\$ 5,149
Interest rate swap agreements	466	378
	\$ 1,313	\$ 5,527

## NOTE 12. OTHER CURRENT ASSETS

As at	March 31, 2016	March 31, 2015
Investment and other tax credits receivable	\$ 3,423	\$ 5,099
Sales tax receivable	2,354	3,358
Prepaid expenses	3,478	3,757
Others	4,161	2,112
	\$ 13,416	\$ 14,326

## NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
<b>Cost:</b>						
As at March 31, 2015	\$ 6,497	\$ 47,719	\$ 182,007	\$ 10,692	\$ 30,827	\$ 277,742
Additions	—	28,828	58,379	2,809	(14,300)	75,716
Government assistance (note 5)	—	(722)	(4,370)	(11)	(2,715)	(7,818)
Retirements and disposals	—	(279)	(5,152)	(306)	—	(5,737)
Effect of changes in exchange rates	33	114	371	—	636	1,154
As at March 31, 2016	\$ 6,530	\$ 75,660	\$ 231,235	\$ 13,184	\$ 14,448	\$ 341,057
<b>Accumulated amortization:</b>						
As at March 31, 2015	\$ —	\$ 21,128	\$ 109,013	\$ 5,489	\$ —	\$ 135,630
Amortization expense	—	2,815	13,545	1,546	—	17,906
Retirements and disposals	—	(256)	(5,020)	(291)	—	(5,567)
Effect of changes in exchange rates	—	44	87	3	—	134
As at March 31, 2016	\$ —	\$ 23,731	\$ 117,625	\$ 6,747	\$ —	\$ 148,103
<b>Net book value as at March 31, 2016</b>	<b>\$ 6,530</b>	<b>\$ 51,929</b>	<b>\$ 113,610</b>	<b>\$ 6,437</b>	<b>\$ 14,448</b>	<b>\$ 192,954</b>

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
<b>Cost:</b>						
As at March 31, 2014	\$ 2,953	\$ 43,786	\$ 154,956	\$ 8,909	\$ 1,278	\$ 211,882
Additions	3,331	2,732	24,155	1,639	29,325	61,182
Government assistance (note 5)	—	(213)	(1,248)	(33)	—	(1,494)
Construction in progress	—	92	977	209	(1,278)	—
Retirements and disposals	—	(91)	(373)	(203)	—	(667)
Effect of changes in exchange rates	213	1,413	3,540	171	1,502	6,839
As at March 31, 2015	\$ 6,497	\$ 47,719	\$ 182,007	\$ 10,692	\$ 30,827	\$ 277,742
<b>Accumulated amortization:</b>						
As at March 31, 2014	\$ —	\$ 18,600	\$ 96,375	\$ 4,602	\$ —	\$ 119,577
Amortization expense	—	2,335	11,571	1,003	—	14,909
Write-down	—	—	32	—	—	32
Retirements and disposals	—	(76)	(20)	(196)	—	(292)
Effect of changes in exchange rates	—	269	1,055	80	—	1,404
As at March 31, 2015	\$ —	\$ 21,128	\$ 109,013	\$ 5,489	\$ —	\$ 135,630
<b>Net book value as at March 31, 2015</b>	<b>\$ 6,497</b>	<b>\$ 26,591</b>	<b>\$ 72,994</b>	<b>\$ 5,203</b>	<b>\$ 30,827</b>	<b>\$ 142,112</b>



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

	2016	2015
Gross Additions	\$ 75,716	\$ 61,182
Government assistance (note 5)	(7,818)	(1,494)
Additions to property, plant and equipment	67,898	59,688
Variation in unpaid additions included in Accounts payable - other and other liabilities at year-end (note 17)	2,942	(4,402)
Deposits reclassified to property, plant and equipment upon completion <sup>(1)</sup>	(33,236)	(2,994)
<b>Additions, as per statements of cash flows</b>	<b>\$ 37,604</b>	<b>\$ 52,292</b>

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

As at March 31, 2016, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to \$45,645 (\$23,088 as at March 31, 2015) with accumulated amortization of \$12,577 (\$10,537 as at March 31, 2015).

As at March 31, 2016, construction in progress includes the cost related to machinery and equipment being installed at these dates.

As at March 31, 2016, the cost of property, plant and equipment still in use and fully depreciated is \$81,789 (\$66,317 as at March 31, 2015).

## NOTE 14. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
<b>Cost:</b>				
As at March 31, 2015	\$ 33,966	\$ 13,720	\$ 26,097	\$ 73,783
Additions	1,723	3,652	—	5,375
Government assistance (note 5)	(324)	(33)	—	(357)
Retirements and disposals	—	(1,010)	—	(1,010)
Effect of changes in exchange rates	—	(118)	(36)	(154)
As at March 31, 2016	\$ 35,365	\$ 16,211	\$ 26,061	\$ 77,637
<b>Accumulated amortization:</b>				
As at March 31, 2015	\$ 9,213	\$ 11,797	\$ 2,216	\$ 23,226
Amortization expense	909	1,073	4,919	6,901
Retirements and disposals	—	(1,010)	—	(1,010)
Effect of changes in exchange rates	—	5	(230)	(225)
As at March 31, 2016	\$ 10,122	\$ 11,865	\$ 6,905	\$ 28,892
<b>Net book value as at March 31, 2016</b>	<b>\$ 25,243</b>	<b>\$ 4,346</b>	<b>\$ 19,156</b>	<b>\$ 48,745</b>

	Capitalized development costs	Software	Customer relationships and contracts	Total
<b>Cost:</b>				
As at March 31, 2014	\$ 33,501	\$ 12,234	\$ 25,080	\$ 70,815
Additions	2,030	1,368	—	3,398
Government assistance (note 5)	(1,565)	—	—	(1,565)
Retirements and disposals	—	(33)	—	(33)
Effect of changes in exchange rates	—	151	1,017	1,168
As at March 31, 2015	\$ 33,966	\$ 13,720	\$ 26,097	\$ 73,783
<b>Accumulated amortization:</b>				
As at March 31, 2014	\$ 672	\$ 10,818	\$ 186	\$ 11,676
Amortization expense	617	879	1,955	3,451
Impairment (note 8)	7,924	—	—	7,924
Retirements and disposals	—	(33)	—	(33)
Effect of changes in exchange rates	—	133	75	208
As at March 31, 2015	\$ 9,213	\$ 11,797	\$ 2,216	\$ 23,226
<b>Net book value as at March 31, 2015</b>	<b>\$ 24,753</b>	<b>\$ 1,923</b>	<b>\$ 23,881</b>	<b>\$ 50,557</b>

## NOTE 15. GOODWILL

Goodwill varied as follows, during fiscal year:

	2016	2015
Balance at beginning of the year	\$ 93,527	\$ 84,378
Business acquisition <sup>(1)</sup>	—	6,579
Effect of changes in exchange rates	(274)	2,570
<b>Balance, end of year</b>	<b>\$ 93,253</b>	<b>\$ 93,527</b>

<sup>(1)</sup> Relates to post-acquisition adjustments following the purchase of APPH Limited and APPH Wichita Inc. in fiscal year 2014.

The net carrying amount of goodwill was allocated to the following CGUs, as at:

	March 31, 2016	March 31, 2015
Aerospace - Landing Gear Product Line	\$ 89,357	\$ 89,621
Aerospace - Other products	3,896	3,906
<b>Goodwill</b>	<b>\$ 93,253</b>	<b>\$ 93,527</b>

The Corporation carried out an impairment test (value in use) during fiscal 2015. During fiscal year 2016, the Corporation concluded that all criteria for using the recoverable amount from a previous period were met, and carried forward the fiscal 2015 recoverable amounts for the impairment test as at March 31, 2016. As a result, the assumptions are the same as those used in the prior fiscal year.

The following key assumptions were used to determine recoverable amounts for the impairment tests performed as at March 31, 2015:

	Pre-tax discount rate	Perpetual growth rate
Aerospace - Landing Gear Product Line	17.1%	2.6%
Aerospace - Other products	15.5% and 16.8%	2.0%

### Sensitivity of recoverable amounts

The following table presents, for each CGU, the change in the discount rate or in the perpetual growth rate used in the most recently performed tests that would have been required to recover the carrying amount of the CGU as at March 31, 2015:

	Incremental increase in pre-tax discount rate	Incremental decrease in perpetual growth rate
Aerospace - Landing Gear Product Line	3.1%	4.7%
Aerospace - Other products	15.8% and 22.5%	52.0%

## NOTE 16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2016	March 31, 2015
Trade payables <sup>(1)</sup>	\$ 40,047	\$ 45,365
Accrued liabilities <sup>(2)</sup>	24,232	23,817
<b>Accounts payable and accrued liabilities</b>	<b>\$ 64,279</b>	<b>\$ 69,182</b>

<sup>(1)</sup> Trade payables are normally settled on 30 to 60-day terms.

<sup>(2)</sup> Accrued liabilities mainly include payroll-related liabilities.

## NOTE 17. ACCOUNTS PAYABLE - OTHER AND OTHER LIABILITIES

As at	March 31, 2016	March 31, 2015
Unpaid machinery and equipment	\$ 3,460	\$ 6,402
Deferred revenue	642	904
Other payables	553	890
<b>Account payable - other and other liabilities</b>	<b>\$ 4,655</b>	<b>\$ 8,196</b>

## NOTE 18 - PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Litigations and other	Total
As at March 31, 2015	\$ 86	\$ 5,967	\$ 8,895	\$ 17,260	\$ 32,208
Arising during the year	1,463	—	1,592	3,177	6,232
Interest accretion expense (note 7)	—	111	—	—	111
Utilized	(139)	(39)	(665)	(9,338)	(10,181)
Reversed	—	—	(445)	(778)	(1,223)
Discount rate adjustment (note 7)	—	(49)	—	—	(49)
Effect of changes in exchange rates	(7)	—	(39)	(59)	(105)
<b>As at March 31, 2016</b>	<b>\$ 1,403</b>	<b>\$ 5,990</b>	<b>\$ 9,338</b>	<b>\$ 10,262</b>	<b>\$ 26,993</b>
Less: current portion	1,403	—	9,338	10,262	21,003
Long-term portion	\$ —	\$ 5,990	\$ —	\$ —	\$ 5,990

## NOTE 19. LONG-TERM DEBT

As at	March 31, 2016	March 31, 2015
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility")	\$ 70,745	\$ 56,731
Governmental authorities loans	53,774	51,172
Obligations under finance leases	22,721	6,299
Deferred financing costs, net	(956)	(1,275)
	146,284	112,927
Less: current portion	6,334	5,972
<b>Long-term debt</b>	<b>\$ 139,950</b>	<b>\$ 106,955</b>

### Credit Facility

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

As at	March 31, 2016	March 31, 2015
Limit, in Canadian, US\$, Euro or British Pound equivalent <sup>(1)</sup>	\$ 200,000	\$ 200,000
US\$ Drawings		
Amount	US\$ 42,000	US\$ 32,000
Rate	Libor + 1.4%	Libor + 1.1%
Effective rate	1.8%	1.3%
Canadian drawing		
Amount	\$ 16,200	\$ 16,200
Rate	BA <sup>(2)</sup> + 1.4%	BA + 1.1%
Effective rate	2.3%	2.2%

<sup>(1)</sup> Includes an accordion feature to increase the Credit Facility up to \$275 million during the term of the credit agreement, subject to lenders' approval.

<sup>(2)</sup> BA: Banker's acceptance

The Credit Facility matures on March 16, 2019 and is secured by all assets of the Corporation and its subsidiaries.

### Governmental authorities loans

Governmental authorities loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under certain federal and provincial industrial programs to promote industry development.

These loans have varying repayment terms, including bases such as growth in the Corporation's sales, sales of specific aircraft products within specific timeframes, fixed schedules or at maturity. Assumptions underlying loan repayments are reviewed at least annually.

Governmental authorities loans usually bear no or below-market interest. They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statement of income as a financial expense.

The effective interest rates for these loans were in the range of 3.4% to 7.2% as at March 31, 2016 (3.7% to 7.2% as at March 31, 2015).

### Finance leases

Obligations under finance leases bear fixed interest rates between 2.4% and 6.5% as at March 31, 2016 and 2015, maturing from May 2016 to February 2023, with amortization periods of approximately seven years, secured by the related property, plant and equipment, net of interest of \$2,178 (\$518 as at March 31, 2015).

### Covenants

Long-term debt is subject to certain general and financial covenants related, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with all covenants during the fiscal year ended March 31, 2016.

### Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Fiscal years	Finance leases	Governmental authorities loans	Credit Facility	Total
2017	\$ 3,887	\$ 3,223	\$ 1,357	\$ 8,467
2018	4,039	5,724	1,357	11,120
2019	4,039	5,893	72,043	81,975
2020	3,931	7,105	—	11,036
2021	3,847	8,530	—	12,377
Beyond 5 years	5,156	37,234	—	42,390
Sub-Total	24,899	67,709	74,757	167,365
Less: Interest	2,178	13,935	4,012	20,125
Debt balance <sup>(1)</sup>	\$ 22,721	\$ 53,774	\$ 70,745	\$ 147,240

(1) Before net deferred financing costs.

## NOTE 20. OTHER LIABILITIES

As at	March 31, 2016	March 31, 2015
Deferred revenue	\$ 4,135	\$ 4,369
Pension and other retirement benefit plans (note 24)	8,670	9,275
<b>Other Liabilities</b>	<b>\$ 12,805</b>	<b>\$ 13,644</b>

## NOTE 21. ISSUED CAPITAL

Authorized	
Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

No preferred shares are outstanding.

Variations in common shares issued and fully paid were as follows, for fiscal year:

	2016		2015	
	Number	Issued capital	Number	Issued capital
Balance, beginning of year	35,949,445	\$ 75,304	31,620,482	\$ 26,187
Issued for cash pursuant to the public offering and concurrent private placements	—	—	4,255,871	48,428
Issued for cash on exercise of stock options	5,800	71	35,000	320
Issued for cash under the stock purchase and ownership incentive plan	51,690	541	38,092	369
Balance, end of year	36,006,935	\$ 75,916	35,949,445	\$ 75,304

During the fiscal year ended March 31, 2015, the Corporation issued 4,255,871 common shares at a price of \$11.75 per share for gross proceeds of \$50.0 million pursuant to the public offering and concurrent private placements. The net proceeds of \$47.9 million received by the Corporation, net of underwriting commissions and other issuance costs of \$1.6 million and \$0.5 million, respectively, were used to repay indebtedness under the Credit Facility. Deferred income taxes of \$0.6 million related to the issuance costs were also accounted for.



## Stock-based compensation

### 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 no greater than seven years after the grant date.

Variances in stock options outstanding and related compensation expense were as follows, for fiscal year:

	2016		2015	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance, beginning of year	747,346	\$ 9.84	686,001	\$ 9.39
Granted	145,500	10.71	96,345	11.35
Exercised	(5,800)	2.19	(35,000)	5.27
Cancelled / forfeited	(7,501)	11.71	—	—
Balance, end of year	879,545	\$ 10.02	747,346	\$ 9.84
Stock-based compensation expense		\$ 939		\$ 1,292

The weighted-average share price of stock options exercised in fiscal 2016 was \$12.23 (\$11.00 in 2015).

Details of stock options granted were as follows, for fiscal year:

	2016	2015
Number of stock options granted	145,500	96,345
Weighted average fair value per stock option	\$ 3.25	\$ 4.02
Total fair value	\$ 473	\$ 387
Expected life	3.2 years	4.5 years
Expected volatility	41%	40%
Expected forfeiture	—%	< 4.8%
Expected dividend distribution	None	None
Compounded risk-free interest rate	0.5%	1.7%

As at March 31, 2016, 2,808,257 common shares are reserved for issuance of stock options, of which 1,633,981 remained to be issued, compared to 1,639,781 as at March 31, 2015.

As at March 31, 2016, 879,545 options were issued and outstanding and can be detailed as follows:

Exercisable price	Outstanding options			Vested options	
	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
\$1.31 to \$4.09	142,700	2.05	\$2.52	142,700	\$2.52
\$10.71 to \$11.71	736,845	5.22	11.47	317,398	11.65
	879,545	5.39	\$10.02	460,098	\$8.82

*B. Stock purchase and ownership incentive plan*

Movements in common shares and related expenses related to the stock purchase and ownership incentive plan were as follows, for fiscal year:

	2016	2015
<i>In number of common shares</i>		
Issued	51,690	38,092
Attributed to participating employees	19,783	15,700
Expense related to common shares attributed	\$ 228	\$ 170

As at March 31, 2016, 340,000 shares were reserved for issuance under the stock purchase and ownership incentive plan, of which 151,003 remained to be issued, compared to 202,693 as at March 31, 2015.

*C. Deferred Share Unit (“DSU”) and Performance Share Unit (“PSU”) plans*

Movements in outstanding DSUs and related expenses were as follows, for fiscal year:

	2016	2015
<i>In number of DSUs</i>		
Balance, beginning of year	83,158	64,825
Issued	41,175	18,333
Closing balance of DSUs outstanding	124,333	83,158
DSU expense	\$ 777	\$ 108
Fair value of outstanding DSUs, end of year	\$ 1,578	\$ 801

Movements in outstanding PSUs and related expenses were as follows, for fiscal year:

	2016	2015
<i>In number of PSUs</i>		
Balance, beginning of year	115,879	—
Issued	37,424	115,879
Cancelled/forfeited	(1,911)	—
Closing balance of PSUs outstanding	151,392	115,879
PSU expense	\$ 885	\$ 952
Fair value of outstanding PSUs, end of year	\$ 1,837	\$ 952

## NOTE 22. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2015	\$ 25,221	\$ (11,597)	\$ (4,568)	\$ 9,056
Other comprehensive income (loss)	470	10,954	(1,692)	9,732
<b>Balance as at March 31, 2016</b>	<b>\$ 25,691</b>	<b>\$ (643)</b>	<b>\$ (6,260)</b>	<b>\$ 18,788</b>

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2014	\$ 13,156	\$ (4,680)	\$ (1,708)	\$ 6,768
Other comprehensive income (loss)	12,065	(6,917)	(2,860)	2,288
<b>Balance as at March 31, 2015</b>	<b>\$ 25,221</b>	<b>\$ (11,597)</b>	<b>\$ (4,568)</b>	<b>\$ 9,056</b>

## NOTE 23. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2016	2015
Consolidated statements of income		
Current income tax expense	\$ 5,600	\$ 2,578
Deferred income tax recovery	(96)	(5,101)
<b>Income tax expense (recovery) reported in the consolidated statements of income</b>	<b>\$ 5,504</b>	<b>\$ (2,523)</b>
Consolidated statements of changes in shareholders' equity		
Recovery related to items charged or credited directly to retained earnings	\$ (75)	\$ (899)
Expense (recovery) related to items charged or credited directly to other comprehensive income	3,847	(2,545)
Recovery related to items charged or credited directly to issued capital (note 21)	—	(576)
<b>Income tax expense (recovery) reported directly in shareholders' equity</b>	<b>\$ 3,772</b>	<b>\$ (4,020)</b>

The computation of income tax expense is as follows, for fiscal year:

	2016	2015
Income taxes at combined Federal and Provincial statutory tax rates of 26.7%	\$ 8,590	\$ 187
Income tax rate differential – foreign subsidiaries	(3,826)	(3,032)
Permanent differences	822	467
Other items	(82)	(145)
<b>Income tax expense (recovery)</b>	<b>\$ 5,504</b>	<b>\$ (2,523)</b>

Income tax expense (recovery) includes an amount of \$82 (\$145 in 2015) with respect to the favourable resolution of income tax matters and a reduction in deferred income tax liabilities in light of changes in tax audit matters.

Significant deferred income tax assets and liabilities arising from the effect of temporary differences are as follows:

As at	March 31, 2016	March 31, 2015
Deferred income tax assets		
Non-deductible reserves	\$ 4,107	\$ 6,068
Inventories	6,463	5,705
Receivables	53	119
Derivative financial instruments	232	4,222
Governmental authorities loans	1,585	1,032
Deferred tax benefits from tax losses	14,454	5,461
<b>Total deferred income tax assets</b>	<b>\$ 26,894</b>	<b>\$ 22,607</b>
Deferred income tax liabilities		
Investment and other tax credits	(2,594)	(2,085)
Property, plant and equipment	(16,602)	(8,044)
Customer relationships and contracts	(4,753)	(5,805)
<b>Total deferred income tax liabilities</b>	<b>\$ (23,949)</b>	<b>\$ (15,934)</b>
<b>Net deferred income tax assets</b>	<b>\$ 2,945</b>	<b>\$ 6,673</b>

The net deferred income tax assets are included under the following captions on the consolidated balance sheets:

As at	March 31, 2016	March 31, 2015
Deferred income tax assets	\$ 8,302	\$ 10,004
Deferred income tax liabilities	(5,357)	(3,331)
<b>Net deferred income tax assets</b>	<b>\$ 2,945</b>	<b>\$ 6,673</b>

As at March 31, 2016, net deferred income tax assets of \$5,653 were recognized (none as at March 31, 2015) in jurisdictions that incurred losses this fiscal year or the preceding fiscal year. Based upon the level of historical taxable income and projections for future taxable income, the Corporation's management believes it is probable that the Corporation will realize the benefits of these deductible temporary differences and non-capital losses carried forward.

As at March 31, 2016 and 2015, there were no operating losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements.

The Corporation had the following non-capital losses available for carry-forward:

As at	March 31, 2016	March 31, 2015
Canada	\$ 2,556	\$ 5,974
United States	33,043	—
United Kingdom	11,338	22,507
	<b>\$ 46,937</b>	<b>\$ 28,481</b>

As at March 31, 2016, deferred income tax assets of \$11,088 and deferred income tax liabilities of \$1,922 are expected to be recovered or settled in less than one year.

Deferred income tax is not recognized on the unremitted earnings of subsidiaries where the Corporation is able to control the timing of the remittance and it is probable that there will be no remittance in the foreseeable future. As at March 31, 2016 and 2015, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to \$10,234 (\$10,277 in 2015).

## NOTE 24. PENSION AND OTHER RETIREMENT BENEFIT PLANS

### Description of benefit plans

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

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in the figures below.

### Total cash payments

For fiscal year 2016, total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans amounted to \$2,672 (\$2,415 in 2015) while the cash contributed to its defined contribution plans amounted to \$2,383 (\$2,636 in 2015).

### Defined benefit plans

The Corporation measures the fair value of plan assets for accounting purposes as at March 31 of each year while its defined benefit obligations are valued as at December 31 of each year and projected to March 31 for all plans, except one for which the valuation is made as at March 31.

The defined benefit plans expose the Corporation to actuarial risks such as:

- Life expectancy risk
  - The present value of defined benefit obligations is calculated in part by reference to the estimated life expectancy of plan members. An increase in life expectancy increases the Corporation's obligations.
- Currency risk
  - As a significant portion of plan assets are invested in foreign equities, an increase in the value of the Canadian dollar in comparison to the denomination of these foreign equities would result in an increase in the Corporation's obligations.
- Interest rate risk
  - A decrease in market rates of interest would decrease the discount rate used to calculate the present value of defined benefit obligations, thus increasing them. This would be partially offset by the resulting increase in the value of the plans' bond holdings.
- Investment risk
  - Investment risk is the risk that the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate. Currently, the plans have a balanced investment mix of 61% in equity funds, 31% in debt securities and 8% in other funds. Due to the long-term nature of the plans' defined benefit obligations, the Corporation considers it appropriate that a reasonable portion of the plans' assets is invested in equity securities and other funds in order to generate additional long-term return on plan assets.

The reconciliation of the present value of the defined benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets is as follows:

As at	March 31, 2016	March 31, 2015
Present value of defined benefit obligations of funded plans	\$ 57,530	\$ 57,380
Fair value of plan assets	51,385	51,200
Funded status of the plans – deficit	\$ (6,145)	\$ (6,180)
Present value of defined benefit obligations of unfunded plan	(2,525)	(3,095)
Amount recognized in other long-term liabilities	\$ (8,670)	\$ (9,275)

Defined benefit pension expense recognized in the consolidated statements of income is as follows, for fiscal year:

	2016	2015
Current service cost	\$ 1,377	\$ 1,094
Interest on net defined benefit obligations (note 7)	297	239
Termination benefits (note 8)	—	109
Administrative costs	112	183
Defined benefit pension expense recognized in the consolidated statements of income	\$ 1,786	\$ 1,625



The total amount recognized in other comprehensive income is as follows, for fiscal year:

	2016	2015
Remeasurements		
Gain (loss) from changes in demographic assumptions	\$ 19	\$ (205)
Gain (loss) from changes in financial assumptions	2,518	(6,118)
Experience losses	(417)	(78)
Return on plan assets, excluding interest income on plan assets	(2,401)	3,033
Other comprehensive loss	\$ (281)	\$ (3,368)

The actual return on the fair value of plan assets is as follows, for fiscal year:

	2016	2015
Actual return on the fair value of plan assets	\$ (544)	\$ 5,060

The variation in present value of the defined benefit obligations were as follows, for fiscal year:

	2016	2015
Defined benefit obligations, beginning of year	\$ 60,475	\$ 52,712
Current service cost	1,377	1,094
Interest expense	2,154	2,266
Contributions by plans' participants	587	643
(Gain) loss from change in demographic assumptions	(19)	205
(Gain) loss from changes in financial assumptions	(2,518)	6,118
Experience losses	417	78
Benefits paid	(2,418)	(2,750)
Termination benefits	—	109
Defined benefit obligations, end of year	\$ 60,055	\$ 60,475

The fair value of plan assets is as follows:

As at	March 31, 2016	March 31, 2015
Fair value of plans' assets, beginning of year	\$ 51,200	\$ 46,015
Interest income on plans' assets	1,857	2,027
Return on plans' assets, excluding interest income on plans' assets	(2,401)	3,033
Contributions by the employer	2,672	2,415
Contributions by plans' participants	587	643
Benefits paid	(2,418)	(2,750)
Administrative costs	(112)	(183)
Fair value of plans' assets, end of year	\$ 51,385	\$ 51,200

The plans' assets consist of:

As at	March 31, 2016	March 31, 2015
Equity securities	61%	63%
Debt securities	31%	31%
Other	8%	6%
Total	100%	100%

### Significant assumptions

The significant weighted-average assumptions used at the reporting date are as follows, for fiscal year:

	2016	2015
Defined benefit obligations as at March 31:		
Discount rate	3.90%	3.60%
Rate of compensation increase	3.50%	3.50%
Average life expectancies based on a pension at 65 years of age		
Male, 45 years of age at reporting date	87	88
Female, 45 years of age at reporting date	89	90
Male, 65 years of age at reporting date	86	86
Female, 65 years of age at reporting date	88	88

The following table summarizes the effects of the changes in these actuarial assumptions on the pension expense and the defined benefit obligations for the fiscal year ended and as at March 31, 2016:

Increase (Decrease)	Pension expense	Defined benefit obligations
	%	%
<b>Discount rate</b>		
Increase of 0.5%	(18.6)	(6.2)
Decrease of 0.5%	19.7	7.2
<b>Rate of compensation</b>		
Increase of 0.5%	0.1	—
Decrease of 0.5%	(0.1)	—
<b>Average life expectancies</b>		
Increase of 1 year	5.6	2.3
Decrease of 1 year	(5.7)	(2.3)

### Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2017 amount to \$1,950.

The duration of the defined benefit obligations at March 31, 2016 is 10.4 years (11.5 in 2015). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2016	March 31, 2015
Less than a year	\$ 1,751	\$ 1,510
Between 1-2 years	1,761	1,567
Between 2-5 years	5,570	5,067
Over 5 years	99,412	91,037
<b>Total</b>	<b>\$ 108,494</b>	<b>\$ 99,181</b>

### Defined contribution pension plans

The defined contribution pension plans' costs are as follows, for fiscal year:

	2016	2015
Defined contribution pension plan costs	\$ 2,383	\$ 2,636

## NOTE 25. COMMITMENTS

### *Building lease contracts*

The Corporation has entered into leases for buildings which are used for operations and administration. As at March 31, 2016, the total commitments amounted to \$14,236 excluding escalation clauses. The minimum annual lease payments over the next five years are:

	2017	2018	2019	2020	2021	Thereafter
\$	1,556 \$	1,433 \$	1,288 \$	1,010 \$	994 \$	7,955

### *Machinery and equipment acquisition commitments*

The Corporation has released purchase orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. As at March 31, 2016, these outstanding purchase orders amounted to \$5,902 (\$34,845 as at March 31, 2015) net of related deposits of \$189 (\$23,306 as at March 31, 2015), which are included in the Corporation's balance sheets.

### *Guarantees*

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property, environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislations), valuation differences or as a result of litigations that may be suffered by the counterparties.

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may have to indemnify against claims related to past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not occurred yet. As at March 31, 2016, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2016, an amount of \$5,327 (\$5,600 in 2015) was provided for in the Corporation's provisions in respect to these items and is classified as short-term provision (note 18) given the undetermined date of settlement.

## NOTE 26. CONTINGENCIES

The Corporation is involved in litigations and claims in the normal course of business. Management is of the opinion that any resulting settlements would not materially affect the financial position and operating results of the Corporation.

## NOTE 27. NET CHANGE IN NON-CASH ITEMS RELATED TO CONTINUING OPERATIONS

The net change in non-cash items related to continuing operations<sup>(1)</sup> is detailed as follows, for fiscal year:

	2016	2015
Accounts receivable	\$ (3,730)	\$ (9,103)
Income tax receivable	218	(3,263)
Inventories	(15,767)	3,723
Other current assets	910	491
Accounts payable and accrued liabilities, accounts payable – other and other liabilities	(9,675)	5,500
Provisions	(5,276)	10,565
Progress billings	(1,781)	(958)
Customer advances	(14,471)	8,917
Income tax payable	1,064	37
Effect of changes in exchange rates <sup>(2)</sup>	(94)	2,046
	\$ (48,602)	\$ 17,955

<sup>(1)</sup> The corporation divested substantially all of its Aerostructure and Industrial product line operations during fiscal 2013.

<sup>(2)</sup> 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 28. GEOGRAPHIC INFORMATION

The geographic segmentation of the Corporation's assets is as follows:

As at	March 31, 2016				March 31, 2015			
	Canada	U.S.	U.K.	Total	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	\$108,798	\$ 72,661	\$ 11,495	\$192,954	\$ 81,437	\$ 47,136	\$ 13,539	\$142,112
Finite-life intangible assets, net	27,293	3,594	17,858	48,745	26,451	4,593	19,513	50,557
Goodwill	13,838	9,761	69,654	93,253	13,838	9,519	70,170	93,527

Geographic sales based on the customers' location are detailed as follows, for fiscal year:

	2016	2015
Canada	\$ 82,341	\$ 85,668
United States	222,712	180,440
United Kingdom	46,139	49,947
Other countries	55,620	48,861
	\$ 406,812	\$ 364,916

## NOTE 29. EXECUTIVE COMPENSATION

The executive compensation expense to key management personnel is as follows, for fiscal year:

	2016	2015
Short-term employee benefits and other benefits	\$ 3,721	\$ 3,524
Pension and other post-retirement benefits	302	310
Share-based payments	1,014	1,432
<b>Total compensation to key management personnel</b>	<b>\$ 5,037</b>	<b>\$ 5,266</b>

## NOTE 30. FINANCIAL INSTRUMENTS

### *Fair value hierarchy*

Financial assets and financial liabilities measured at fair value in the consolidated balance sheets are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and

Level 3: unobservable inputs for the asset or liability.

The classifications of financial instruments as well as their carrying amounts and fair values are summarized as follows:

As at	March 31, 2016			March 31, 2015		
	Fair value hierarchy	Carrying amount	Fair Value	Fair value hierarchy	Carrying amount	Fair Value
<b>Financial assets</b>						
Cash and cash equivalents	Level 2	\$ 19,268	\$ 19,268	Level 2	\$ 35,098	\$ 35,098
Derivative financial instruments <sup>(1)</sup>	Level 2	5,707	5,707	Level 2	287	287
Equity swap	Level 1	2,054	2,054	Level 1	—	—
		\$ 27,029	\$ 27,029		\$ 35,385	\$ 35,385
<b>Financial Liabilities</b>						
Derivative financial instruments	Level 2	\$ 7,806	\$ 7,806	Level 2	\$ 17,212	\$ 17,212
Long-term debt, including current portion	Level 2	147,240	155,125	Level 2	114,202	123,885
		\$ 155,046	\$ 162,931		\$ 131,414	\$ 141,097

<sup>(1)</sup> Excluding equity swap

Derivative financial instruments - The fair value of derivative financial instruments recognized in the consolidated balance sheets has been determined using Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external markets data, such as period-end swap rates and foreign exchange rates (Level 2 inputs).

Long-term debt – The fair value of long-term debt has been determined by calculating the present value of long term debt using the rate that would be negotiated under the economic conditions at year-end.

In fiscal 2016, a gain before tax of \$34 (loss of \$173 in 2015) was accounted for on derivative financial instruments designated as FVTPL, in addition to the interest income disclosed in note 7 to the consolidated financial statements.

## NOTE 31. FINANCIAL RISK MANAGEMENT

The Corporation is exposed primarily to market risk, credit and credit concentration risks, and liquidity risk as a result of holding financial instruments.

### Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments following changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks:

#### Foreign exchange risk

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States of America and the United Kingdom.

In an effort to mitigate the foreign currency fluctuation exposures, the Corporation makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian and United Kingdom operations.

The Corporation's foreign exchange policy requires the hedging of 50% to 100% of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecasted cash inflows generated by sales in U.S. currency made by its Canadian and United Kingdom operations and related to sales contracts, net of the forecasted cash outflows in U.S. currency made by its Canadian and United Kingdom operations and related essentially to raw materials and certain other material costs.

As at March 31, 2016, in accordance with this policy, the Corporation held forward foreign exchange contracts to sell US\$165.2 million at a weighted-average rate of 1.2900 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2015, these contracts totalled US\$119.0 million at a weighted-average rate of 1.1297 cad/usd. As at March 31, 2016, these contracts mature at various dates between April 2016 and March 2020, with the majority maturing over the next two fiscal years.



As at March 31, 2016, a 1% strengthening of the Canadian dollar over foreign currencies, while all other variables would remain fixed, would have impacted the consolidated net income and the other comprehensive income as follows:

	U.S. dollar impact	British pound impact
Decrease in net income	(215)	(2)
Increase (decrease) in other comprehensive income	535	(1,331)

The foreign exchange rate sensitivity analysis shown above is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the forward foreign exchange contracts as at the consolidated balance sheet date.

#### *Interest rate risk*

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

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

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

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

The interest-rate swap rates mentioned above exclude the additional bank relevant margin (see note 19). 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.

A 100 basis point variation in interest rates would have affected the Corporations financial results for fiscal 2016 as follows:

	100 bps increase	100 bps decrease
Impact on net income related to floating rate long-term debt	(165)	165
Impact on comprehensive income related to interest-rate swap agreements	511	(525)

The interest rate sensitivity analysis shown above is calculated on the floating-rate liability at the end of the fiscal year, and assumes all other variables remain fixed.

#### *Other price risk*

The Corporation's cash flows could fluctuate due to variations in the market value of its common shares on the Toronto Stock Exchange due to the balance of outstanding DSUs and PSUs (see note 21). In order to mitigate this, on June 22, 2015, the Corporation entered into an equity swap agreement with a financial institution.

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

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

### **Credit and credit concentration risks**

The credit and credit concentration risks represent counterparty risks where the parties with which the Corporation enters into agreements or contracts could be unable to fulfill their commitments.

Credit risks are primarily related to the potential inability of customers to discharge their obligations with regards to the Corporation's accounts receivable and of financial institutions with regards to the Corporation's cash and cash equivalents and derivative financial instruments.

Credit concentration risks are related to the fact that approximately 55% of the Corporation's fiscal 2016 sales are made to only six customers (60% in 2015). More specifically, in fiscal 2016, the Corporation had two customers representing 14% and 13% of its consolidated sales (15% and 13% in 2015).

#### *Accounts receivable*

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses which represent together approximately 4.3% in fiscal 2016 (2% in 2015) of the Corporation's consolidated sales.

As at March 31, 2016, besides a significant accounts receivable write-off made in fiscal 2010 following the filing for bankruptcy of a publicly traded U.S. customer, the Corporation has historically not made any significant write-off of accounts receivable and the number of days in accounts receivable was at acceptable levels in the industry in which the Corporation operates.

The credit quality of accounts receivable is monitored on a regular basis.

Changes in the allowance for doubtful accounts were as follows for the fiscal year ended March 31, 2016:

	<b>2016</b>
Balance, beginning of year	\$ 228
Reversed	(195)
Effect of changes in foreign exchange rates	2
<b>Balance, end of year</b>	<b>\$ 35</b>

The details of the Corporation's trade receivables are the following:

As at	March 31, 2016	March 31, 2015
Not past due	\$ 65,579	\$ 64,188
Past due less than 90 days	8,365	7,076
Past due more than 90 days	1,297	247
Impaired	35	228
	<b>75,276</b>	<b>71,739</b>
Allowance for doubtful accounts	(35)	(228)
<b>Balance, end of year</b>	<b>\$ 75,241</b>	<b>\$ 71,511</b>

#### *Cash and cash equivalents and derivative financial instruments*

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals exclusively with high-grade financial institutions such as Canadian chartered banks and their U.S. subsidiaries or branches or with a Canadian branch of a U.S. bank, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreements by counterparties.

As at March 31, 2016, the maximum exposure to credit risk for financial instruments represented the following (see note 30):

	FVTPL	Hedging items <sup>(1)</sup>	Loans and receivables
Cash and cash equivalents	\$ 19,268	\$ —	\$ —
Accounts receivable	—	—	75,241
Derivative financial instruments	136	7,625	—

<sup>(1)</sup> Represents the fair value of derivative financial instruments designated in a hedging relationship.

## Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set, under the terms of such commitments and at a reasonable price. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

As at March 31, 2016, the maturity analysis of financial liabilities represented the following:

	< 1 year	1 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	\$ 64,279	\$ —	\$ —	\$ —	\$ 64,279
Accounts payable – other and other liabilities	4,655	—	—	—	4,655
Customer advances	3,855	—	—	—	3,855
Long-term debt, including current portion (note 19)	8,467	93,095	23,413	42,390	167,365
Derivative financial instruments	6,493	1,313	—	—	7,806

## NOTE 32. CAPITAL RISK MANAGEMENT

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

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

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

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

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

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

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

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

The Corporation is not subject to any regulatory capital requirements.











[www.herouxdevtek.com](http://www.herouxdevtek.com)

# SHAREHOLDER INFORMATION

## ANNUAL MEETING OF SHAREHOLDERS

Thursday, August 4, 2016 at 10:00 A.M.

Salon Pierre de Coubertin  
Hôtel Omni Mont-Royal  
1050 Sherbrooke Street West  
Montreal, Québec  
Canada

## REGISTRAR AND TRANSFER AGENT

Computershare Trust  
1500 University Street, 7th Floor  
Montreal, Québec  
Canada H3A 3S8  
514 982-7555 /  
1-800-564-6253

## AUDITORS

Ernst & Young LLP  
800 René Lévesque Blvd. West,  
Suite 1900  
Montreal, Québec  
Canada H3B 1X9  
514 875-6060

## SHARE LISTING

Shares are traded on the Toronto  
Stock Exchange  
Ticker Symbol: HRX

## INVESTOR RELATIONS

450 679-3330  
ir@herouxdevtek.com

## MAISONBRISON COMMUNICATIONS

514 731-0000  
info@maisonbrison.com  
www.maisonbrison.com

## HÉROUX-DEVTEK INC.

1111 Saint-Charles Street West  
Suite 658, East tower  
Complexe Saint-Charles  
Longueuil, Québec  
Canada J4K 5G4  
450 679-3330  
www.herouxdevtek.com

## DESIGNED AND WRITTEN BY

MaisonBrison Communications

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**Héroux-Devtek Inc. (TSX: HRX)** is an international company specializing in the design, development, manufacture and repair and overhaul of landing gear and actuation systems and components for the aerospace market. The Corporation is the third largest landing gear company worldwide, supplying both the commercial and defence sectors of the Aerospace market with new landing gear systems and components, as well as aftermarket products and services. The Corporation also manufactures hydraulic systems, fluid filtration systems and electronic enclosures. The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener, Cambridge and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; Everett, Washington; and Runcorn, Nottingham and Bolton, United Kingdom.

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