BUILDING
A SUSTAINABLE FUTURE

2017 ANNUAL REPORT

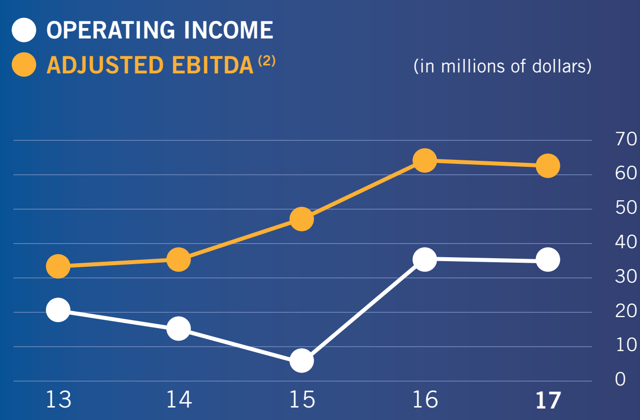
CH-53K
Photo credit: Sikorsky

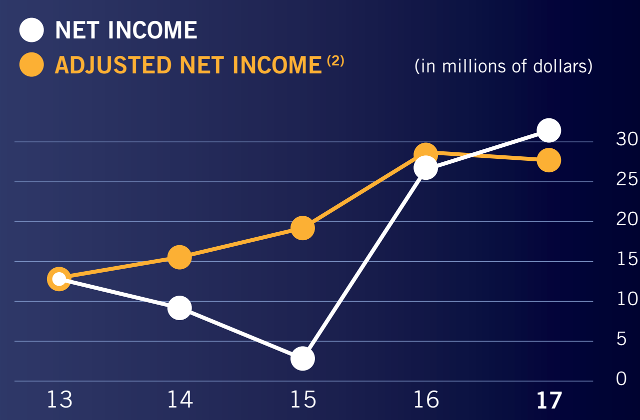
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul of landing gear and actuation systems and components for the aerospace market. The Corporation is the third largest landing gear company worldwide, supplying both the 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.

www.herouxdevtek.com

FINANCIAL HIGHLIGHTS

FISCAL YEARS ENDED MARCH 31 (in millions of dollars, except per share data and ratios)	**2017**	2016	2015	2014	2013[1]
OPERATING RESULTS					
Sales	**406.5**	406.8	364.9	272.0	257.0
Operating income	**35.6**	37.8	6.6	15.6	20.4
Adjusted operating income [2]	**35.9**	39.3	29.4	22.5	20.4
Adjusted EBITDA [2]	**61.4**	64.1	47.8	35.8	33.0
Net income	**31.8**	26.6	3.2	9.2	13.4
Adjusted net income [2]	**26.4**	27.7	19.4	15.3	13.4
Cash flow from operations	**52.8**	55.4	29.3	20.9	29.0
Free cash flow [2]	**33.0**	(66.3)	(15.0)	11.0	3.9
FINANCIAL POSITION					
Cash and cash equivalents	**42.5**	19.3	35.1	47.3	101.3
Working capital	**168.2**	150.5	109.7	160.8	191.2
Total assets	**607.3**	609.4	575.5	514.0	389.1
Long-term debt [3]	**134.8**	147.2	114.2	150.5	64.3
Shareholders' equity	**355.9**	331.1	293.5	240.1	222.7
PER SHARE DATA					
Earnings per share – basic and diluted	**0.88**	0.74	0.09	0.29	0.43
Adjusted earnings per share [2]	**0.73**	0.77	0.55	0.48	0.43
Average number of shares outstanding (diluted, in 000's)	**36,284**	36,119	35,016	31,662	31,114
FINANCIAL RATIOS					
Adjusted EBITDA [2] margin	**15.1%**	15.7%	13.1%	13.2%	12.8%
Working capital ratio	**2.61**	2.34	1.75	2.59	3.59
Net debt-to-equity (cash-to-equity) [4]	**0.26**	0.39	0.27	0.43	(0.17)

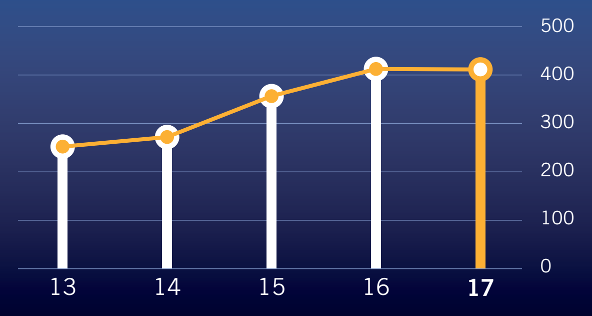




(1) From continuing operations for fiscal 2013.
(2) These are non-IFRS measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.
(3) Including the current portion, but excluding net 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.

FISCAL 2017 HIGHLIGHTS

SALES (in millions of dollars)



OPERATING RESULTS

- Sales of $406.5 million, stable compared to the previous year.
- Operating income of $35.6 million, or 8.7% of sales, compared with $37.8 million, or 9.3% of sales, in the previous year.
- Adjusted EBITDA* of $61.4 million, or 15.1% of sales, versus $64.1 million, or 15.7% of sales, last year.
- Net income of $31.8 million, or $0.88 per diluted share, versus $26.6 million, or $0.74 per diluted share, a year earlier.
- Free cash flow* of $33.0 million, compared with usage of $66.3 million last year.

Boeing 777
Photo credit: Boeing

BOEING 777 AND 777X CONTRACT

- Delivery of the first complete system in July 2016.
- 21 complete systems were delivered during fiscal 2017.
- Customer approval for two of the main surface treatment processes required to produce the most critical components internally.

Hawk
Photo credit: BAE

NEW CONTRACTS

- Long-term contract with Hanwha Corporation of South Korea to jointly design and develop the landing gear system for the KF-X fighter aircraft.
- Broadening of an existing agreement to provide Brazilian aircraft manufacturer Embraer with landing gear components and assemblies for the KC-390 aircraft.
- Contract with U.K.-based BAE Systems to manufacture and assemble complete landing gear replacement shipsets and hydraulic actuators for the Hawk advanced jet trainer aircraft.
- Contract with Saab AB of Sweden for the production of complete landing gear systems for 96 Gripen E fighter aircraft.

* These are non-IFRS 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

MESSAGE TO SHAREHOLDERS

Réal Raymond
Chairman of the Board

IN THE LAST FISCAL YEAR, HÉROUX-DEVTEK FOCUSSED ON EXECUTING ITS BUSINESS STRATEGY AIMED AT BUILDING A SUSTAINABLE FUTURE FOR THE CORPORATION. WE MADE INITIAL DELIVERIES ON THE LARGEST LANDING GEAR CONTRACT IN OUR HISTORY AND WIDENED OUR REACH IN THE WORLDWIDE LANDING GEAR MARKET BY SIGNING MULTI-YEAR AGREEMENTS WITH GLOBAL ORIGINAL EQUIPMENT MANUFACTURERS (OEMS). HÉROUX-DEVTEK ALSO CONCLUDED THE FISCAL YEAR WITH A STRONG FINANCIAL POSITION, FROM WHICH IT CAN CONFIDENTLY INVEST IN VALUE-CREATING INITIATIVES TO THE BENEFIT OF ITS SHAREHOLDERS.

In the fiscal year ended March 31, 2017, Héroux-Devtek further strengthened its status as one of the leading landing gear designers and manufacturers in the aerospace industry. More importantly, the future remains very promising led by our world-class, fully integrated capabilities that favourably position the Corporation to capture any business opportunity.

We take great pride in building a sustainable future. Our financial foundation is strong, thus providing flexibility to pursue growth initiatives that create lasting value. We are also increasingly active on life-cycle mandates for a wide range of important programs and derive a growing cash flow from products and systems on which we hold intellectual property. In addition, as Héroux-Devtek successfully carries out complex, large-scale mandates, we solidified our relationships with OEMs, while adding to the sustainability of our business.

SOLID OPERATING RESULTS AND STRONG FINANCIAL POSITION

Héroux-Devtek concluded fiscal 2017 with sales of $406.5 million, essentially stable compared with the previous fiscal year. Driven by the production ramp-up of our long-term contract to provide the Boeing Corporation (“Boeing”) with complete landing gear systems for the Boeing 777 and 777X aircraft, fourth-quarter sales of $120.9 million were our highest quarterly revenues ever.

Fiscal 2017 operating income amounted to $35.6 million, or 8.7% of sales, while adjusted EBITDA* stood at $61.4 million, representing a sound adjusted EBITDA* margin of 15.1%. Net income increased 19.2% to $31.8 million, or $0.88 per share.

* These are non-IFRS 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.

Gripen
Photo credit: SAAB

Operating activities also produced a robust cash flow of $56.1 million, enabling Héroux-Devtek to generate free cash flow of $33.0 million and to conclude fiscal 2017 with a strong financial position. Cash and cash equivalents stood at $42.5 million and we had available borrowing capacity of more than $144 million on our authorized Credit Facility of $200 million.

As at March 31, 2017, our firm order backlog, which includes business for which we have received purchase orders, amounted to $405 million and remains well diversified.

EXPANDING OUR GLOBAL REACH

In fiscal 2017, Héroux-Devtek was awarded several contracts that attest to its growing reach in the global landing gear market. These contracts expand our presence on several key programs and also reflect the diversity of our customer base comprised of some of the world's leading aerospace OEMs.

First, following an earlier Memorandum of Agreement, we signed a long-term contract with Hanwha Corporation of South Korea, to jointly develop the landing gear system for the new KF-X fighter aircraft. This important contract, which engages our engineering teams in Canada and the U.K., allows Héroux-Devtek to demonstrate its world-class capabilities in the design and development of complete landing gear systems.

We also broadened the scope of an existing agreement with Brazilian aircraft manufacturer Embraer to provide landing gear components and assemblies for the KC-390 multi-mission transport aircraft. With production to be carried out at several locations in Canada, the United States and the U.K., this additional business perfectly illustrates the flexibility of Héroux-Devtek's wide manufacturing footprint.

In addition, we signed a contract with BAE Systems of the U.K. for the production of complete landing gear replacement shipsets and hydraulic actuators for the Hawk advanced jet trainer aircraft. This contract attests to the longevity over which revenues from life-cycle design programs can be earned, as our European operations have been active for several decades on this longstanding program.

Finally, the Swedish defence and security company Saab AB awarded us a contract for the production of complete landing gear systems for the Gripen E fighter aircraft. Our engineering team in the U.K. has already carried out the design and development of landing gear systems for this aircraft, as well as for previous variants of the Gripen program, and we are proud to further enhance the close collaboration between the two organizations.

Unfortunately, our joint bid for a comprehensive Performance Based Logistics contract to provide the U.S. Air Force ("USAF") with a total supply chain management for all landing gear parts requirements for the C-130, KC-135 and E-3 aircrafts was not retained. Although we remain under contract with USAF for repair and overhaul services, as well as the production of certain aftermarket components for these aircraft, we anticipate that our business volume based on the current agreement will be gradually phased out over the course of the 2019 fiscal year. We continue to evaluate our available options under current procedures.

Boeing 777
Photo credit: Boeing

MARKET TRENDS

According to industry forecasts, passenger air traffic is expected to grow slightly more than 5% in calendar 2017, a figure in-line with historical average. This should help sustain the solid momentum of the commercial aerospace industry.

In calendar 2016, large commercial aircraft manufacturers once again delivered a record combined number of new aircraft. They are also adjusting production rates for certain models to reflect the introduction of more fuel-efficient variants over the next few years. This includes the Boeing 777 program, for which production rates have been reduced pending transition to the 777X variant. Following many years of very robust new order intake, industry orders have declined slightly in the last twelve months, but backlogs of large aircraft manufacturers remain healthy. However, the order reduction has been more important for twin-aisle aircraft, including the Boeing 777 program.

In the business jet sector, aircraft shipments declined in calendar 2016 reflecting an economic contraction in certain emerging markets, notably Brazil and Russia. Héroux-Devtek still remains well positioned in this market given the current and future ramp-up of certain models for which it has designed the landing gear.

In the defence aerospace market, the new U.S. administration has indicated its intention to increase funding, which could be positive for certain programs. Supporting the above, greater funding has been proposed for the U.S. government's 2018 fiscal year. Outside the continent, our U.K. operations provide diversification as well as opportunities to gain further exposure on existing and new international defence programs.

OUTLOOK

Héroux-Devtek is dedicated to building a sustainable future. The Corporation's state-of-the-art facilities, talented employees, important content on leading programs, as well as solid relationships with leading OEM customers are essential attributes in achieving success.

Over the short-term, our results will reflect reduced production rates announced by some OEMs for certain aircraft programs, including the Boeing 777. As a result, we expect a low single-digit sales decrease for the fiscal year ending March 31, 2018, when compared to the fiscal year just ended.

Following this transition year, Héroux-Devtek expects sales growth to progressively resume, driven by the ramp-up of new programs, and reach between $480 and $520 million in fiscal 2021, based on existing contracts.

Meanwhile, our solid financial position enables us to continue looking for new business opportunities and for strategic acquisitions that would complement current activities and create further value for shareholders.

We take this opportunity to thank all employees of Héroux-Devtek for their commitment. Building a strong, sustainable business would not be possible without their contribution. We also express gratitude to the members of the Board of Directors for their counsel. We extend our appreciation to our business partners, customers and suppliers for their ongoing trust, and to our shareholders for their continuous support.

Réal Raymond Chairman of the Board	Gilles Labbé, FCPA, FCA President and Chief Executive Officer

OPERATING REVIEW

Martin Brassard
Executive Vice-President and
Chief Operating Officer

WITH MANY LONG-TERM CONTRACTS, AN IMPORTANT PROPORTION OF SALES DERIVED FROM PROPRIETARY PRODUCTS, AND AN INCREASINGLY WIDER BASE OF IN-SERVICE PRODUCTS, OUR BUSINESS IS, MORE THAN EVER, SUSTAINABLE TO THE BENEFIT OF OUR CUSTOMERS, EMPLOYEES AND SHAREHOLDERS.

PRECISE EXECUTION OF THE BOEING 777 AND 777X CONTRACT

In fiscal 2017, Héroux-Devtek made great strides in executing the largest landing gear contract in its history. At the beginning of the fiscal year, we delivered our first Boeing 777 complete landing gear shipset and as the fiscal year progressed, we constantly met production requirements. As at March 31, 2017, we had delivered a total of 21 complete systems and as we begin fiscal 2018, we are meeting Boeing's production needs.

In the second half of fiscal 2017, we received customer approval for two of the main surface treatment processes used at our Strongsville, Ohio finishing and assembly facility. These approvals will allow us to produce internally the most critical components, which should reduce our costs and dependence on third-parties going forward. We continue to progress in regards to the remaining processes and we expect to receive full qualification during fiscal 2018.

Héroux-Devtek is very proud of its dedicated employees involved on this important contract. The success achieved to this date in meeting quality, reliability and on-time deliveries has contributed to strengthen our relationship with Boeing.

BUILDING SUSTAINABILITY THROUGH PROPRIETARY PRODUCTS...

Our fully-integrated product and service offering allows Héroux-Devtek to generate revenues throughout the life of a program, ranging from initial design and development, aircraft production and, finally, in the aftermarket by supporting in-service aircraft.

Several new contracts awarded in fiscal 2017 perfectly illustrate the longevity of our products' revenue-generation cycle:

- New KF-X fighter aircraft: landing gear design and development
- Gripen E fighter aircraft: new complete landing gear systems
- Hawk advanced jet trainer aircraft: manufacturing of new landing gear shipsets for existing aircraft

In fiscal 2017, our proportion of revenues derived from proprietary products remained relatively stable at nearly 30%. This includes aftermarket sales made in support of programs for which we had previously carried out design and development work.

Given the ramp-up of the Boeing 777 and 777x contract, this proportion could slightly decline over the short-term, but the extensive list of programs on which we hold intellectual property or design authority rights provides Héroux-Devtek with a sustainable revenue base going forward.

... AND AFTERMARKET SALES

In the aftermarket, the base of Héroux-Devtek products in active duty has steadily increased through acquisitions and internal growth. Our ability to service a larger aircraft fleet is also contributing to revenue sustainability. In fiscal 2017, we generated more than 30% of our sales from aftermarket products and services. We offer product support capability for commercial aircraft operators and provide civil and government customers with spare part manufacturing, as well as repair and overhaul services for defence aircraft.

To enhance customer service and improve our competitiveness, we completed in fiscal 2017 the combination of our European maintenance, repair, and overhaul facilities into one operation in Runcorn, United Kingdom. We expect to achieve synergies from this initiative going forward and to be in a position to capture additional business opportunities to demonstrate our world-class capabilities.

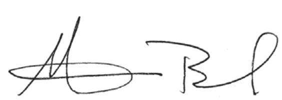
LEVERAGING OUR CENTRES OF EXCELLENCE

Héroux-Devtek continuously invests in its facilities to increase efficiency and productivity by reducing costs and improving processes. Each facility acts as a centre of excellence, which enhances quality and reliability, while also shortening manufacturing cycles. Through centres of excellence, we are able to offer customer service that is second-to-none at very competitive prices.

We are well positioned to leverage our centres of excellence and our expertise. For instance, the comprehensive capital investment plan completed to carry out the Boeing 777 and 777X contract has expanded our network, so that we can confidently pursue other opportunities to supply complex landing gear systems to the world's largest OEMs.

More importantly, our employees share our vision and our passion. The conclusion, subsequent to year-end, of a three-year collective agreement at our Longueuil facility constitutes a solid foundation to continue growing the Corporation.

Héroux-Devtek's world-class, multi-continent, integrated product and service offering provides OEMs with cost-efficient solutions. We have also proven our great flexibility in adapting to industry transformations. To sustain our competitiveness, we are continuously investing in research and development initiatives and leading-edge equipment.



Martin Brassard
Executive Vice-President and
Chief Operating Officer

OUR GLOBAL NETWORK

UNITED KINGDOM

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

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

48%
DEFENCE

52%
COMMERCIAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED MARCH 31, 2017

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OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2016 and March 31, 2017. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2017 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, 2017, 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, 2017 and 2016 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.

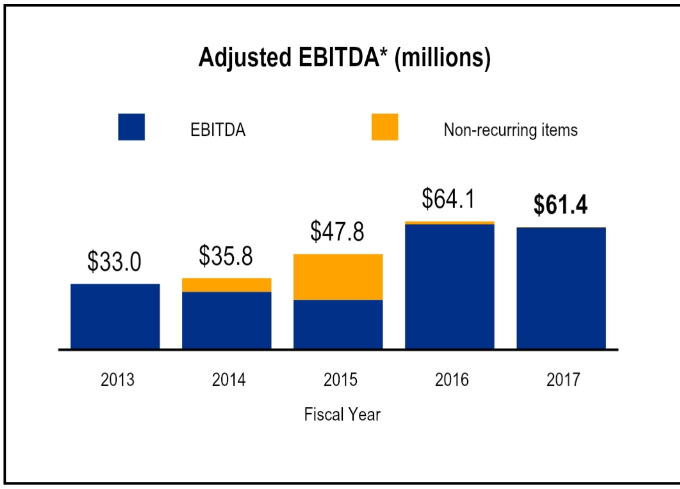
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity 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.

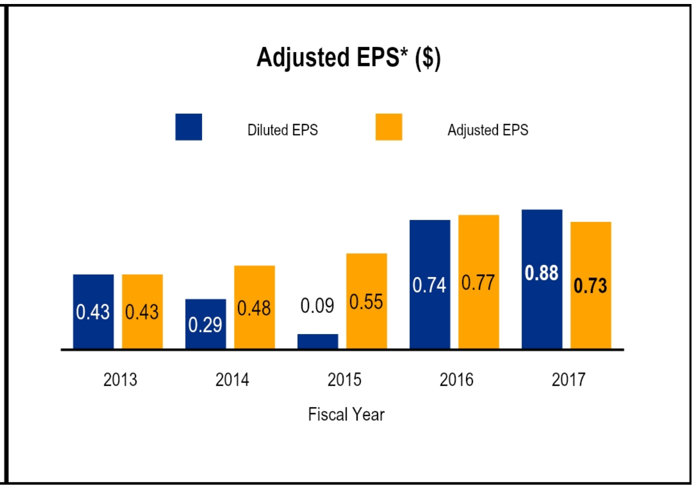
Héroux-Devtek provides such forward-looking statements for the purpose of assisting the reader in understanding the Corporation's financial performance and prospects and to present management's assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate for other purposes.

Although management believes in the expectations conveyed by the forward-looking statements and which 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	2017	2016
Sales	**$ 406,536**	$ 406,812
Operating income	**35,552**	37,783
Adjusted operating income*	**35,880**	39,263
Adjusted EBITDA*	**61,448**	64,070
Net income	**31,768**	26,641
Adjusted net income*	**26,353**	27,650
In dollars per share		
EPS - basic and diluted	**$ 0.88**	$ 0.74
Adjusted EPS*	**0.73**	0.77
In thousands of shares		
Weighted average number of common diluted shares outstanding	**36,284**	36,119
In millions of dollars		
Funded backlog**	**$ 405**	$ 460





* *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.*

*** Represents firm orders as at March 31 of the fiscal year.*

Key Events

- The Corporation achieved sales of $406.5 million and Adjusted EBITDA of $61.4 million compared to $406.8 million and $64.1 million in fiscal 2016. See *Operating Results* for further details.
- In July, the Corporation delivered the first Boeing 777 landing gear to The Boeing Company ("Boeing"). Héroux-Devtek went on to deliver 21 complete systems thoughout the fiscal year, and continues to meet production requirements.
- During the fiscal year, the Corporation received customer approval for two main surface treatment processes required under the Boeing 777 and 777X contracts in order to produce the most critical components internally. Qualification is expected to be completed this fiscal year.
- Throughout the fiscal year, the Corporation signed multiple agreements in the defence sector, including the following:
    - In November, a contract which broadened the scope of an existing agreement to provide Embraer with landing gear components and assemblies for the KC-390 aircraft, and a contract with BAE Systems to manufacture and assemble complete landing gear replacement shipsets and hydraulic actuators for the Hawk advanced jet trainer aircraft; and,
    - In December, a contract with Saab AB for the production of complete landing gear systems for 96 Gripen E fighter aircraft.
- In February, following the announcement of reduced production rates for certain aircraft programs by Original Equipment Manufacturers ("OEMs"), Héroux-Devtek announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which will be completed throughout the current calendar year, resulted in a non-recurring charge of $3.6 million which was accounted for during the fourth quarter.
- In April 2017, subsequent to year-end, the Corporation announced that its unionized employees at the landing gear products facility in Longueuil, Québec voted in favor of a three-year collective agreement, which now extends through April 30, 2020.

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 OEMs such as Boeing, Lockheed Martin and Leonardo Helicopters; to Tier 1 suppliers such as UTC Aerospace Systems and Safran Landing Systems; and to end users in the aftermarket where its main customer is the US Air Force ("USAF"). In fiscal 2017, sales to these six customers represented approximately 58% of total consolidated sales. More specifically, the Corporation has two customers representing 18% and 13% of its consolidated sales. In March 2017, USAF selected a competing bidder for a comprehensive Performance Based Logistics contract. Héroux-Devtek anticipates that its business volume based on the terms of the current agreement will gradually phase out over the course of its fiscal year ending March 31, 2019.

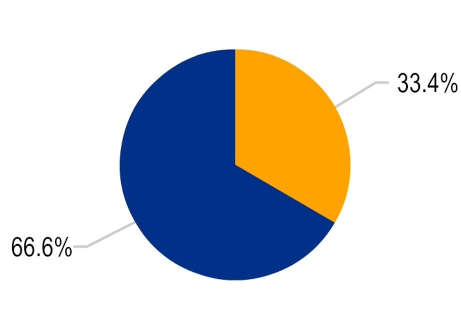
History

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.

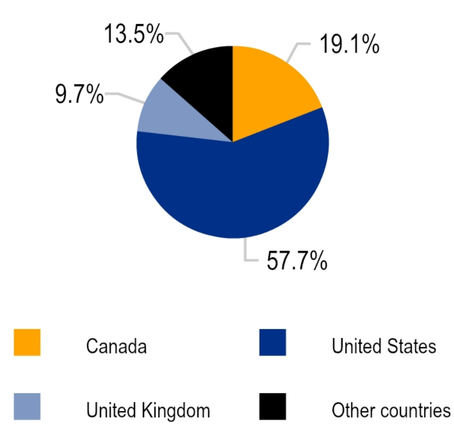
On April 28, 2010, the Corporation concluded the acquisition of U.S. based Eagle Tool & Machine Co. and its subsidiary, All Tool Inc., two privately-held Ohio-based manufacturers located in Springfield and Cleveland, which were involved in landing gear products mainly for the defence aerospace industry.

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.

Fiscal 2017 sales, BTP* vs proprietary



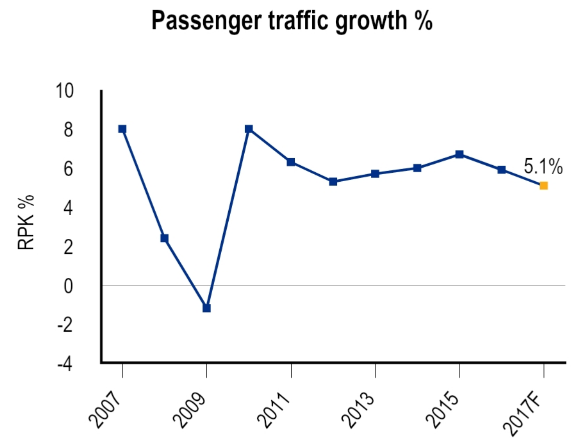
Fiscal 2017 sales mix by destination

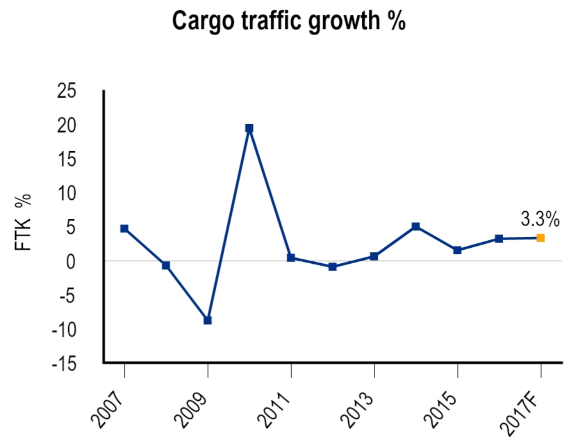


** BTP: Build to Print*

ECONOMIC OUTLOOK[1]

In the commercial aerospace market, the International Air Transport Association's ("IATA") most recent calendar 2017 forecast calls for a 5.1% growth in the passenger market measured in revenue passenger kilometers ("RPK"). This growth rate is in line with the historical average. Meanwhile, air cargo volume measured in freight ton kilometers ("FTK") is expected to rise 3.3% in calendar 2017 [2].





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

In the business jet sector, aircraft shipments declined 7.9% in calendar 2016 reflecting an economic contraction affecting certain emerging markets, most notably Brazil and Russia. The Corporation remains well positioned in this market given the current and future ramp-up of certain models for which it has designed the landing gear [4].

In the defence aerospace market, the new U.S. administration has indicated its intention to increase funding for the Department of Defense (DOD). A recent bipartisan agreement is providing DOD with additional funding of US$12.5 billion for the rest of the U.S. Government's 2017 fiscal year, while the President's 2018 Budget requests US$639 billion for DOD's 2018 fiscal year, representing a US$54 billion increase over fiscal 2017 initially authorized levels [5].

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

(1) *Refer to Forward-Looking Statements in Overview for further information regarding forward-looking statements and related risks.*
(2) *Source: Economic Performance of the Airline Industry, IATA, December 2016.*
(3) *Sources: Airbus press releases July 12, 2016; February 24, 2016; October 30, 2015; February 27, 2015. Boeing press releases January 21, 2016; October 2, 2014.*
(4) *Source: GAMA.*
(5) *Sources: NY Times April 30, 2017; America First, A Budget Blueprint to Make America Great Again, March 16, 2017.*

KEY PERFORMANCE INDICATORS

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

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

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

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

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

In addition to the above measures, on an internal basis, the Corporation uses such measures as manufacturing capacity utilization, 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

During the fiscal year, sales guidance issued in the fiscal 2016 MD&A were revised since they were outside of management's expected range in a material way. This led Héroux-Devtek to retract certain guidance throughout the fiscal year and issue revised guidance in the MD&A for the third quarter ended December 31, 2016.

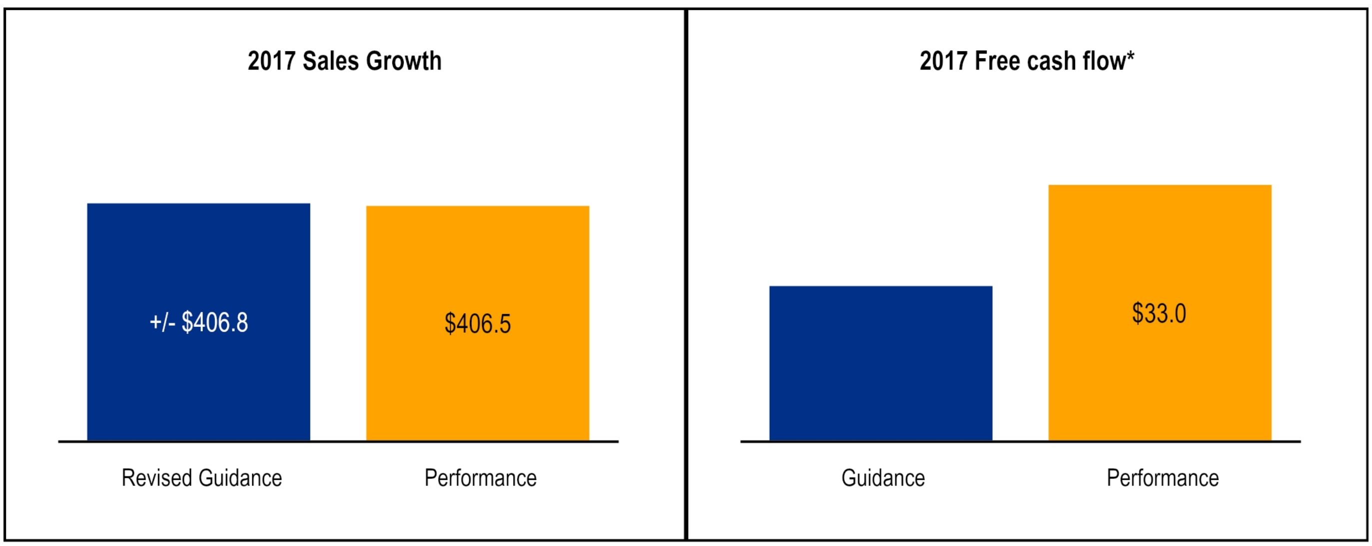
The two key changes in assumptions which led to the guidance revisions were:

- The significant decrease in value of the British pound versus the Canadian dollar since March 31st 2016. See the *Foreign Exchange* section for further details.
- Production rate decreases for certain aircraft programs, including the Boeing 777, which were announced by OEMs.

These two changes in assumptions impacted forecasted sales negatively, resulting in the following guidance revisions:

Metric	March 31, 2016 guidance	**Revised guidance**
Fiscal 2017 sales growth	Low single-digit growth, to approximately $420 million	**Relatively stable sales**
Long-term sales growth	$500 million of sales for fiscal 2019	**Sales of $480-520 million for FY2021**
Fiscal 2017 additions to PP&E	Approximately $20 million	Approximately $20 million
Fiscal 2017 free cash flow*	Positive free cash flow	Positive free cash flow

FISCAL 2017 OPERATING RESULTS COMPARED TO REVISED GUIDANCE (in millions)



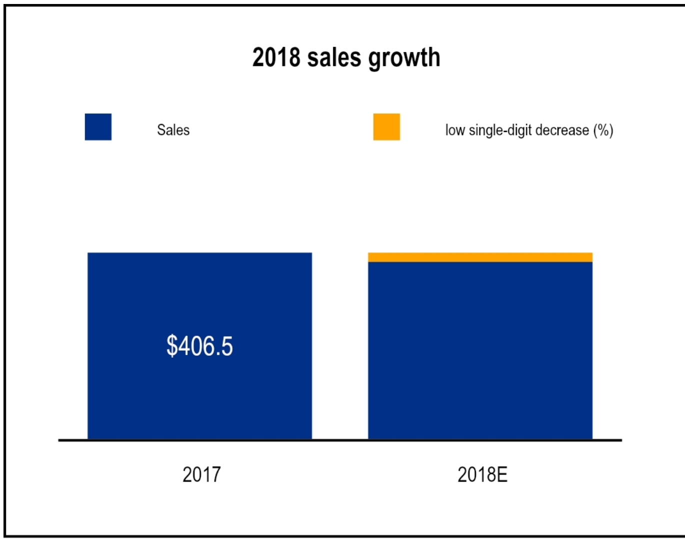
**Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section under* Operating Results *for definitions and reconciliations to the most comparable IFRS measures.*

Actual sales were in line with revised guidance of stable sales compared to last year's sales of $406.8 millions.

Free cash flow totaled $33.0 million for the fiscal year, compared to $(66.3) million last year and in line with fiscal 2016 guidance that it would turn positive. See the *Free cash flow* section under *Liquidity and Capital Resources* for a year-over-year comparison of Free cash flow.

Additions to property, plant and equipment were mainly in line with guidance of $20.0 million at $19.4 million.

FISCAL 2018 GUIDANCE (in millions)



2018E: 2018 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.*

A low single-digit decrease in sales is expected for fiscal 2018, which in part explains the shift to the right of long-term sales guidance, to a range of sales between $480 and $520 million in fiscal 2021, when compared to past forecasts. The less positive sales outlook is mainly related to production rate decreases for certain aircraft programs on the part of OEMs.

Additions to property, plant and equipment are expected to remain at a similar level to those of fiscal 2017 in fiscal 2018.

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, spending climates, trends and expectations;
- Ongoing economic conditions;
- Stability of foreign exchange rates, particularly versus the U.S. dollar; and,
- The Corporation's ability to deliver on key contract initiatives.

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

RISK MANAGEMENT

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

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

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

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

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

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

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

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

Strategic Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Boeing 777 and 777X program execution	The Boeing 777 and 777X programs are integral to the long-term growth of Héroux-Devtek and have engendered approximately $110 million of investments. Solid execution of this contract is crucial in order for the Corporation to, among other objectives: - Recover invested capital - Achieve forecasted sales and profitability growth - Demonstrate the Corporation's ability to compete as a Tier-1 producer of landing gear for larger commercial aircraft	The Boeing 777 and 777X programs are subject to constant oversight by senior management and represent a company-wide effort. Furthermore: - The Corporation has invested in state-of-the-art equipment and facilities to ensure proper execution; - Execution is subject to rigorous internal and external qualification processes; - Héroux-Devtek works very closely with Boeing in order to ensure requirements are consistently met or exceeded.
Reliance on large customers	The top 6 of Héroux-Devtek's customers represent approximately 58% of consolidated sales. The loss of any of such customer would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio. In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.

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

Financial Risks

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

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

Operational Risks

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

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

Environmental Risks

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

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

FOREIGN EXCHANGE

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

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

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

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

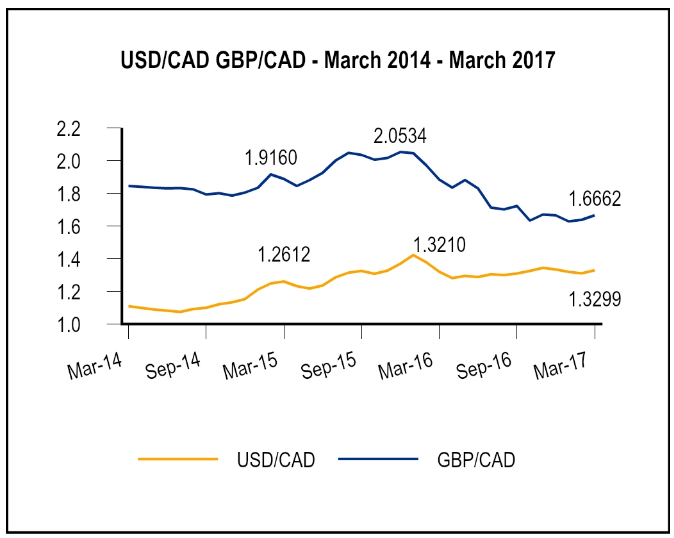
	March 31, 2017	March 31, 2016
USD (Canadian equivalent of US$1.0)	**1.3299**	1.2987
GBP (Canadian equivalent of £1.0)	**1.6662**	1.8654

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,	
	2017	2016	**2017**	2016
USD (Canadian equivalent of US$1.0)	**1.3230**	1.3748	**1.3126**	1.3122
GBP (Canadian equivalent of £1.0)	**1.6399**	1.9674	**1.7144**	1.9763

Héroux-Devtek is most exposed to the USD to CAD and GBP to CAD exchange rates due to the prevalence of USD in Aerospace market transactions and the geographical location of operations. Fiscal 2017 featured a sharp decline in the value of the GBP, the main impact of which was a decrease in value of the Corporation's U.K. denominated sales and assets. Héroux-Devtek's GBP sales incur substantial GBP denominated costs, which naturally hedges gross profit from currency impacts. Over 75% of the Corporation's sales, however, are denominated in USD, compared to only a bit more than half of the related costs, which creates more significant net inflows of USD, the value of which fluctuates with the USD/CAD exchange rate.

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, 2017**	March 31, 2016	March 31, 2015
Notional amount outstanding (USD '000s)	**152,350**	165,200	118,950
Average exchange rate	**1.3178**	1.2900	1.1297

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.

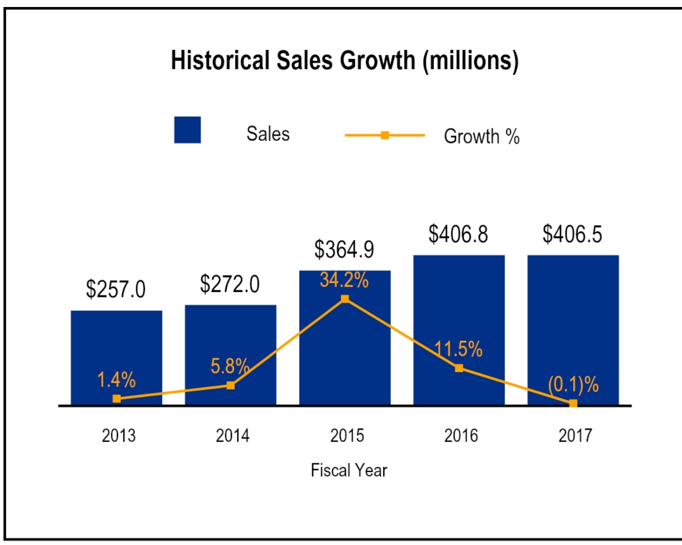
Foreign exchange had a net positive impact of 1.8% on Héroux-Devtek's gross margin, mainly related to the higher FX rate of FFEC delivered in fiscal 2017 as compared to fiscal 2016. As at March 31, 2017, a 1% strengthening of the CAD versus the USD would result in a $312 decrease in the Corporation's fiscal 2017 net income.

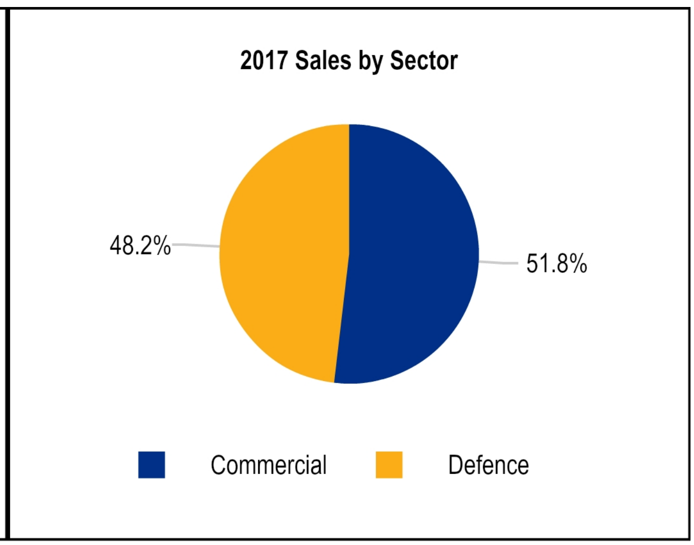
OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2017	2016	*Variance*	**2017**	2016	*Variance*
Sales	**$ 120,886**	$ 117,496	*$ 3,390*	**$ 406,536**	$ 406,812	*$ (276)*
Gross profit	**20,786**	22,192	*(1,406)*	**67,969**	74,325	*(6,356)*
Selling and administrative expenses	**8,474**	8,858	*(384)*	**32,089**	35,062	*(2,973)*
Adjusted operating income[(1)]	**12,312**	13,334	*(1,022)*	**35,880**	39,263	*(3,383)*
Non-recurring items	**3,634**	—	*3,634*	**328**	1,480	*(1,152)*
Operating income	**8,678**	13,334	*(4,656)*	**35,552**	37,783	*(2,231)*
Financial expenses[(2)]	**(1,736)**	1,742	*(3,478)*	**(546)**	5,638	*(6,184)*
Income tax expense	**1,519**	2,501	*(982)*	**4,330**	5,504	*(1,174)*
Net income	**$ 8,895**	$ 9,091	*$ (196)*	**$ 31,768**	$ 26,641	*$ 5,127*
Adjusted net income[(1)]	**$ 9,077**	$ 9,091	*$ (14)*	**$ 26,353**	$ 27,650	*$ (1,297)*
As a percentage of sales						
Gross profit	**17.2%**	18.9%	*-170 bps*	**16.7%**	18.3%	*-160 bps*
Selling and administrative expenses	**7.0%**	7.5%	*-50 bps*	**7.9%**	8.6%	*-70 bps*
Operating income	**7.2%**	11.3%	*-410 bps*	**8.7%**	9.3%	*-60 bps*
Adjusted operating income[(1)]	**10.2%**	11.3%	*-110 bps*	**8.8%**	9.7%	*-90 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.25**	$ 0.25	*$ —*	**$ 0.88**	$ 0.74	*$ 0.14*
Adjusted EPS[(1)]	**$ 0.25**	$ 0.25	*$ —*	**$ 0.73**	$ 0.77	*$ (0.04)*

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

Sales





Sales can be broken down by sector as follows:

	Quarters ended March 31,				
	2017	2016	FX impact	Net variance	
Commercial	**$ 60,764**	$ 54,288	$ (1,853)	$ 8,329	15.3 %
Defence[1]	**60,122**	63,208	(1,633)	(1,453)	(2.3)%
Total	**$ 120,886**	$ 117,496	$ (3,486)	$ 6,876	5.9 %

	Fiscal years ended March 31,				
	2017	2016	FX impact	Net variance	
Commercial	**$ 210,788**	$ 206,533	$ 1,737	$ 2,518	1.2 %
Defence[1]	**195,748**	200,279	1,613	(6,144)	(3.1)%
Total	**$ 406,536**	$ 406,812	$ 3,350	$ (3,626)	(0.9)%

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

Commercial

The $2.5 million and $8.3 million respective net increases in commercial sales for the fourth quarter and fiscal year were mainly driven by the beginning of deliveries for the Boeing 777 program, partly offset by lower customer requirements for certain business jet and large commercial programs.

Defence

The $6.1 million net decrease in defence sales compared to last fiscal year was mainly driven by:

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

These negative factors were partially offset by higher new and spare part requirements from civil customers, notably for the F-35 program, and higher repair and overhaul ("R&O") sales to European customers.

The $1.5 million net decrease in defence sales for the quarter compared to the same quarter last fiscal year was mainly driven by lower R&O sales to the U.S. Air Force partly offset by a catch-up in sales of spare parts to the U.S. government.

Gross Profit

The decrease in gross profit from 18.3% to 16.7% this fiscal year compared to last fiscal year was mainly driven by:

- Higher under-absorption, including excess processing and finishing costs related to the Boeing 777 program. These costs are expected to normalize upon completion of the customer qualification and approval of Héroux-Devtek's surface treatment processes;
- Normal learning curve costs associated with the initial ramp-up of production for the Boeing 777 program; and,
- The impact of the integration of the Corporation's R&O facilities in Runcorn UK, which has now been completed.

These negative elements were partially offset by favourable U.S. dollar exchange rate fluctuations, representing 1.8% of sales.

The decrease in gross profit margin from 18.9% to 17.2% this quarter compared to the same quarter last fiscal year was mainly driven by: higher under-absorption, including excess processing and finishing costs related to the Boeing 777 program, partly offset by favourable U.S. dollar exchange rate fluctuations, representing 1.8% of sales.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 7.5% and 8.6% of sales for the quarter and fiscal year, respectively, compared to 7.3% and 8.5% for the same periods last fiscal year.

While selling and administrative expenses were fairly stable as a percentage of sales over the fiscal year compared to last, the slight increase this quarter versus the same last fiscal year was mainly related to higher professional fees engaged during the quarter.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	**2016**
Non-recurring items in EBITDA				
Gain on settlement of a litigation	**$ —**	$ —	**$ (5,247)**	$ —
Restructuring charges	**3,634**	—	**3,634**	—
Legal and other professional fees	**—**	—	**1,941**	1,480
	$ 3,634	$ —	**$ 328**	$ 1,480
Non-recurring items in financial expenses				
Revision of governmental authorities loans repayment estimates	**$ (3,426)**	$ —	**$ (6,375)**	$ —
	$ (3,426)	$ —	**$ (6,375)**	$ —

Restructuring charges
In February 2017, following production rate reductions for certain aircraft programs announced by OEMs, Héroux-Devtek announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which will be completed over the current calendar year, has resulted in restructuring charges of $3.6 million, mainly comprised of employee-related costs. The unpaid portion of these charges, which amounted to $2.6 million as at March 31, 2017, is included in current Provisions in the Corporation's consolidated balance sheet, and under *Litigations and other* in note 18 to the consolidated financial statements.

Gain on settlement of a litigation, Legal and other professional fees
In January 2016, the Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During fiscal 2017, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4.0 million ($5.2 million) settlement. Non-recurring legal and other professional fees incurred during the current fiscal year totaled $1.9 million.

Legal and other professional fees incurred during fiscal 2016 totaling $1.5 million were related to the final settlement of a litigation on May 29, 2015 regarding the alleged violation of a non-compete covenant by a wholly-owned subsidiary of the Corporation.

Revision of governmental authorities loans repayment estimates
Refer to *Government Authorities Loans* under *Liquidity and Capital Resources* for the description of these revisions.

Operating Income

The decreases in operating income from 11.3% to 7.2% of sales (decrease from 11.3% to 10.2% excluding non-recurring items) for the quarter and from 9.3% to 8.7% of sales (decrease from 9.7% to 8.8% excluding non-recurring items) for the fiscal year compared to the same periods last fiscal year are mainly the result of the factors described above.

Financial Expenses

The $6.2 million decrease during the fiscal year compared to last fiscal year mainly reflects the $6.4 million of gains resulting from revisions of the repayment schedules of governmental authorities loans, described in *Non-Recurring Items* above, partly offset by higher interest expense resulting from a higher average balance of obligations under finance leases.

Financial expenses decreased by $3.5 million during the quarter compared to the same period last fiscal year, mainly reflecting the $3.4 million dollar gain resulting from a revision to the repayment schedule of a government authority loan, described in *Non-Recurring Items* above.

See the financing activities section of *Variations in cash and cash equivalents* under *Liquidity and Capital Resources* for further details of the Corporation's financing transactions this fiscal year.

Income Tax Expense

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Income before income tax expense	**$ 10,414**	$ 11,592	**$ 36,098**	$ 32,145
Income tax expense	**1,519**	2,501	**4,330**	5,504
Effective tax rate	**14.6%**	21.6%	**12.0%**	17.1%
Canadian blended statutory income tax rate	**26.7%**	26.7%	**26.7%**	26.7%

For the fiscal year, the Corporation's effective income tax rate mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($4.8 million) and the non-taxable gain on settlement of litigation ($0.8 million), partially offset by permanent differences ($0.2 million). The Corporation's effective tax rate for fiscal year ended 2016 mainly reflected 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 effective income tax rate for this quarter mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($1.3 million), partially offset by permanent differences ($0.1 million). The Corporation's effective tax rate for the quarter ended March 31, 2016 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($1.0 million) partially offset by true-up adjustments ($0.3 million) and permanent differences ($0.3 million).

Net Income

Earnings decreased from $9.1 million to $8.9 million (or were stable at $9.1 million excluding non-recurring items net of taxes) during the quarter and increased from $26.6 million to $31.8 million (or decreased from $27.7 million to $26.4 million excluding non-recurring items 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 $0.74 to $0.88 per share (or decreased from $0.77 to $0.73 per share excluding non-recurring items net of taxes).

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Operating income	**$ 8,678**	$ 13,334	**$ 35,552**	$ 37,783
Non-recurring items	**3,634**	—	**328**	1,480
Adjusted operating income	**$ 12,312**	$ 13,334	**$ 35,880**	$ 39,263

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	**2016**
Net income	**$ 8,895**	$ 9,091	**$ 31,768**	$ 26,641
Income tax expense	**1,519**	2,501	**4,330**	5,504
Financial expenses	**(1,736)**	1,742	**(546)**	5,638
Amortization expense	**6,869**	7,379	**25,568**	24,807
EBITDA	**$ 15,547**	$ 20,713	**$ 61,120**	$ 62,590
Non-recurring items	**3,634**	—	**328**	1,480
Adjusted EBITDA	**$ 19,181**	$ 20,713	**$ 61,448**	$ 64,070

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Net income	**$ 8,895**	$ 9,091	**$ 31,768**	$ 26,641
Non-recurring items net of taxes	**182**	—	**(5,415)**	1,009
Adjusted net income	**$ 9,077**	$ 9,091	**$ 26,353**	$ 27,650
In dollars per share				
Earnings per share - basic and diluted	**$ 0.25**	$ 0.25	**$ 0.88**	$ 0.74
Non-recurring items net of taxes	**—**	—	**(0.15)**	0.03
Adjusted earnings per share	**$ 0.25**	$ 0.25	**$ 0.73**	$ 0.77

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

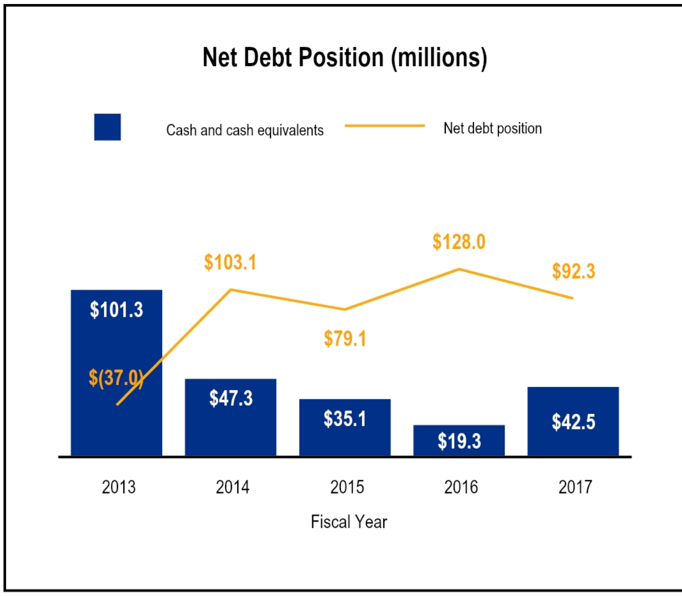
The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with five Canadian syndicated banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to the equivalent of $200.0 million in any currency authorized by the lenders. In May 2017, subsequent to year-end, the Corporation extended this facility to a maturity date in May 2022. It also includes an accordion feature to increase the Credit Facility by an additional $100.0 million ($75 million as at March 31, 2017) during the term of the Credit Agreement, subject to the approval of the lenders.

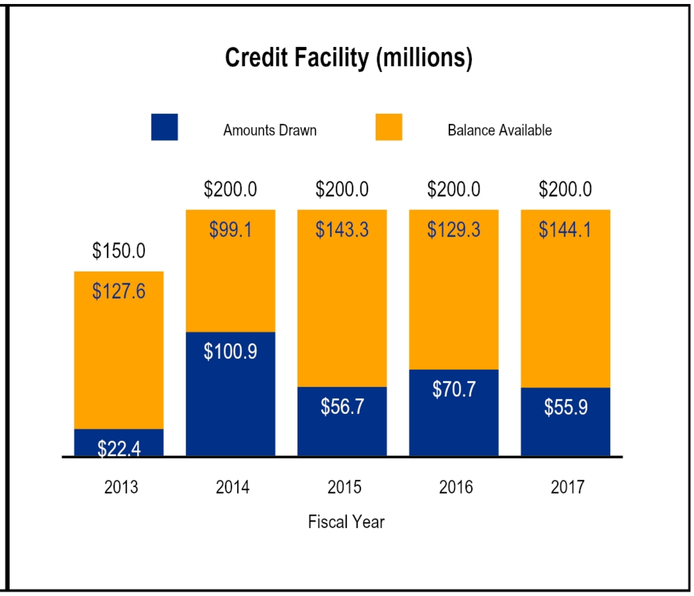
As at March 31, 2017, the Corporation had $55.9 million drawn against the Credit Facility, which is included in long-term debt, compared to $70.7 million as at March 31, 2016. The decrease in outstanding balance relates to the net repayment of $16.2 million in CAD drawings throughout the year. Considering 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, 2017	March 31, 2016
Long-term debt, including current portion[(1)]	**$ 134,776**	$ 147,240
Less: Cash and cash equivalents	**42,456**	19,268
Net debt position	**$ 92,320**	$ 127,972

[(1)] *Excluding net deferred financing costs of $0.6 million as at* March 31, 2017 *and $1.0 million as at* March 31, 2016.





Long-term debt is subject to certain general and financial covenants related, among others, to 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, 2017 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.

During fiscal 2017, two significant adjustments were made to these assumptions and treated as non-recurring items:

- As at December 31, 2016, the Corporation updated the estimated repayment schedule for certain of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts made following reduced production rates announced by OEMs. This resulted in a $3.0 million non-cash gain accounted for in financial expenses.
- As at March 31, 2017, the Corporation updated the estimated repayment schedule for one of its government authorities loans, taking into account an agreement with the related government authority extending the duration of the investment period of the loan by three years. This resulted in a $3.4 million non-cash gain accounted for in financial expenses.

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, the present value of the calculated benefit of these loans is applied either as a reduction of certain assets or expenses as government assistance.

As at March 31, 2017, the Corporation had a present value of $49.1 million outstanding under these agreements ($53.8 million as at March 31, 2016), bearing effective interest rates of 2.5% 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,	
	2017	2016	**2017**	2016
Cash and cash equivalents at beginning of periods	**$ 18,856**	$ 21,373	**$ 19,268**	$ 35,098
Cash flows related to operating activities	**29,149**	854	**56,148**	6,812
Cash flows related to investing activities	**(5,442)**	(3,120)	**(24,103)**	(52,449)
Cash flows related to financing activities	**(38)**	807	**(8,736)**	29,300
Effect of changes in exchange rates on cash and cash equivalents	**(69)**	(646)	**(121)**	507
Cash and cash equivalents at end of periods	**$ 42,456**	$ 19,268	**$ 42,456**	$ 19,268

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,	
	2017	2016	**2017**	2016
Cash flows from operations	**$ 13,117**	$ 18,347	**$ 52,842**	$ 55,414
Net change in non-cash items	**16,032**	(17,493)	**3,306**	(48,602)
Cash flows related to operating activities	**$ 29,149**	$ 854	**$ 56,148**	$ 6,812

The respective $5.2 million and $2.6 million decreases in cash flows from operations for the quarter and fiscal year ended March 31, 2017 when compared to the same periods last fiscal year are mainly explained by lower EBITDA.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Accounts receivable	**$ (6,589)**	$ (14,636)	**$ 4,106**	$ (3,730)
Income tax receivable	**6**	(597)	**2,325**	218
Inventories	**14,518**	6,628	**2,855**	(15,767)
Other current assets	**5,597**	(4,246)	**2,605**	910
Accounts payable and accrued liabilities, Accounts payable – other and other liabilities	**3,920**	(976)	**(5,115)**	(9,675)
Provisions	**2,140**	815	**(471)**	(5,276)
Progress billings	**(1,534)**	817	**(2,969)**	(1,781)
Customer advances	**(2,403)**	289	**2,587**	(14,471)
Income tax payable	**590**	385	**(178)**	1,064
Effect of changes in exchange rates	**(213)**	(5,972)	**(2,439)**	(94)
Net change in non-cash items	**$ 16,032**	$ (17,493)	**$ 3,306**	$ (48,602)

For the quarter ended March 31, 2017, the positive net change in non-cash items was mainly related to a decrease in inventories following a high level of deliveries over the quarter, while for the fiscal year ended March 31, 2017, non-cash items remained relatively stable.

For the fiscal year ended March 31, 2016, the negative net change in non-cash items mainly reflected:

- 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 mainly reflected:

- 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.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Additions to property, plant and equipment	**$ (4,121)**	$ (2,088)	**$ (20,633)**	$ (37,604)
Deposits on machinery and equipment	**—**	—	**—**	(10,119)
Net increase in finite-life intangible assets	**(1,355)**	(1,032)	**(3,774)**	(5,018)
Proceeds on disposal of property, plant and equipment	**34**	—	**304**	292
Cash flows related to investing activities	**$ (5,442)**	$ (3,120)	**$ (24,103)**	$ (52,449)

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	2016
Gross additions to property, plant and equipment	**$ 6,046**	$ 6,817	**$ 20,894**	$ 75,905
Government assistance	**(1,018)**	(3,739)	**(1,499)**	(7,818)
Additions to property, plant and equipment	**$ 5,028**	$ 3,078	**$ 19,395**	$ 68,087
Variation in unpaid additions included in Accounts payable	**(1,096)**	(801)	**1,238**	2,942
Deposits reclassified to property, plant and equipment upon completion(1)	**189**	(189)	**—**	(33,425)
Additions, as per statements of cash flows	**$ 4,121**	$ 2,088	**$ 20,633**	$ 37,604

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

The decrease in additions to property, plant and equipment this fiscal year compared to fiscal 2016 is due to the completion of planned investments related to the Boeing 777 and 777X contract.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	**2016**
Increase in long-term debt	**$ 715**	$ 1,650	**$ 23,021**	$ 35,679
Repayment of long-term debt	**(993)**	(995)	**(32,797)**	(6,932)
Issuance of common shares	**240**	152	**1,040**	553
Cash flows related to financing activities	**$ (38)**	$ 807	**$ (8,736)**	$ 29,300

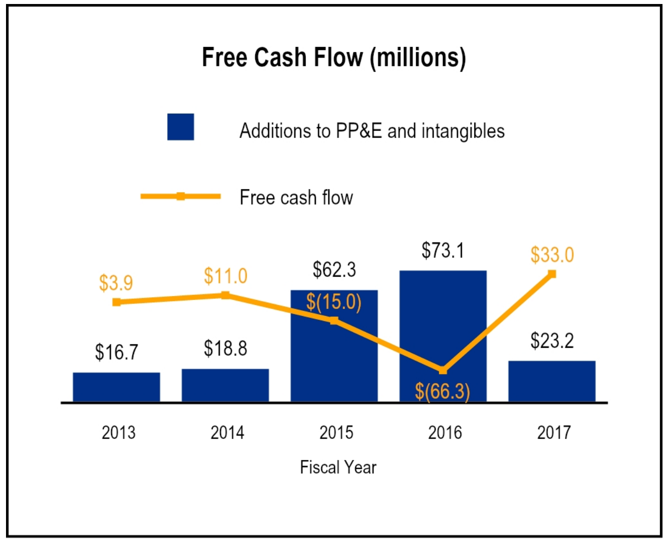
The net decrease in long-term debt over the fiscal year mainly relates to net repayments of $16.2 million of the Credit Facility, partially offset by additions to finance leases of $9.8 million.

FREE CASH FLOW[1]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2017	2016	**2017**	**2016**
Cash flows related to operating activities	**$ 29,149**	$ 854	**$ 56,148**	$ 6,812
Additions to property, plant and equipment	**(5,028)**	(3,078)	**(19,395)**	(68,087)
Net increase in finite-life intangible assets	**(1,355)**	(1,032)	**(3,774)**	(5,018)
Free cash flow[1]	**$ 22,766**	$ (3,256)	**$ 32,979**	$ (66,293)

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

Héroux-Devtek's Free Cash Flow has increased compared to last fiscal year mainly as a result of higher 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 lower additions to property, plant and equipment following the completion of planned investments related to the Boeing 777 and 777X contract.



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, 2017:

	Payments due by period				
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities loans	$ 67,900	$ 2,281	$ 5,279	$ 9,164	$ 51,176
Finance leases	32,553	5,349	11,578	11,068	4,558
Credit facility[1]	58,451	1,327	57,124	—	—
	158,904	8,957	73,981	20,232	55,734
Building, machinery and equipment acquisition commitments	2,157	2,157	—	—	—
Operating leases - Buildings and facilities	11,630	1,349	2,148	1,845	6,288
Total contractual obligations[2]	**$ 172,691**	**$ 12,463**	**$ 76,129**	**$ 22,077**	**$ 62,022**

[1] *As at March 31, 2017, the Credit Facility matured on March 16, 2019. Subsequent to the end of the fiscal year, it was extended through May 2022.*
[2] *Excluding defined benefit pension plan obligations presented in the* Pension Plans *section.*

FINANCIAL POSITION

CAPITAL STRUCTURE

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

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

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

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

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

During fiscal year ended March 31, 2017, 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, 2017	March 31, 2016
Current portion of long-term debt	**$ 6,792**	$ 6,334
Long-term debt	**127,347**	139,950
Deferred financing costs, net	**637**	956
Less: Cash and cash equivalents	**42,456**	19,268
Net debt	**$ 92,320**	$ 127,972
Shareholders' equity	**355,868**	331,114
Net debt-to-equity ratio	**0.26:1**	0.39:1

The decrease in net debt this fiscal year is essentially related to positive free cash flow.

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2017		**Fiscal year ended March 31, 2017**	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,097,640	$ 76,928	36,006,935	$ 75,916
Issued for cash on exercise of stock options	13,000	148	70,750	730
Issued for cash under the stock purchase and ownership incentive plan	11,410	141	44,365	571
Ending balance	36,122,050	$ 77,217	36,122,050	$ 77,217

As at May 24, 2017, the number of common shares outstanding stood at 36,130,933.

Stock options varied as follows:

	Quarter ended March 31, 2017		Fiscal year ended March 31, 2017	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	927,295	$ 10.84	879,545	$ 10.02
Granted	—	—	113,000	15.01
Exercised	(13,000)	7.66	(70,750)	6.63
Cancelled / forfeited	—	—	(7,500)	11.71
Ending balance	914,295	$ 10.88	914,295	$ 10.88

As at March 31, 2017, 1,563,231 common shares remained reserved for issuance upon exercise of stock options compared to 1,633,981 at March 31, 2016 and 106,638 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 151,003 at March 31, 2016.

As at May 24, 2017, the number of stock options outstanding stood at 914,295.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 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, 2017	March 31, 2016	*Variance*	
Current assets	**$ 272,667**	$ 263,137	*$ 9,530*	*3.6 %*
Current liabilities	**104,436**	112,658	*(8,222)*	*(7.3)%*
Net working capital	**$ 168,231**	$ 150,479	*$ 17,752*	*11.8 %*
Working capital ratio	**2.61**	2.34		

The $9.5 million increase in current assets is mainly the result of an increase in cash and cash equivalents ($23.2 million) as detailed in the *Liquidity and Capital Resources section,* partly offset by minor decreases in accounts receivable and other current assets.

The $8.2 million decrease in current liabilities is mainly explained by:

- A decrease in the fair value of derivative financial instruments ($4.4 million) following the increase in the USD/CAD exchange rate and the settlement at a loss of contracts signed to hedge such fluctuations; and,
- A decrease in progress billings ($2.8 million) following revenue recognition.

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, 2017	March 31, 2016	*Variance*	
Long-term assets	**$ 334,619**	$ 346,266	*$ (11,647)*	*(3.4)%*
Long-term liabilities	**146,982**	165,631	*(18,649)*	*(11.3)%*
Shareholder's equity	**355,868**	331,114	*24,754*	*7.5 %*

The $11.6 million decrease in long-term assets is mainly explained by the decrease in converted value of the Corporation's U.K. assets following the decrease in value of the British pound this fiscal year. Refer to *Foreign Exchange* under *Overview* for further details.

The $18.6 million decrease in long-term liabilities is mainly explained by a $12.6 million decrease in Long-term debt, as described in the Financing activities section of *Variations in Cash Equivalents* under *Liquidity and Capital Resources*, and a $5.1 million decrease in pension and other retirement benefit plan liabilities, mainly reflecting actuarial gains over fiscal 2017 included in other comprehensive income.

The increase in shareholder's equity is mainly explained by comprehensive income of $23.0 million, mainly comprised of net income of $31.8 million and the effect of foreign exchange fluctuations of $(12.5) 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, 2017.

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:

	2017	2016
Net defined benefit obligations, beginning of year	**$ (8,670)**	$ (9,275)
Gains (losses) from remeasurement	**5,078**	(281)
Employer contributions	**2,078**	2,672
Current service cost	**(1,500)**	(1,377)
Interest on net defined benefit obligations	**(330)**	(297)
Other	**(266)**	(112)
Net defined benefit obligations, end of year	**$ (3,610)**	$ (8,670)

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

	March 31, 2017	**March 31, 2016**
Present value of defined benefit obligations of funded plans	**$ 59,064**	$ 57,530
Fair value of plan assets	**57,496**	51,385
Funding ratio	**97.3%**	89.3%

The Corporation made contributions of $2.1 million and $2.7 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2017, and expects to make respective contributions of $1.5 million and $2.5 million during fiscal 2018.

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, 2017, 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. See also note 31 to the Consolidated financial statements.

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 2017 and fiscal 2016:

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 expense of the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2017, 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 2018.

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 Note 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.

Government Authorities Loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the sales of certain of the Corporation's programs or segments. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate the future sales growth of these programs or segments over the expected duration of the loan. These forecasts are used to determine effective interest rates and expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

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, 2017, 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, 2017, 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, 2017 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 replace *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 still assessing the impact of these amendments. To date, the Corporation does not expect the new standard to result in material changes aside from disclosure requirements.

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 still assessing the impact of these amendments. In fiscal 2017, the Corporation completed its planning phase and conducted a preliminary analysis of the impacts of IFRS 15 adoption which includes a review of customers' contracts. To date, the Corporation does not expect the new standard to result in material changes aside from disclosure requirements and will continue the review of certain aspects of customers' contracts in the next quarters.

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 recognize assets and liabilities arising from a lease, following a single model where previously leases were classified as either finance leases or operating leases. Most leases will be recognized on the balance sheet. Certain exemptions will apply for short-term leases and leases of low-value assets. The Corporation anticipates the adoption of the IFRS will have an impact on the balance sheet and statement of income as all operating leases will be capitalized with a corresponding lease liability while the rent expense will be replaced by the amortization expense of the right to use the related assets and interest accretion expense from the liability recorded.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2019. Many of the Corporation's leases are already accounted for as finance leases on the balance sheet. Certain other operating leases may be required to be brought on balance sheet. The Corporation continues to assess the impact of adopting this standard on its financial statements.

SELECTED FINANCIAL INFORMATION

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

Fiscal year				2017				2016
	Fourth quarter	**Third quarter**	**Second quarter**	**First quarter**	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	**$120,886**	**$ 98,489**	**$ 91,571**	**$ 95,590**	$117,496	$ 96,561	$ 94,518	$ 98,237
Operating income	**8,678**	**7,694**	**11,584**	**7,596**	13,334	9,794	8,684	5,971
Adjusted operating income (1)	**12,312**	**7,694**	**7,873**	**8,001**	13,334	9,794	8,684	7,451
EBITDA (1)	**15,547**	**13,851**	**17,806**	**13,916**	20,713	15,666	14,607	11,604
Adjusted EBITDA (1)	**19,181**	**13,851**	**14,095**	**14,321**	20,713	15,666	14,607	13,084
Net Income	**8,895**	**8,175**	**9,519**	**5,179**	9,091	7,010	6,030	4,510
Adjusted Net Income (1)	**9,077**	**6,015**	**5,677**	**5,584**	9,091	7,010	6,030	5,519
In dollars per share								
Earnings per share - Basic & Diluted	**0.25**	**0.23**	**0.26**	**0.14**	0.25	0.19	0.17	0.13
Adjusted Earnings per share (1)	**0.25**	**0.17**	**0.16**	**0.15**	0.25	0.19	0.17	0.15
In millions of shares								
Weighted average number of common diluted shares outstanding	**36.3**	**36.3**	**36.3**	**36.3**	36.2	36.2	36.1	36.0

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

Seasonal trends

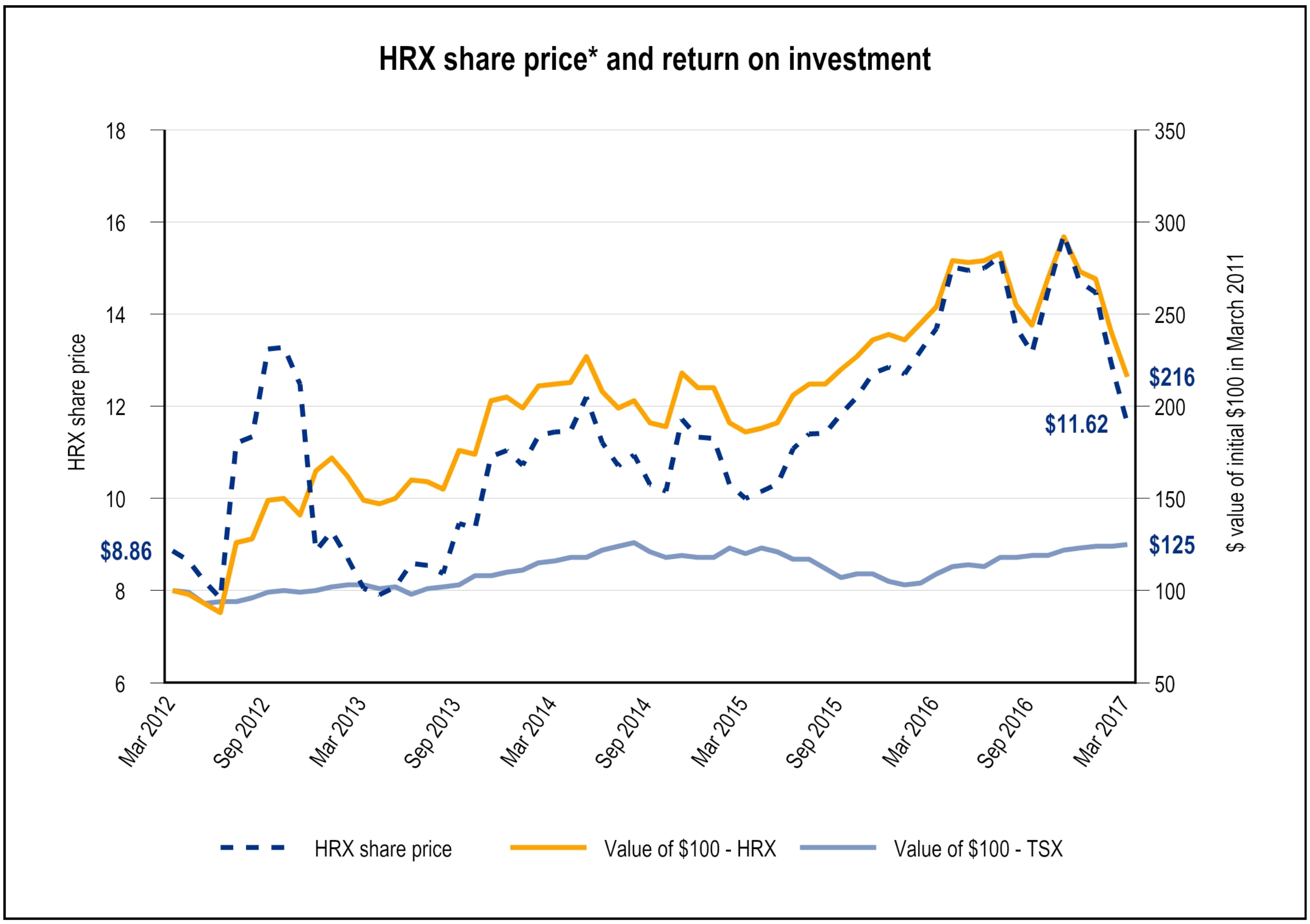
Héroux-Devtek's second quarter is usually slower than the others due to seasonality such as plant shutdowns and summer vacations, whereas the fourth quarter is usually the strongest.

Selected financial information is as follows, for fiscal years:

	2017	2016	2015
Sales	$ **406,536**	$ 406,812	$ 364,916
EBITDA[(1)]	**61,120**	62,590	24,921
Adjusted EBITDA[(1)]	**61,448**	64,070	47,781
Net income	**31,768**	26,641	3,224
Adjusted net income[(1)]	**26,353**	27,650	19,412
Earnings per share ($) - basic and diluted	**0.88**	0.74	0.09
Adjusted earnings per share[(1)] ($)	**0.73**	0.77	0.55
Cash and cash equivalents	**42,456**	19,268	35,098
Total assets	**607,286**	609,403	575,453
Long-term financial liabilities[(2)]	**138,257**	156,267	127,729

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

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



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

ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 24, 2017. Additional information about the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED MARCH 31, 2017

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MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis ("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 thousands of 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, 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 2017. As of March 31, 2017, management has concluded 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. However, due to their inherent limitation, certain misstatements may not be prevented or detected by ICFR.

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	Stéphane Arsenault, CPA, CA
President and Chief Executive Officer	Chief Financial Officer

May 24, 2017

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

We have audited the accompanying consolidated financial statements of Héroux-Detek Inc., which comprise the consolidated balance sheets as at March 31, 2017 and 2016 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, 2017 and 2016 and its financial performance and its cash flows for years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Québec
May 24, 2017

[1] CPA Auditor, CA, public accountancy permit no. A121006

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2017	March 31, 2016
Assets	19		
Current assets			
Cash and cash equivalents		**$ 42,456**	$ 19,268
Accounts receivable		**71,135**	75,241
Income tax receivable		**1,228**	3,553
Inventories	10	**143,866**	146,721
Derivative financial instruments	11	**3,509**	4,938
Other current assets	12	**10,473**	13,416
		272,667	263,137
Property, plant and equipment, net	5, 13	**192,847**	193,143
Finite-life intangible assets, net	5, 14	**45,467**	48,745
Derivative financial instruments	11	**292**	2,823
Deferred income tax assets	23	**9,964**	8,302
Goodwill	15	**86,049**	93,253
Total assets		**$ 607,286**	$ 609,403
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	16	**$ 63,391**	$ 64,279
Accounts payable - other and other liabilities	17	**2,556**	4,655
Provisions	18	**20,170**	21,003
Customer advances		**6,442**	3,855
Progress billings		**1,924**	4,755
Income tax payable		**1,106**	1,284
Derivative financial instruments	11	**2,055**	6,493
Current portion of long-term debt	19	**6,792**	6,334
		104,436	112,658
Long-term debt	19	**127,347**	139,950
Provisions	18	**6,398**	5,990
Derivative financial instruments	11	**508**	1,313
Deferred income tax liabilities	23	**5,942**	5,357
Other liabilities	20	**6,787**	13,021
		251,418	278,289
Shareholders' equity			
Issued capital	21	**77,217**	75,916
Contributed surplus	21	**3,735**	3,283
Accumulated other comprehensive income	22	**6,298**	18,788
Retained earnings		**268,618**	233,127
		355,868	331,114
		$ 607,286	$ 609,403

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 years ended March 31,	Notes	2017	2016
Sales		$ **406,536**	$ 406,812
Cost of sales	5, 6, 10	**338,567**	332,487
Gross profit		**67,969**	74,325
Selling and administrative expenses	5, 6	**32,089**	35,062
Non-recurring items	8	**328**	1,480
Operating income		**35,552**	37,783
Financial expenses	7, 8	**(546)**	5,638
Income before income tax expense		**36,098**	32,145
Income tax expense	23	**4,330**	5,504
Net income		$ **31,768**	$ 26,641
Earnings per share – basic and diluted	9	$ **0.88**	$ 0.74

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 years ended March 31,	Notes	2017	2016
Other comprehensive income (loss):			
Items that may be reclassified to net income			
Gains (losses) arising from translating the financial statements of foreign operations	22	$ (11,435)	$ 470
Cash flow hedges:	22		
Losses on valuation of derivative financial instruments		(3,378)	(877)
Net losses on derivative financial instruments transferred to net income		3,536	15,828
Deferred income taxes		(36)	(3,997)
		122	10,954
Losses on hedges of net investments in foreign operations	22	(1,310)	(1,829)
Deferred income taxes		133	137
		(1,177)	(1,692)
Items that are never reclassified to net income			
Defined benefit pension plans:	24		
Gains (losses) from remeasurement		5,078	(281)
Deferred income taxes		(1,355)	75
		3,723	(206)
Other comprehensive income (loss)		$ (8,767)	$ 9,526
Comprehensive income			
Net income		$ 31,768	$ 26,641
Other comprehensive income (loss)		(8,767)	9,526
Comprehensive income		$ 23,001	$ 36,167

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
Balance as at March 31, 2016	22	$	**75,916**	$	**3,283**	$	**18,788**	$	**233,127**	$	**331,114**
Common shares:	21										
Issued under the stock purchase and ownership incentive plan			571		—		—		—		571
Issued under the stock option plan			730		(261)		—		—		469
Stock-based compensation expense	21		—		713		—		—		713
Net income			—		—		—		31,768		31,768
Other comprehensive income (loss)			—		—		(12,490)		3,723		(8,767)
Balance as at March 31, 2017		$	**77,217**	$	**3,735**	$	**6,298**	$	**268,618**	$	**355,868**

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2015	22	$	**75,304**	$	**2,403**	$	**9,056**	$	**206,692**	$	**293,455**
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
Balance as at March 31, 2016		$	**75,916**	$	**3,283**	$	**18,788**	$	**233,127**	$	**331,114**

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 years ended March 31,	Notes	2017	2016
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		**$ 31,768**	$ 26,641
Items not requiring an outlay of cash:			
Amortization expense	13, 14	**25,568**	24,807
Deferred income taxes	23	**(1,604)**	(96)
Gain on sale of property, plant and equipment		**(262)**	(122)
Non-cash financial expenses	7	**(3,341)**	3,245
Stock-based compensation expense	21	**713**	939
Cash flows from operations		**52,842**	55,414
Net change in non-cash items	27	**3,306**	(48,602)
Cash flows related to operating activities		**56,148**	6,812
Investing activities			
Additions to property, plant and equipment	13	**(20,633)**	(37,604)
Deposits on machinery and equipment		**—**	(10,119)
Net increase in finite-life intangible assets	14	**(3,774)**	(5,018)
Proceeds on disposal of property, plant and equipment		**304**	292
Cash flows related to investing activities		**(24,103)**	(52,449)
Financing activities			
Increase in long-term debt		**23,021**	35,679
Repayment of long-term debt		**(32,797)**	(6,932)
Issuance of common shares	21	**1,040**	553
Cash flows related to financing activities		**(8,736)**	29,300
Effect of changes in exchange rates on cash and cash equivalents		**(121)**	507
Change in cash and cash equivalents during the year		**23,188**	(15,830)
Cash and cash equivalents, beginning of year		**19,268**	35,098
Cash and cash equivalents, end of year		**$ 42,456**	$ 19,268
Interest and income taxes reflected in operating activities:			
Interest paid		**$ 2,829**	$ 2,438
Interest received		**$ 34**	$ 45
Income taxes paid		**$ 3,609**	$ 4,321

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, 2017 and 2016

(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 ("Héroux-Devtek" or 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, 2017.

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 - 3 to 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 statements 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 statements 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 losses, 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 on a straight-line basis over the estimated useful life of the related customer relationship and contracts, which represents a period of up to 12 years.

Software
Software is amortized over 3 to 7 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 combination 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 of disposal 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 CGU participates. 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 of disposal 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 statements 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 statements 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 accounts. Any subsequent reversal of an impairment loss is recognized in the consolidated statements 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 statements 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 statements of income. Amounts recognized in other comprehensive income are transferred to the consolidated statements 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 statements of income.

Hedges 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 statements of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statements 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 statements 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 statements of income as financial expenses. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are recognized in the consolidated statements 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 on a straight-line basis 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 statements 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.

Remeasurements on defined benefit plans include actuarial gains and losses, changes in the effect of the asset ceiling and the return on plan assets, excluding the amount included in net interest on the net defined liability or assets. Remeasurements are charged or credited to other comprehensive income in the period in which they arise.

Past service costs arising from the plan amendments are recognized in full immediately in the consolidated statements of income.

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. However specific recognition criteria must also be met before revenue is recognized. 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.

After initial recognition, the loan is accounted for as a financial liability measured at amortized cost using the effective interest method. Repayments are mainly based on the Corporations sales growth, or sales of specific programs. Assumptions underlying expected sales are reviewed at least annually, and are used to derive expected repayment schedules. When expected repayment schedule changes, the Corporation recalculates the carrying value of the loan using the original effective interest rate, with the corresponding gain or loss accounted for in financial expenses.

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 statements of income or in the consolidated statements 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 statements of income or in the consolidated statements 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 replace *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 still assessing the impact of these amendments. To date, the Corporation does not expect the new standard to result in material changes aside from disclosure requirements.

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 still assessing the impact of these amendments. In fiscal 2017, the Corporation completed its planning phase and conducted a preliminary analysis of the impacts of IFRS 15 adoption which includes a review of customers' contracts. To date, the Corporation does not expect the new standard to result in material changes aside from disclosure requirements and will continue the review of certain aspects of customers' contracts in the next quarters.

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 recognize assets and liabilities arising from a lease, following a single model where previously leases were classified as either finance leases or operating leases. Most leases will be recognized on the balance sheet. Certain exemptions will apply for short-term leases and leases of low-value assets. The Corporation anticipates the adoption of the IFRS will have an impact on the balance sheet and statement of income as all operating leases will be capitalized with a corresponding lease liability while the rent expense will be replaced by the amortization expense of the right to use the related assets and interest accretion expense from the liability recorded.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2019. Many of the Corporation's leases are already accounted for as finance leases on the balance sheet. Certain other operating leases may be required to be brought on balance sheet. The Corporation continues to assess the impact of adopting this standard on its financial statements.

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 Note 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.

F. Government authorities loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the sales of certain of the Corporation's programs or segments. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate the future sales growth of these programs or segments over the expected duration of the loan. These forecasts are used to determine effective interest rates and expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

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:

	2017	2016
Finite-life intangible assets	**$ 197**	$ 357
Property, plant and equipment	**1,499**	7,818
Cost of sales and, selling and administrative expenses	**2,828**	1,885

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:

	2017	2016
Raw materials and purchased parts	**$ 144,135**	$ 134,214
Employee costs	**135,769**	138,679
Amortization of property, plant and equipment and finite-life intangible assets (notes 13, 14)	**25,568**	24,807
Others	**65,184**	69,849
	$ 370,656	$ 367,549

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, 2017, the foreign exchange gain amounted to $2,874, compared to a loss of $321 in 2016.

NOTE 7. FINANCIAL EXPENSES

Financial expenses comprise the following, for fiscal year:

	2017	2016
Interest accretion on governmental authorities loans	$ 2,253	$ 2,567
Revision of governmental authorities loans repayment estimates (note 19)	(6,375)	—
Interest on net defined benefit obligations (note 24)	330	297
Amortization of deferred financing costs	319	319
Other non-cash financial expenses	132	62
Non-cash financial expenses	(3,341)	3,245
Interest expense	2,447	2,112
Standby fees	382	326
Interest income on cash and cash equivalents	(34)	(45)
	$ (546)	$ 5,638

NOTE 8. NON-RECURRING ITEMS

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

	2017	2016
Non-recurring items in operating income		
Gain on settlement of a litigation	$ (5,247)	$ —
Restructuring charges	3,634	—
Legal and other professional fees	1,941	1,480
	$ 328	$ 1,480
Non-recurring items in financial expenses		
Revision of governmental authorities loans repayment estimates	$ (6,375)	$ —
	$ (6,375)	$ —

Restructuring charges

In February 2017, following production rate reductions for certain aircraft programs announced by OEMs, Héroux-Devtek announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which will be completed over the current calendar year, has resulted in restructuring charges of $3,634, mainly comprised of employee-related costs. The unpaid portion of these charges, which amounted to $2,634 as at March 31, 2017, is included in current Provisions in the Corporation's consolidated balance sheet, and under *Litigations and other* in Note 18.

Gain on settlement of a litigation, Legal and other professional fees

In January 2016, the Corporation filed an arbitration claim related to representations and warranties made to it in the context of a completed business acquisition. During fiscal 2017, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4,000 ($5,247) settlement. Non-recurring legal and other professional fees incurred during the current fiscal year totaled $1,941.

Legal and other professional fees incurred during fiscal 2016 totaling $1,480 were related to the final settlement of a litigation on May 29, 2015 regarding the alleged violation of a non-compete covenant by a wholly-owned subsidiary of the Corporation.

Revision of governmental authorities loans repayment estimates

Refer to Note 19 for details regarding the revision of assumptions underlying the valuation of government authorities loans.

NOTE 9. EARNINGS PER SHARE

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

	2017	2016
Weighted-average number of common shares outstanding	**36,071,025**	35,978,071
Effect of dilutive stock options of the Corporation	**213,282**	141,220
Weighted-average number of common diluted shares outstanding	**36,284,307**	36,119,291
Options excluded from diluted earnings per share calculation(1)	**113,000**	—

(1)Excluded from diluted earnings per share calculation due to anti-dilutive impact.

NOTE 10. INVENTORIES

As at	**March 31, 2017**	March 31, 2016
Raw materials	**$ 63,879**	$ 70,038
Work-in-progress	**76,662**	74,165
Finished goods	**3,325**	2,518
	$ 143,866	$ 146,721

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2017 is $284,689 ($279,880 in 2016).

Reserves related to inventories are as follows, for fiscal year:

	2017	2016
Reserves recognized as cost of sales	**$ 8,502**	$ 10,841
Reversal of prior-period reserves recognized as a reduction of cost of sales	**12,364**	10,809

For fiscal year 2017, the reversal of prior-period reserves includes charges of $5,411 ($5,936 in 2016) for products delivered or written-off during the year for which a net realizable value reserve was 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, 2017	March 31, 2016
Current Assets		
Forward foreign exchange contracts and embedded derivative financial instruments	$ 1,766	$ 2,884
Equity swap agreement	1,743	2,054
	$ 3,509	$ 4,938
Long-term Assets		
Forward foreign exchange contracts	$ 292	$ 2,823
	$ 292	$ 2,823
Current Liabilities		
Forward foreign exchange contracts and embedded derivative financial instruments	$ 1,905	$ 6,227
Interest rate swap agreements	150	266
	$ 2,055	$ 6,493
Long-term Liabilities		
Forward foreign exchange contracts	$ 396	$ 847
Interest rate swap agreements	112	466
	$ 508	$ 1,313

NOTE 12. OTHER CURRENT ASSETS

As at	March 31, 2017	March 31, 2016
Investment and other tax credits receivable	$ 4,479	$ 3,423
Sales tax receivable	1,028	2,354
Prepaid expenses	3,917	3,478
Others	1,049	4,161
	$ 10,473	$ 13,416

NOTE 13. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2016	$ 6,530	$ 75,660	$ 231,424	$ 13,184	$ 14,448	$ 341,246
Additions	—	4,503	24,427	1,421	(9,457)	20,894
Government assistance (note 5)	—	(127)	(1,363)	(9)	—	(1,499)
Retirements and disposals	—	(415)	(10,927)	(107)	—	(11,449)
Effect of changes in exchange rates	(28)	514	130	27	(76)	567
As at March 31, 2017	$ 6,502	$ 80,135	$ 243,691	$ 14,516	$ 4,915	$ 349,759
Accumulated amortization:						
As at March 31, 2016	$ —	$ 23,731	$ 117,625	$ 6,747	$ —	$ 148,103
Amortization expense	—	3,472	15,077	1,684	—	20,233
Retirements and disposals	—	(476)	(10,824)	(107)	—	(11,407)
Effect of changes in exchange rates	—	42	(81)	22	—	(17)
As at March 31, 2017	$ —	$ 26,769	$ 121,797	$ 8,346	$ —	$ 156,912
Net book value as at March 31, 2017	**$ 6,502**	**$ 53,366**	**$ 121,894**	**$ 6,170**	**$ 4,915**	**$ 192,847**

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2015	$ 6,497	$ 47,719	$ 182,007	$ 10,692	$ 30,827	$ 277,742
Additions	—	28,828	58,568	2,809	(14,300)	75,905
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	$ 231,424	$ 13,184	$ 14,448	$ 341,246
Accumulated amortization:						
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
Net book value as at March 31, 2016	**$ 6,530**	**$ 51,929**	**$ 113,799**	**$ 6,437**	**$ 14,448**	**$ 193,143**

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

	2017	2016
Gross additions	**$ 20,894**	$ 75,905
Government assistance (note 5)	**(1,499)**	(7,818)
Additions to property, plant and equipment	**19,395**	68,087
Variation in unpaid additions included in Accounts payable - other and other liabilities at year-end (note 17)	**1,238**	2,942
Deposits reclassified to property, plant and equipment upon completion [1]	**—**	(33,425)
Additions, as per statements of cash flows	**$ 20,633**	$ 37,604

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

As at March 31, 2017, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to $39,405 ($45,645 as at March 31, 2016) with accumulated amortization of $3,974 ($12,577 as at March 31, 2016).

As at March 31, 2017, construction in progress includes the cost related to machinery and equipment being installed at these dates.

As at March 31, 2017, the cost of property, plant and equipment still in use and fully depreciated is $84,826 ($81,789 as at March 31, 2016).

NOTE 14. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2016	$ 35,365	$ 16,211	$ 26,061	$ 77,637
Additions	1,706	2,265	—	3,971
Government assistance (note 5)	—	(197)	—	(197)
Retirements and disposals	—	(295)	—	(295)
Effect of changes in exchange rates	2	(211)	(2,143)	(2,352)
As at March 31, 2017	$ 37,073	$ 17,773	$ 23,918	$ 78,764
Accumulated amortization:				
As at March 31, 2016	$ 10,122	$ 11,865	$ 6,905	$ 28,892
Amortization expense	785	1,339	3,211	5,335
Retirements and disposals	—	(295)	—	(295)
Effect of changes in exchange rates	—	(7)	(628)	(635)
As at March 31, 2017	$ 10,907	$ 12,902	$ 9,488	$ 33,297
Net book value as at March 31, 2017	**$ 26,166**	**$ 4,871**	**$ 14,430**	**$ 45,467**

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
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
Accumulated amortization:				
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
Net book value as at March 31, 2016	**$ 25,243**	**$ 4,346**	**$ 19,156**	**$ 48,745**

NOTE 15. GOODWILL

Goodwill varied as follows, during fiscal year:

	2017	2016
Balance at beginning of the year	**$ 93,253**	$ 93,527
Effect of changes in exchange rates	**(7,204)**	(274)
Balance, end of year	**$ 86,049**	$ 93,253

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

	March 31, 2017	March 31, 2016
Aerospace - Landing Gear CGU	**$ 82,301**	$ 89,357
Aerospace - Other CGUs	**3,748**	3,896
Goodwill	**$ 86,049**	$ 93,253

The following key assumptions were used to determine recoverable amounts for the impairment tests performed as at March 31, 2017:

	Pre-tax discount rate	Perpetual growth rate
Aerospace - Landing Gear CGU	15.6%	2.8%
Aerospace - CGUs	15.3% and 17.4%	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, 2017:

	Incremental increase in pre-tax discount rate	Incremental decrease in perpetual growth rate
Aerospace - Landing Gear CGU	2.4%	—%
Aerospace - Other CGUs	0.6% and 52%	0.8% and 30%

NOTE 16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2017	March 31, 2016
Trade payables [(1)]	$ 40,966	$ 40,047
Accrued liabilities [(2)]	22,425	24,232
Accounts payable and accrued liabilities	$ 63,391	$ 64,279

[(1)] Trade payables are normally settled on 30 to 60 day terms.
[(2)] Accrued liabilities mainly include payroll-related liabilities.

NOTE 17. ACCOUNTS PAYABLE - OTHER AND OTHER LIABILITIES

As at	March 31, 2017	March 31, 2016
Unpaid machinery and equipment	$ 2,222	$ 3,460
Deferred revenue	129	642
Other payables	205	553
Accounts payable - other and other liabilities	$ 2,556	$ 4,655

NOTE 18 - PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Other (notes 8, 25)	Total
As at March 31, 2016	$ 1,403	$ 5,990	$ 9,338	$ 10,262	$ 26,993
Arising during the year (note 8)	144	20	1,313	4,216	5,693
Interest accretion expense (note 7)	—	118	—	—	118
Utilized	(1,379)	—	(768)	(2,076)	(4,223)
Reversed	(64)	—	(748)	(282)	(1,094)
Discount rate adjustment (note 7)	—	(72)	—	—	(72)
Effect of changes in exchange rates	6	—	(726)	(127)	(847)
As at March 31, 2017	$ 110	$ 6,056	$ 8,409	$ 11,993	$ 26,568
Less: current portion	110	—	8,409	11,651	20,170
Long-term portion	$ —	$ 6,056	$ —	$ 342	$ 6,398

NOTE 19. LONG-TERM DEBT

As at	March 31, 2017	March 31, 2016
Senior Secured Syndicated Revolving Credit Facility (“Credit Facility“)	**$ 55,856**	$ 70,745
Governmental authorities loans	**49,133**	53,774
Obligations under finance leases	**29,787**	22,721
Deferred financing costs, net	**(637)**	(956)
	134,139	146,284
Less: current portion	**6,792**	6,334
Long-term debt	**$ 127,347**	$ 139,950

Credit Facility

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

As at	March 31, 2017	March 31, 2016
Limit, in Canadian, US$, Euro or British Pound equivalent (1)	**$ 200,000**	$ 200,000
US$ Drawings		
Amount	**US$ 42,000**	US$ 42,000
Rate	**Libor + 1.4%**	Libor + 1.4%
Effective rate	**2.4%**	1.8%
Canadian drawing		
Amount	**$ —**	$ 16,200
Rate	**—**	BA (2) + 1.4%
Effective rate	**—**	2.3%

(1) Includes an accordion feature to increase the Credit Facility up to $275 million during the term of the credit agreement, subject to lenders' approval.
(2) BA: Banker's acceptance

As at March 31, 2017, the Credit Facility was set to matured on March 16, 2019 and was secured by all assets of the Corporation and its subsidiaries. Subsequent to the end of the fiscal year, in May 2017, the Corporation concluded an agreement to extend the term of the Credit Facility for a period of three years to a maturity date of May 2022 under substantially the same terms.

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 various 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.

During fiscal 2017, two significant adjustments were made to these assumptions:

- As at December 31, 2016, the Corporation updated the estimated repayment schedule for certain of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts. This resulted in a non-cash gain of $2,949, which was included in Financial expenses (see Note 7) and classified by management as a Non-recurring item (see Note 8).
- As at March 31, 2017, the Corporation updated the estimated repayment schedule for one of its government authorities loans, taking into account an agreement with the related government authority extending the duration of the investment period of the loan by three years. This resulted in a non-cash gain of $3,426 which was also included in Financial expenses (see Note 7) and classified by management as a Non-recurring item (see Note 8).

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 statements of income as a financial expense.

The effective interest rates for these loans were in the range of 2.5% to 7.2% as at March 31, 2017 (3.4% to 7.2% as at March 31, 2016).

Finance leases

Obligations under finance leases bear fixed interest rates between 2.4% and 3.7% as at March 31, 2017 (2.4% to 6.5% as at March 31, 2016), maturing from July 2019 to December 2023, with amortization periods of approximately seven years, secured by the related property, plant and equipment, net of interest of $2,766 ($2,178 as at March 31, 2016).

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, 2017.

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
2018	$ 5,349	$ 2,281	$ 1,327	$ 8,957
2019	5,844	2,380	57,124 (2)	65,348
2020	5,734	2,899	—	8,633
2021	5,648	3,428	—	9,076
2022	5,420	5,736	—	11,156
Beyond 5 years	4,558	51,176	—	55,734
Sub-Total	32,553	67,900	58,451	158,904
Less: Interest	2,766	18,767	2,595	24,128
Debt balance (1)	$ 29,787	$ 49,133	$ 55,856	$ 134,776

(1) *Before net deferred financing costs.*

(2) *Subsequent to March 31, 2017, this Credit Facility was extended to May 2022.*

NOTE 20. OTHER LIABILITIES

As at	March 31, 2017	March 31, 2016
Deferred revenue	**$ 3,099**	$ 4,135
Pension and other retirement benefit plans (note 24)	**3,610**	8,670
Progress billings	**78**	216
Other Liabilities	**$ 6,787**	$ 13,021

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:

	2017			2016		
	Number		Issued capital	Number		Issued capital
Balance, beginning of year	36,006,935	$	75,916	35,949,445	$	75,304
Issued for cash on exercise of stock options	70,750		730	5,800		71
Issued for cash under the stock purchase and ownership incentive plan	44,365		571	51,690		541
Balance, end of year	36,122,050	$	77,217	36,006,935	$	75,916

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 mainly vest over a period of four years. The options are exercisable over a period not exceeding seven years after the grant date.

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

	2017			2016		
	Number of stock options		Weighted-average exercise price	Number of stock options		Weighted-average exercise price
Balance, beginning of year	879,545	$	10.02	747,346	$	9.84
Granted	113,000		15.01	145,500		10.71
Exercised	(70,750)		6.63	(5,800)		2.19
Cancelled / forfeited	(7,500)		11.71	(7,501)		11.71
Balance, end of year	914,295	$	10.88	879,545	$	10.02
Stock-based compensation expense		$	713		$	939

The weighted-average share price at the date of exercise of stock options in fiscal 2017 was $14.70 ($12.23 in 2016).

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

		2017		2016
Number of stock options granted		113,000		145,500
Weighted average fair value per stock option	$	4.76	$	3.25
Total fair value	$	538	$	473
Expected life		3.9 years		3.2 years
Expected volatility		38%		41%
Expected forfeiture		—%		—%
Expected dividend distribution		None		None
Compounded risk-free interest rate		0.6%		0.5%

As at March 31, 2017, 2,808,257 common shares are reserved for issuance of stock options, of which 1,563,231 remained to be issued, compared to 1,633,981 as at March 31, 2016.

As at March 31, 2017, 914,295 stock options were issued and outstanding and can be detailed as follows:

	Outstanding options			Vested options	
Exercisable price	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$1.31 to $4.09	102,700	0.99	$2.43	102,700	$2.43
$10.71 to $15.01	811,595	4.51	11.95	461,298	11.56
	914,295	4.11	$10.88	563,998	$9.90

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:

	2017	2016
In number of common shares		
Issued	**44,365**	51,690
Attributed to participating employees	**16,755**	19,783
Expense related to common shares attributed	**$ 239**	$ 228

As at March 31, 2017, 340,000 shares were reserved for issuance under the stock purchase and ownership incentive plan, of which 106,638 remained to be issued, compared to 151,003 as at March 31, 2016.

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

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

	2017	2016
In number of DSUs		
Balance, beginning of year	**124,333**	83,158
Issued	**33,740**	41,175
Settled	**(22,258)**	—
Closing balance of DSUs outstanding	**135,815**	124,333
DSU expense	**$ 273**	$ 777
Fair value of outstanding DSUs, end of year	**$ 1,517**	$ 1,578

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

	2017	2016
In number of PSUs		
Balance, beginning of year	**151,392**	115,879
Issued	**58,500**	37,424
Cancelled/forfeited	**(1,941)**	(1,911)
Settled	**(93,517)**	—
Closing balance of PSUs outstanding	**114,434**	151,392
PSU expense	**$ 635**	$ 885
Fair value of vested outstanding PSUs, end of year	**$ 1,004**	$ 1,837

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, 2016	$ 25,691	$ (643)	$ (6,260)	$ 18,788
Other comprehensive income (loss)	(11,435)	122	(1,177)	(12,490)
Balance as at March 31, 2017	**$ 14,256**	**$ (521)**	**$ (7,437)**	**$ 6,298**

	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
Balance as at March 31, 2016	**$ 25,691**	**$ (643)**	**$ (6,260)**	**$ 18,788**

NOTE 23. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2017	2016
Consolidated statements of income		
Current income tax expense	**$ 5,934**	$ 5,600
Deferred income tax recovery	**(1,604)**	(96)
Income tax expense reported in the consolidated statements of income	**$ 4,330**	$ 5,504
Consolidated statements of changes in shareholders' equity		
Expense (recovery) related to items charged or credited directly to retained earnings	**$ 1,355**	$ (75)
Expense (recovery) related to items charged or credited directly to other comprehensive income	**(166)**	3,847
Income tax expense reported directly in shareholders' equity	**$ 1,189**	$ 3,772

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

	2017	2016
Income taxes at combined Federal and Provincial statutory tax rates of 26.7%	**$ 9,651**	$ 8,590
Income tax rate differential – foreign subsidiaries	**(4,839)**	(3,826)
Permanent differences	**(338)**	822
Other items	**(144)**	(82)
Income tax expense	**$ 4,330**	$ 5,504

Income tax expense includes an amount of $144 ($82 in 2016) 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, 2017	March 31, 2016
Deferred income tax assets		
Non-deductible reserves	**$ 2,948**	$ 3,362
Inventories	**7,120**	6,463
Receivables	**36**	53
Derivative financial instruments	**189**	232
Governmental authorities loans	**61**	1,585
Deferred tax benefits from tax losses and deductible expenses carried forward	**21,076**	15,199
Total deferred income tax assets	**$ 31,430**	$ 26,894
Deferred income tax liabilities		
Investment and other tax credits	**(566)**	(2,594)
Property, plant and equipment	**(22,929)**	(16,602)
Customer relationships and contracts	**(3,913)**	(4,753)
Total deferred income tax liabilities	**$ (27,408)**	$ (23,949)
Net deferred income tax assets	**$ 4,022**	$ 2,945

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

As at	March 31, 2017	March 31, 2016
Deferred income tax assets	**$ 9,964**	$ 8,302
Deferred income tax liabilities	**(5,942)**	(5,357)
Net deferred income tax assets	**$ 4,022**	$ 2,945

As at March 31, 2017, net deferred income tax assets of $10,961 were recognized ($5,653 as at March 31, 2016) in jurisdictions that incurred losses in this and prior fiscal years. 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, 2017 and 2016, 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, 2017	March 31, 2016
Canada	**$ 12,797**	$ 2,556
United States	**55,688**	33,043
United Kingdom	**3,219**	11,338
	$ 71,704	$ 46,937

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, 2017 and 2016, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $14,808 ($10,234 in 2016).

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 2017, 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 $2,078 ($2,672 in 2016) while the cash contributed to its defined contribution plans amounted to $2,666 ($2,383 in 2016).

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 plan 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 it. 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 62% in equity funds, 31% in debt securities and 7% 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, 2017	March 31, 2016
Present value of defined benefit obligations of funded plans	**$ 59,064**	$ 57,530
Fair value of plan assets	**57,496**	51,385
Funded status of the plans – deficit	**$ (1,568)**	$ (6,145)
Present value of defined benefit obligations of unfunded plan	**(2,042)**	(2,525)
Amount recognized in other long-term liabilities	**$ (3,610)**	$ (8,670)

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

	2017	2016
Current service cost	**$ 1,500**	$ 1,377
Interest on net defined benefit obligations (note 7)	**330**	297
Termination benefits (note 8)	**143**	—
Administrative costs	**123**	112
Defined benefit pension expense recognized in the consolidated statements of income	**$ 2,096**	$ 1,786

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

	2017	2016
Remeasurements		
Gain from changes in demographic assumptions	$ 2,109	$ 19
Gain (loss) from changes in financial assumptions	(1,588)	2,518
Experience gains (losses)	505	(417)
Return on plan assets, excluding interest income on plan assets	4,052	(2,401)
Other comprehensive income (loss)	$ 5,078	$ (281)

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

	2017	2016
Actual return on the fair value of plan assets	$ 6,057	$ (544)

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

	2017	2016
Defined benefit obligations, beginning of year	$ 60,055	$ 60,475
Current service cost	1,500	1,377
Interest expense	2,335	2,154
Contributions by plans' participants	629	587
(Gain) from change in demographic assumptions	(2,109)	(19)
(Gain) loss from changes in financial assumptions	1,588	(2,518)
Experience (gains) losses	(505)	417
Benefits paid	(2,530)	(2,418)
Termination benefits	143	—
Defined benefit obligations, end of year	$ 61,106	$ 60,055

The fair value of plan assets is as follows:

As at	March 31, 2017	March 31, 2016
Fair value of plans' assets, beginning of year	$ 51,385	$ 51,200
Interest income on plans' assets	2,005	1,857
Return on plans' assets, excluding interest income on plans' assets	4,052	(2,401)
Contributions by the employer	2,078	2,672
Contributions by plans' participants	629	587
Benefits paid	(2,530)	(2,418)
Administrative costs	(123)	(112)
Fair value of plans' assets, end of year	$ 57,496	$ 51,385

The plans' assets consist of:

As at	March 31, 2017	March 31, 2016
Equity securities	62%	61%
Debt securities	31%	31%
Other	7%	8%
Total	100%	100%

Significant assumptions

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

	2017	2016
Defined benefit obligations as at March 31:		
Discount rate	**3.70%**	3.90%
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**	87
Female, 45 years of age at reporting date	**89**	89
Male, 65 years of age at reporting date	**86**	86
Female, 65 years of age at reporting date	**89**	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, 2017:

Increase (Decrease)	**Pension expense**	**Defined benefit obligations**
	%	%
Discount rate		
Increase of 0.5%	(15.4)	(6.1)
Decrease of 0.5%	16.3	7.2
Rate of compensation		
Increase of 0.5%	0.1	—
Decrease of 0.5%	(0.1)	—
Average life expectancies		
Increase of 1 year	4.9	2.4
Decrease of 1 year	(5.0)	(2.4)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2018 amount to $1,549.

The duration of the defined benefit obligations at March 31, 2017 is 10.6 years (10.4 years in 2016). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	**March 31, 2017**	**March 31, 2016**
Less than a year	**$ 1,656**	$ 1,751
Between 1-2 years	**1,668**	1,761
Between 2-5 years	**5,369**	5,570
Over 5 years	**98,870**	99,412
Total	**$ 107,563**	$ 108,494

Defined contribution pension plans

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

	2017	2016
Defined contribution pension plan costs	**$ 2,666**	$ 2,383

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, 2017, the total commitments amounted to $11,630 excluding escalation clauses. The minimum annual lease payments over the next five years are:

	2018	2019	2020	2021	2022	Thereafter
$	1,349 $	1,213 $	935 $	919 $	926 $	6,288

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, 2017, these outstanding purchase orders amounted to $2,157 ($5,902 as at March 31, 2016).

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, 2017, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2017, an amount of $5,153 ($5,327 in 2016) 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.

Letters of credit

As at March 31, 2017, the Corporation has outstanding letters of credit amounting to $5,027 ($537 in 2016).

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

The net change in non-cash items is detailed as follows, for fiscal year:

	2017	2016
Accounts receivable	**$ 4,106**	$ (3,730)
Income tax receivable	**2,325**	218
Inventories	**2,855**	(15,767)
Other current assets	**2,605**	910
Accounts payable and accrued liabilities, Accounts payable – other and other liabilities	**(5,115)**	(9,675)
Provisions	**(471)**	(5,276)
Progress billings	**(2,969)**	(1,781)
Customer advances	**2,587**	(14,471)
Income tax payable	**(178)**	1,064
Effect of changes in exchange rates[1]	**(2,439)**	(94)
	$ 3,306	$ (48,602)

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

NOTE 28. GEOGRAPHIC INFORMATION

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

As at				March 31, 2017				March 31, 2016
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	**$104,201**	**$ 77,111**	**$ 11,535**	**$192,847**	$108,987	$ 72,661	$ 11,495	$193,143
Finite-life intangible assets, net	**28,536**	**3,010**	**13,921**	**45,467**	27,293	3,594	17,858	48,745
Goodwill	**13,838**	**9,995**	**62,216**	**86,049**	13,838	9,761	69,654	93,253

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

	2017	2016
Canada	**$ 77,537**	$ 82,341
United States	**234,592**	222,712
United Kingdom	**39,528**	46,139
Other countries	**54,879**	55,620
	$ 406,536	$ 406,812

NOTE 29. EXECUTIVE COMPENSATION

The executive compensation expense to key management personnel and the board of directors is as follows, for fiscal year:

	2017	2016
Short-term employee benefits and other benefits	**$ 3,342**	$ 3,721
Pension and other post-retirement benefits	**167**	302
Share-based payments	**1,378**	1,014
Total compensation to key management personnel	**$ 4,887**	$ 5,037

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, 2017					March 31, 2016				
	Fair value hierarchy		Carrying amount		Fair Value	Fair value hierarchy		Carrying amount		Fair Value
Financial assets										
Cash and cash equivalents	**Level 1**	**$**	**42,456**	**$**	**42,456**	Level 1	$	19,268	$	19,268
Derivative financial instruments[1]	**Level 2**		**2,058**		**2,058**	Level 2		5,707		5,707
Equity swap instrument	**Level 1**		**1,743**		**1,743**	Level 1		2,054		2,054
		$	**46,257**	**$**	**46,257**		$	27,029	$	27,029
Financial Liabilities										
Derivative financial instruments	**Level 2**	**$**	**2,563**	**$**	**2,563**	Level 2	$	7,806	$	7,806
Long-term debt, including current portion	**Level 2**		**134,776**		**142,396**	Level 2		147,240		155,125
		$	**137,339**	**$**	**144,959**		$	155,046	$	162,931

[1] *Excluding equity swap instrument*

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 interest-rate swap 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 2017, a loss before tax of $235 (gain of $34 in 2016) 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, 2017, in accordance with this policy, the Corporation held forward foreign exchange contracts to sell US$152.4 million at a weighted-average rate of 1.3178 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2016, these contracts totalled US$165.2 million at a weighted-average rate of 1.2900 cad/usd. As at March 31, 2017, these contracts mature at various dates between April 2017 and March 2020, with the majority maturing over the next two fiscal years.

As at March 31, 2017, 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	(312)	(2)
Increase (decrease) in other comprehensive income	919	(1,226)

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 2017 and 2016:

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 Corporation's financial results for fiscal 2017 as follows:

	100 bps increase	100 bps decrease
Impact on net income related to floating rate long-term debt	(162)	162
Impact on comprehensive income related to interest-rate swap agreements	326	(331)

The interest rate sensitivity analysis shown above is calculated on the floating-rate liability at the end of the fiscal year including, interest-rate swap agreement, 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 variation, 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 impacts the expense of the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2017, 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 2018.

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 58% of the Corporation's fiscal 2017 sales are made to only six customers (55% in 2016). More specifically, in fiscal 2017, the Corporation had two customers representing 18% and 13% of its consolidated sales (14% and 13% in 2016).

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 5.8% in fiscal 2017 (4.3% in 2016) of the Corporation's consolidated sales.

As at March 31, 2017, 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, 2017:

		2017
Balance, beginning of year	**$**	**35**
Arising during the year		**34**
Balance, end of year	**$**	**69**

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

As at		**March 31, 2017**		March 31, 2016
Not past due	**$**	**62,590**	$	65,579
Past due less than 90 days		**8,262**		8,365
Past due more than 90 days		**283**		1,297
Impaired		**69**		35
		71,204		75,276
Allowance for doubtful accounts		**(69)**		(35)
Balance, end of year	**$**	**71,135**	$	75,241

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, 2017, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 30):

		FVTPL		Hedging items (1)		Loans and receivables
Cash and cash equivalents	$	42,456	$	—	$	—
Accounts receivable		—		—		71,135
Derivative financial instruments		—		3,801		—

(1) *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, 2017, 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	$ 63,391	$ —	$ —	$ —	$ 63,391
Accounts payable – other and other liabilities	2,556	—	—	—	2,556
Customer advances	6,442	—	—	—	6,442
Long-term debt, including current portion (note 19)	8,957	73,981 [1]	20,232	55,734	158,904
Derivative financial instruments	2,055	508	—	—	2,563

[1] *As at March 31, 2017, the Credit Facility matured on March 16, 2019. Subsequent to March 31, 2017, the Credit Facility was extended to May 2022.*

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, 2017, 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, 2017	March 31, 2016
Current portion of long-term debt	**$ 6,792**	$ 6,334
Long-term debt	**127,347**	139,950
Deferred financing costs, net	**637**	956
Less: Cash and cash equivalents	**42,456**	19,268
Net debt	**$ 92,320**	$ 127,972
Shareholders' equity	**355,868**	331,114
Net debt-to-equity ratio	**0.26:1**	0.39:1

The Corporation is not subject to any regulatory capital requirements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Réal Raymond
Chairman of the Board
Montreal, Québec

Gilles Labbé
President and
Chief Executive Officer
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
Palm Desert, California

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
Executive Vice President and
Chief Operating Officer

Stéphane Arsenault
Chief Financial Officer

Michel Robillard
Vice President, Corporate Controller

Stéphane Rainville
Vice President, Human Resources

Jean Gravel
Vice President, Sales and
Program Management

Rémy Langelier
Director, Business Development

Patrick Gagnon
Director, Internal Audit and
Corporate Governance

Jean-Philippe Sanche
Director, 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
Wingates Industrial Estate
Westhoughton, Lancashire
BL5 3XU
United Kingdom
+44(0) 1928 530530

SHAREHOLDERS INFORMATION

C-130
Photo credit: Lockheed Martin

ANNUAL MEETING OF SHAREHOLDERS
Monday, August 7, 2017 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

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Pour obtenir la version française de ce rapport,
veuillez contacter les relations avec les investisseurs.

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