MANAGEMENT’S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2018

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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, 2018 and December 31, 2018. It also compares the operating results and cash flows for the quarter and nine-month periods ended December 31, 2018 to those of the same periods of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended December 31, 2018, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2018, all of which are available on the Corporation's website at www.herouxdevtek.com and on www.sedar.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated. This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on February 6, 2019.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

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

They may be impacted by factors including, but not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the Risk Management section of the Corporation's MD&A for the fiscal year ended March 31, 2018. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although management believes the expectations conveyed by these statements, and while they are based on information available on the date such statements were made, there can be no assurance that such expectations will prove to be correct and readers are advised that actual results may differ from expected results. 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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Sales	**$ 144,528**	$ 97,006	**$ 325,963**	$ 273,540
Operating income	**11,904**	6,629	**22,050**	16,681
Adjusted operating income[(1)]	**13,973**	7,238	**25,355**	18,236
Adjusted EBITDA[(1)]	**22,883**	13,563	**48,303**	37,535
Net income	**7,390**	626	**14,236**	7,816
Adjusted net income[(1)]	**9,367**	5,690	**17,558**	13,774
Cash flows related to operating activities	**12,651**	19,333	**32,788**	37,601
Free cash flow[(1)]	**11,901**	17,110	**26,421**	30,835
In dollars per share				
EPS - basic and diluted	**$ 0.20**	$ 0.02	**$ 0.39**	$ 0.22
Adjusted EPS[(1)]	**0.26**	0.16	**0.48**	0.38
In millions of dollars, as at			**December 31, 2018**	March 31, 2018
Funded backlog[(2)]			**$ 629**	$ 466

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

[(2)] *Represents firm orders*

- On October 1, 2018, the Corporation completed the acquisition of Compania Espanola de Sistemas Aeronauticos, S.A. ("CESA"), a subsidiary of Airbus SE (PA: AIR) for a purchase price of €131.7 million (approximately $197.8 million), including CESA's net outstanding debt of €23.9 million (approximately $35.9 million), subject to customary closing adjustments.
- For the quarter ended December 31, 2018, the Corporation achieved consolidated sales of $144.5 million and adjusted EBITDA of $22.9 million, compared to $97.0 million and $13.6 million during the same period last fiscal year.
- For the quarter, total sales and net income for CESA and Beaver were $39.6 million and $2.7 million, respectively. Management is satisfied with their operational performance as well as the favourable product mix delivered.
- For the quarter ended December 31, 2018, the Corporation generated cash flows related to operating activities of $12.7 million, compared to $19.3 million during the same quarter last fiscal year and a free cash flow of $11.9 million or 8.2% of sales, compared to $17.1 million or 17.6% of sales during the same quarter last fiscal year.
- In January 2019, the Corporation received the final customer certification to perform all surface treatment planned to produce the Boeing 777 and 777X major landing gear components at its Strongsville, Ohio facility.

BUSINESS ACQUISITIONS

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all the shares of CESA, a subsidiary of Airbus SE, for €131.7 million ($197.8 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition will allow the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

- A $50.0 million, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- A US$50.0 million ($65.2 million) drawing on the Corporation's credit facility, whose limit was increased from $200.0 million to $250.0 million; and,
- The Corporation's available cash balance.

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23.9 million ($35.9 million) upon closing.

For the period between October 1, 2018 and December 31, 2018, HDI's sales and net income included €20.9 million ($31.4 million) and €1.3 million ($2.0 million), generated by CESA, respectively. Management is satisfied with the first quarter of performance delivered by the newly-acquired company as they delivered high throughput combined with a favourable product mix when compared to the previous six months. If the acquisition had closed on April 1, 2018, the sales and net income of CESA would have amounted to $85.2 million and $0.8 million, respectively, for the nine-month period ended December 31, 2018.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. («Beaver») for a purchase price of US$21.5 million ($28.3 million). This price is subject to final working capital adjustments including a US$3.5 million ($4.6 million) balance of sale payable over the next two years which bears interest at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition will allow the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and December 31, 2018, HDI's sales and net income included US$11.9 million ($15.5 million) and US $1.1 million ($1.4 million), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the sales and net income of Beaver would have amounted to $23.9 million and $1.8 million, respectively, for the nine-month period ended December 31, 2018.

Purchase Prices

The purchase prices and the preliminary purchase price allocations that reflect the fair value of the assets acquired and liabilities assumed with any excess allocated to goodwill were determined using the acquisition method as follows:

	CESA	Beaver	Total
Cash payment	$ 170,930	$ 23,671	$ 194,601
Long-term debt assumed	35,875	—	$ 35,875
Working capital adjustment receivable	(9,020)	—	$ (9,020)
Balance of purchase price payable	—	4,609	$ 4,609
Total purchase price	**$ 197,785**	**$ 28,280**	**$ 226,065**

Purchase Price Allocations

	CESA	Beaver	Total
Accounts receivable	$ 31,259	$ 6,273	$ 37,532
Inventories	36,692	10,165	46,857
Income tax receivable	505	—	505
Prepaid expenses and other current assets	596	478	1,074
	69,052	**16,916**	**85,968**
Property, plant and equipment, net	44,923	3,429	48,352
Finite-life intangible assets, net	33,782	5,201	38,983
Deferred income tax assets	—	2,075	2,075
Tax credits receivable and other long-term assets	22,049	—	22,049
Total identifiable assets	**$ 169,806**	**$ 27,621**	**$ 197,427**
Accounts payable and accrued liabilities	15,780	2,591	18,371
Provisions	9,639	5,246	14,885
Income tax payable	95	—	95
Customer advances and progress billings	4,168	450	4,618
Current portion of long-term debt	—	194	194
	29,682	**8,481**	**38,163**
Long-term debt	—	178	178
Provisions	4,308	3,847	8,155
Deferred income tax liabilities	5,518	—	5,518
Other liabilities	4,365	—	4,365
Total identifiable liabilities	**$ 43,873**	**$ 12,506**	**$ 56,379**
Net identifiable assets and liabilities	**125,933**	**15,115**	**141,048**
Goodwill	71,852	13,165	**85,017**
Total purchase price	**$ 197,785**	**$ 28,280**	**$ 226,065**

These purchase price allocations are preliminary. The final purchase price allocations could result in changes to the fair value of assets acquired and liabilities assumed. The purchase price allocations are expected to be completed as soon as management has gathered all the information considered necessary in order to finalize them.

OPERATING RESULTS

	Quarters ended December 31,			Nine months ended December 31,		
	2018	2017	*Variance*	**2018**	2017	*Variance*
Sales	**$ 144,528**	$ 97,006	*$ 47,522*	**$ 325,963**	$ 273,540	*$ 52,423*
Gross profit	**24,927**	15,839	*9,088*	**53,466**	42,318	*11,148*
Selling and administrative expenses	**10,954**	8,601	*2,353*	**28,111**	24,082	*4,029*
Adjusted operating income[(1)]	**13,973**	7,238	*6,735*	**25,355**	18,236	*7,119*
Non-recurring items	**2,069**	609	*1,460*	**3,305**	1,555	*1,750*
Operating income	**11,904**	6,629	*5,275*	**22,050**	16,681	*5,369*
Financial expenses	**2,764**	395	*2,369*	**5,409**	2,926	*2,483*
Income tax expense	**1,750**	5,608	*(3,858)*	**2,405**	5,939	*(3,534)*
Net income	**$ 7,390**	$ 626	*$ 6,764*	**$ 14,236**	$ 7,816	*$ 6,420*
Adjusted net income[(1)]	**$ 9,367**	$ 5,690	*$ 3,677*	**$ 17,558**	$ 13,774	*$ 3,784*
As a percentage of sales						
Gross profit	**17.2%**	16.3%	*90 bps*	**16.4%**	15.5%	*90 bps*
Selling and Administrative expenses	**7.6%**	8.9%	*-130 bps*	**8.6%**	8.8%	*-20 bps*
Operating income	**8.2%**	6.8%	*140 bps*	**6.8%**	6.1%	*70 bps*
Adjusted operating income[(1)]	**9.7%**	7.5%	*220 bps*	**7.8%**	6.7%	*110 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.20**	$ 0.02	*$ 0.18*	**$ 0.39**	$ 0.22	*$ 0.17*
Adjusted EPS[(1)]	**$ 0.26**	$ 0.16	*$ 0.10*	**$ 0.48**	$ 0.38	*$ 0.10*

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

Sales

Sales by sector were as follows:

	Quarters ended December 31,					
	2018	2017	Acquisitions	FX impact	Net variance	
Commercial	**$ 65,493**	$ 52,105	$ 10,486	$ 803	$ 2,099	4.0 %
Defence[(1)]	**79,035**	44,901	29,097	811	4,226	9.4 %
Total	**$ 144,528**	$ 97,006	$ 39,583	$ 1,614	$ 6,325	6.5 %

	Nine months ended December 31,					
	2018	2017	Acquisitions	FX impact	Net variance	
Commercial	**$ 158,279**	$ 137,592	$ 12,196	$ 423	$ 8,068	5.9 %
Defence[(1)]	**167,684**	135,948	34,752	448	(3,464)	(2.5)%
Total	**$ 325,963**	$ 273,540	$ 46,948	$ 871	$ 4,604	1.7 %

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

Commercial

The $2.1 million and $8.1 million respective net increases in commercial sales for the quarter and the nine-month period were mainly driven by:

- Increased deliveries for the Boeing 777 and 777X programs;
- Higher sales related to business jets, mainly due to the ramp-up of deliveries for the Embraer 450/500 program and higher sales of spares.

Defence

The $4.2 million net increase in defence sales for the quarter was mainly driven by:

- Higher spares requirements from the U.S. Government; and,
- Higher manufacturing sales to certain civil customers.

These factors were partially offset by the ramp-down of repair and overhaul ("R&O") activities for the United States Air Force following completion of the contract.

The $3.5 million net decrease in defense sales for the nine-month period was mainly driven by:

- The ramp-down of R&O activities for the United States Air Force following completion of the contract; and,
- Lower manufacturing sales to certain civil customers.

These factors were partially offset by higher spares requirements from the US government.

Gross Profit

The increase in gross profit from 16.3% to 17.2% this quarter and from 15.5% to 16.4% for the nine-month period compared to the same periods last fiscal year was mainly driven by the impact of the Beaver and CESA acquisitions and higher throughput which led to better absorption of manufacturing costs. These positive factors were somewhat offset by exchange rate fluctuations which had negative impacts of 0.6% of sales during the quarter and 0.3% during the nine-month period.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 8.1% and 8.9% of sales for the quarter and nine-month period, respectively, compared to 8.2% and 8.2% for the same periods last fiscal year.

For the nine-month period, the increase compared to last year mainly relates to lower stock-based compensation expense last year due to the delay in fiscal 2018 long-term incentive plan issuances caused by trading blackouts.

Non-recurring items

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Non-recurring items in operating income				
Acquisition-related costs	**$ 2,069**	$ 609	**$ 3,305**	$ 1,555
	$ 2,069	$ 609	**$ 3,305**	$ 1,555
Non-recurring items in financial expenses				
Net losses (gains) on certain derivative financial instruments	**—**	(609)	**391**	(609)
	$ —	$ (609)	**$ 391**	$ (609)
Non-recurring item in income tax expense				
Impact of US Tax Reform	**—**	4,912	**—**	4,912
	$ —	$ 4,912	**$ —**	$ 4,912

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisitions of CESA and Beaver.

Net losses (gains) on certain derivative financial instruments

These gains or losses relate to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks arising from the purchase price and financing related to the acquisition of CESA. Refer to the *Derivatives* section under *Additional Information* below for further details.

Impact of US Tax Reform

This one-time tax expense of $4.9 million recorded during the quarter ended December 31, 2017 is related to the US Tax Reform enacted on December 22, 2017. Refer to the Income Tax section for further details.

Operating Income

Operating income increased from 6.8% to 8.2% of sales (or increased from 7.5% to 9.7%, excluding non-recurring items) for the quarter and increased from 6.1% to 6.8% of sales (or increased from 6.7% to 7.8%, excluding non-recurring items) for the nine-month period compared to the same periods last fiscal year, mainly as a result of the factors described above.

Year-over-year, foreign exchange had a positive impact of $0.6 million and $1.6 million on operating income for the quarter and the nine-month period, respectively.

Net Financial Expenses

	Quarters ended December 31,			Nine months ended December 31,		
	2018	2017	*Variance*	**2018**	2017	*Variance*
Interest on long-term debt	**$ 1,870**	$ 657	*$ 1,213*	**$ 3,270**	$ 2,078	*$ 1,192*
Interest related to government loans	**682**	537	*145*	**1,874**	1,655	*219*
Interest expense (income) related to financial instruments	**(90)**	(769)	*679*	**(363)**	(932)	*569*
Other interest expense	**302**	(30)	*332*	**628**	125	*503*
	$ 2,764	$ 395	*$ 2,369*	**$ 5,409**	$ 2,926	*$ 2,483*

The $2.4 million and $2.5 million net increases in financial expenses for the quarter and nine-month period when compared to the same periods last fiscal year were mainly driven by interest charges on new debt incurred to finance the CESA acquisition, the additional interest on long-term debt due to higher interest rates and the year-over-year impact of non-recurring items in financial expenses.

Income Tax Expense

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Income before income tax expense	**$ 9,140**	$ 6,234	**$ 16,641**	$ 13,755
Income tax expense	**1,750**	5,608	**2,405**	5,939
Effective tax rate	**19.1%**	90.0%	**14.5%**	43.2%
Canadian blended statutory income tax rate	**26.6%**	26.6%	**26.6%**	26.6%

For the quarter ended December 31, 2018, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of $1.5 million, partially offset by non-deductible expenses totaling $0.7 million.

On December 22, 2017, the United States Government passed into law the Tax Cuts and Jobs Act (the "US Tax Reform"). The US Tax Reform includes a number of changes in tax law impacting businesses including a permanent reduction in the corporate income tax rate from 35% to 21% effective January 1, 2018. This reduction caused a revaluation of the Corporation's net deferred tax assets, resulting in a one-time income tax expense of $4.9 million during the quarter ended December 31, 2017. Excluding this non-recurring impact, the effective tax rate stood at 11.2%, reflecting the favourable impact of results in other tax jurisdictions ($1.0 million), partially offset by permanent differences ($0.1 million).

For the nine-month period ended December 31, 2018, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of $3.1 million and a non-taxable gain of $0.2 million, partially offset by non-deductible expenses totaling $1.1 million.

For the nine-month period ended December 31, 2017, the Corporation's effective income tax rate mainly reflects the unfavourable impact of the US Tax Reform as explained above for an amount of ($4.9 million). Excluding this non-recurring impact, the effective tax rate stood at 7.5% and reflected the favourable impact of results in other tax jurisdictions ($3.4 million), partially offset by non-deductible acquisition-related costs ($0.3 million) and permanent differences ($0.2 million).

Net Income

Net income increased from $0.6 million to $7.4 million during the quarter (or increased from $5.7 million to $9.4 million, excluding non-recurring items net of taxes) and increased from $7.8 million to $14.2 million (or increased from $13.8 million to $17.6 million, excluding non-recurring items net of taxes) during the nine-month period compared to the same periods last fiscal year, mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income:	Operating income excluding non-recurring items.
EBITDA:	Earnings before financial expenses, income tax expense and amortization expense.
Adjusted EBITDA:	EBITDA as defined above excluding non-recurring items.
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities, less additions to property, plant and equipment and net increase or decrease 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. Management considers these metrics to be information which may assist investors in evaluating the Corporation's profitability and enable better comparability of the results from one period to another and with peers who may employ similar measures.

These measures are not considered by management to be a substitute for IFRS measures, nor to be superior as they often do not fully reflect periodic costs, the long-term costs of investing or financing decisions or the impact of events which are not a result of operations.

The following are reconciliations of these items to their most comparable IFRS measures as well as additional information on what they represent, excluding free cash flow. For the reconciliation of free cash flow to cash flows related to operating activities, refer to *Liquidity and Capital Resources*.

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Operating income	**$ 11,904**	$ 6,629	**$ 22,050**	$ 16,681
Non-recurring items	**2,069**	609	**3,305**	1,555
Adjusted operating income	**$ 13,973**	$ 7,238	**$ 25,355**	$ 18,236

Management believes adjusted operating income provides investors with a figure that provides an alternative assessment of the Corporation's future profitability by excluding from operating income the impact of events which are not in the expected course of future operations, or which are not a result of operations.

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Net income	**$ 7,390**	$ 626	**$ 14,236**	$ 7,816
Income tax expense	**1,750**	5,608	**2,405**	5,939
Net financial expenses	**2,764**	395	**5,409**	2,926
Amortization expense	**8,910**	6,325	**22,948**	19,299
EBITDA	**$ 20,814**	$ 12,954	**$ 44,998**	$ 35,980
Non-recurring items	**2,069**	609	**3,305**	1,555
Adjusted EBITDA	**$ 22,883**	$ 13,563	**$ 48,303**	$ 37,535

Management believes EBITDA and adjusted EBITDA provide valuable insight into the Corporation's day-to-day operations as they exclude from earnings factors that are more reflective of long-term financing or investing decisions than of current performance.

Adjusted EBITDA, in addition, provides an alternative assessment of future operating results as it excludes the impact of events which are not in the expected course of future operations, or which are not a result of operations. Adjusted EBITDA is also used by management to assess operational performance and is a component of certain performance-based employee remuneration.

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Net income	**$ 7,390**	$ 626	**$ 14,236**	$ 7,816
Non-recurring items, net of taxes	**1,977**	5,064	**3,322**	5,958
Adjusted net income	**$ 9,367**	$ 5,690	**$ 17,558**	$ 13,774
In dollars per share				
Earnings per share - basic and diluted	**$ 0.20**	$ 0.02	**$ 0.39**	$ 0.22
Non-recurring items, net of taxes	**0.06**	0.14	**0.09**	0.16
Adjusted earnings per share	**$ 0.26**	$ 0.16	**$ 0.48**	$ 0.38

Management believes adjusted net income and adjusted earnings per share provide investors with an alternative assessment of the Corporation's current period results and future earnings prospects as they exclude from earnings the impact of events which are of a non-recurring nature or do not reflect current operations.

Free cash flow is explained and reconciled in *Liquidity and Capital Resources*.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITIES AND NET DEBT POSITION

Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")

The Corporation has a Revolving Facility with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility allows the Corporation and its subsidiaries to borrow up to $250.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies and will mature in May 2022. It also includes an accordion feature to increase available credit by an additional $100.0 million during the term of this agreement, subject to the approval of the lenders.

The Revolving Facility was amended during the nine-month period ended September 30, 2018, increasing the credit limit from $200.0 million to $250.0 million in connection with the acquisition of CESA.

As at December 31, 2018, the Corporation had $118.7 million drawn against the Revolving Facility, compared to $54.2 million as at March 31, 2018. This increase is mainly related to a US$50.0 million ($65.2 million) drawing made in order to finance the CESA acquisition.

Unsecured Subordinated Term Loan Facility ("Term Loan Facility")

On September 24, 2018, the Corporation signed the Term Loan Facility with *Fonds de Solidarité FTQ* for an amount of up to $75.0 million. The facility consists of a $50.0 million term loan related to the acquisition of CESA and additional financing, available until September 30, 2020, of up to $25.0 million subject to certain conditions.

The initial $50.0 million loan, drawn on September 25, 2018, bears interest at 5.7% and is repayable at maturity on September 30, 2025. Starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

Net Debt Position

	December 31, 2018	March 31, 2018
Long-term debt, including current portion[(1)]	**$ 285,895**	$ 131,964
Less: Cash and cash equivalents	**28,639**	93,209
Net debt position	**$ 257,256**	$ 38,755

[(1)] *Excluding net deferred financing costs of $3.2 million and $0.9 million as at December 31, 2018 and March 31, 2018, respectively.*

The increase in net debt is mainly due to the acquisitions of CESA and Beaver for a total cash outlay of $194.6 million combined with $35.9 million of assumed debt.

Considering the Corporation's cash and cash equivalents position, its available credit facilities and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Cash and cash equivalents at beginning of periods	**$ 196,717**	$ 52,812	**$ 93,209**	$ 42,456
Cash flows related to operating activities	**12,651**	19,333	**32,788**	37,601
Cash flows related to investing activities	**(170,648)**	(2,016)	**(200,693)**	(8,117)
Cash flows related to financing activities	**(10,821)**	98	**102,416**	(585)
Effect of changes in exchange rates on cash and cash equivalents	**740**	415	**919**	(713)
Cash and cash equivalents at end of periods	**$ 28,639**	$ 70,642	**$ 28,639**	$ 70,642

Operating Activities

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Cash flows from operations	**$ 17,398**	$ 11,762	**$ 41,280**	$ 30,663
Net change in non-cash items	**(4,747)**	7,571	**(8,492)**	6,938
Cash flows related to operating activities	**$ 12,651**	$ 19,333	**$ 32,788**	$ 37,601

For the quarter, the increase of $5.6 million in cash flows from operations compared to the same period last year mainly relates to the contribution from the results of CESA and Beaver. For the nine-month period, the increase of $10.6 million in cash flows from operations compared to the same periods last year mainly relates to the contribution from the results of CESA and Beaver and the net realized gain on financial instruments.

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Accounts receivable	**$ (24,741)**	$ 6,124	**$ (78)**	$ 16,970
Inventories	**2,417**	3,671	**(1,820)**	2,019
Other current assets	**156**	(1,306)	**818**	(1,286)
Accounts payable and accrued liabilities	**11,194**	927	**(1,220)**	(3,446)
Income taxes payable and receivable	**(289)**	396	**(1,955)**	(60)
Customer advances and progress billings	**2,004**	(2,448)	**(2,609)**	(1,816)
Provisions	**(60)**	(419)	**(4,173)**	(3,544)
Effect of changes in exchange rates	**4,572**	626	**2,545**	(1,899)
	$ (4,747)	$ 7,571	**$ (8,492)**	$ 6,938

For the quarter ended December 31, 2018, the negative net change in non-cash items mainly reflects:

- An increase in accounts receivable following the higher level of activity during the quarter.

This negative factor was partly offset by increases in accounts payable and accrued liabilities and customer advances and progress billings as well as a positive effect of changes in exchange rates.

For the nine-month period ended December 31, 2018, the negative net change in non-cash items mainly reflects:

- A decrease in provisions mainly due to utilization of the restructuring provision;
- A decrease in customer advances following revenue recognition; and,
- An increase in inventories mainly related to the ramp-up of the Boeing 777 and 777X contract.

These negative factors were partly offset by the positive effect of changes in exchange rates.

For the quarter ended December 31, 2017, the positive net change in non-cash items mainly reflects decreases in accounts receivable and inventories partially offset by a net reduction in customer advances following revenue recognition.

For the nine-month period ended December 31, 2017, the positive net change in non-cash items mainly reflected:

- Seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year; and,
- A decrease in inventories mainly related to the Boeing 777 program.

These factors were partially offset by the seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year, a decrease in provisions mainly related to the utilization of the restructuring provision and a net reduction in customer advances following revenue recognition.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Cash payments for business acquisitions	**$ (170,930)**	$ —	**$ (194,601)**	$ —
Net additions to property, plant and equipment	**(2,991)**	(1,657)	**(8,345)**	(6,186)
Net decrease (increase) in finite-life intangible assets	**3,250**	(436)	**2,223**	(2,038)
Proceeds on disposal of property, plant and equipment	**23**	77	**30**	107
Cash flows related to investing activities	**$ (170,648)**	$ (2,016)	**$ (200,693)**	$ (8,117)

The increase in cash payments related to investing activities for the quarter and compared to the same period last fiscal year mainly relates to the $170.9 million payment made for the acquisition of CESA. For the nine-month period, the cash payments related to investing activities also include a $23.7 million payment made for the acquisition of Beaver.

The net decrease in finite-life intangible assets during the quarter and the nine-month period is due to the timing of certain customer funding for capitalized development costs received during the current period.

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Gross additions to property, plant and equipment	**$ 4,000**	$ 1,787	**$ 8,590**	$ 4,995
Government assistance	**—**	—	**—**	(267)
Net additions to property, plant and equipment	**$ 4,000**	$ 1,787	**$ 8,590**	$ 4,728
Variation in unpaid additions included in Accounts payable - other and other liabilities	**(1,009)**	(130)	**(245)**	1,458
Net additions, as per statements of cash flows	**$ 2,991**	$ 1,657	**$ 8,345**	$ 6,186

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Increase in long-term debt	**$ —**	$ 949	**$ 116,605**	$ 2,218
Repayment of long-term debt	**(9,728)**	(1,125)	**(12,546)**	(3,370)
Issuance of common shares	**133**	274	**924**	567
Increase in deferred financing costs	**(1,226)**	—	**(2,567)**	—
Cash flows related to financing activities	**$ (10,821)**	$ 98	**$ 102,416**	$ (585)

The increase in long-term debt during the nine-month period is mainly related to a US$50.0 million ($65.2 million) drawing on the Revolving facility and a $50.0 million drawing on the Term Loan Facility, both in order to finance the CESA acquisition.

During the quarter, a repayment of US$5.0 million ($6.6 million) of the Revolving facility and scheduled repayments of governmental loans and finance leases for a total of $3.1 million were made.

As at December 31, 2018, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW[(1)]

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Cash flows related to operating activities	**$ 12,651**	$ 19,333	**$ 32,788**	$ 37,601
Net additions to property, plant and equipment	**(4,000)**	(1,787)	**(8,590)**	(4,728)
Net increase in finite-life intangible assets	**3,250**	(436)	**2,223**	(2,038)
Free cash flow	**$ 11,901**	$ 17,110	**$ 26,421**	$ 30,835

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

Management considers free cash flow to be a good indicator of financial strength and profitability because it shows how much cash generated by operations is available for distribution, to repay debt or fund other investments.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended December 31, 2018		Nine months ended December 31, 2018	
	Number	Issued capital	Number	Issued capital
Balance at beginning of periods	36,330,041	$ 79,228	36,218,572	$ 78,105
Issued for cash on exercise of stock options	—	—	90,200	825
Issued for cash under the stock purchase and ownership incentive plan	11,013	133	32,282	431
Balance at end of periods	36,341,054	$ 79,361	36,341,054	$ 79,361

As at February 6, 2019, the number of common shares outstanding stood at 36,344,960.

Stock options varied as follows:

	Quarter ended December 31, 2018			Nine months ended December 31, 2018	
	Number of stock options	Weighted-average exercise price		Number of stock options	Weighted-average exercise price
Opening balance	1,222,595	$ 13.28		1,105,295	$ 12.09
Granted	—	—		207,500	16.21
Exercised	—	—		(90,200)	5.47
Cancelled / forfeited	(34,875)	15.27		(34,875)	15.27
Ending balance	1,187,720	$ 13.22		1,187,720	$ 13.22

During the nine-month period ended December 31, 2018, following the approval by the shareholders of the Corporation at the last Annual General Meeting of shareholders, the aggregate number of shares available for future issuance under the stock option plan was replenished due to the limited number of common shares remaining under this plan. The number of common shares reserved for issuance represents 2,808,257 of which 2,779,757 shares had not been issued yet at December 31, 2018 (1,514,481 as at March 31, 2018).

As at December 31, 2018, 26,584 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 58,866 at March 31, 2018.

As at February 6, 2019, the number of stock options outstanding stood at 1,187,720.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 13*, Issued Capital*, to the interim condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

The acquisitions of CESA and Beaver contributed assets and liabilities to the Corporation's balance sheet as at December 31, 2018, as detailed in the *Business Acquisitions* section under *Overview*.

Working capital

As at	**December 31, 2018**	March 31, 2018	*Variance*	
Current assets	**$ 340,119**	$ 310,649	*$ 29,470*	*9.5 %*
Current liabilities	**153,660**	108,750	*44,910*	*41.3 %*
Working capital	**$ 186,459**	$ 201,899	*$ (15,440)*	*(7.6)%*
Working capital ratio	**2.21**	2.86		

The $29.5 million increase in current assets is mainly due to:

- $86.0 million of current asset acquired with Beaver and CESA; and,
- $26.4 million of free cash flow generated during the nine-month period.

These positive factors were partly offset by $79.4 million of cash used for the Beaver and CESA acquisitions.

The $44.9 million increase in current liabilities is mainly due to $38.2 million assumed in business acquisitions and the unfavourable effect of exchange rate fluctuations on the conversion of the Corporation's foreign operations.

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

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

	December 31, 2018	March 31, 2018	*Variance*	
Long-term assets	**$ 512,933**	$ 321,513	*$ 191,420*	*59.5%*
Long-term liabilities	**$ 306,595**	$ 144,378	*$ 162,217*	*112.4%*
Shareholders' equity	**$ 392,797**	$ 379,034	*$ 13,763*	*3.6%*
Net debt-to-equity ratio[1]	**0.65:1**	0.10:1		

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

The increase in long-term assets is mainly due to $196.5 million acquired with Beaver and CESA, which included an increase in goodwill of $85.0 million.

The increase in long-term liabilities is mainly due to the financing of the acquisition of CESA. Refer to the *Credit Facilities & Net Debt Position* section under *Liquidity and Capital Resources* for further details.

ADDITIONAL INFORMATION

FOREIGN EXCHANGE ("FX")

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

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

	December 31, 2018	March 31, 2018
USD (Canadian equivalent of US$1.0)	**1.3642**	1.2894
GBP (Canadian equivalent of £1.0)	**1.7439**	1.8106
EUR (Canadian equivalent of €1.0)	**1.5613**	1.5867

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

	Quarters ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
USD (Canadian equivalent of US$1.0)	**1.3214**	1.2715	**1.3065**	1.2896
GBP (Canadian equivalent of £1.0)	**1.6992**	1.6883	**1.7199**	1.6828
Euro (Canadian equivalent of €1.0)	**1.5080**	1.4976	**1.5225**	1.4828

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

DERIVATIVES

Forward foreign exchange contracts

As at December 31, 2018, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $221.3 million denominated in USD and GBP. This amount includes contracts with nominal value of US$150.7 million convertible into Canadian dollars at an average rate of 1.305. These contracts mature at various dates between January 2019 and March 2023, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

The acquisition of CESA exposed the Corporation to new foreign currency and interest rate risks related to the investment in Euros. A decrease in value of the Euro compared to the Canadian dollar would decrease the value of the foreign investment, and an increase in interest rates underlying debt would increase related net financial expenses.

As at December 31, 2018, the Corporation had entered into the following cross-currency interest rate swap agreements in order to mitigate foreign exchange and interest rate risks:

	Notional	EURO equivalent	Interest rate	Inception	Maturity
US$	29,370	€ 25,000	1.86 %	October 2017	May 2022
C$	50,000	€ 34,110	3.40 %	October 2017	September 2025
US$	17,523	€ 15,000	Euribor 1 month + 1.74%	September 2018	May 2022
US$	17,100	€ 15,000	Euribor 1 month + 1.76%	November 2018	March 2020

Equity swap agreement

As at December 31, 2018, the Corporation had entered into an equity swap agreement fixing 245,000 common shares of the Corporation (150,000 at March 31, 2018) at a price of $12.68 ($11.45 at March 31, 2018). This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2019.

NEW ACCOUNTING STANDARDS

The Company adopted the following new accounting standards effective April 1, 2018.

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments (IFRS 9) which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that presents relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance.

Classification and measurement

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows including whether they represent solely payments of principal and interest (SPPI criterion). IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL).

Impairment of financial assets

Under IFRS 9, impairment losses for financial assets are calculated with a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows expected to be received. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Effective April 1, 2018, the Corporation adopted IFRS 9 and this adoption did not have a significant impact on the Company's financial statements. The new classification and measurement of the Company's financial assets and liabilities did not change. These are considered as financial instruments at amortized cost and are comprised of accounts receivable, accounts payable and accrued liabilities and long-term debt. The Company's derivative financial instruments are classified and measured at FVTPL where hedge accounting is not elected or at FVTOCI with recycling into profit and loss when hedge accounting is elected.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from contracts with customers supersedes previous accounting standards for revenue, including IAS 11, Construction Contracts, and IAS 18, Revenue, and all existing IFRS revenue interpretations. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;

3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Effective April 1, 2018, the Company adopted IFRS 15 using the full retrospective method and this adoption did not have a material impact on the Company's financial statements and the timing of revenue recognition accounting policies previously disclosed in the 2018 audited annual consolidated financial statements. Consequently, the Company's revenue continues to be recognized at a point in time when performance obligations under the customers' contracts are fulfilled, generally upon delivery of goods.

FUTURE CHANGE IN ACCOUNTING POLICIES

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 Corporation's consolidated 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 Corporation's consolidated balance sheet. Certain other operating leases will be required to be brought on balance sheet. The Corporation continues to assess the impact of adopting this standard on its consolidated financial statements.

INTERNAL CONTROLS AND PROCEDURES

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

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

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

No changes were made to the Corporation's internal controls over financial reporting during the nine-month period ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

As permitted by the Canadian Securities Administrators' Regulation 52-109, management's assessment and conclusion on the design of disclosure controls and procedures and internal controls over financial reporting excludes the controls, policies and procedures of Beaver and CESA, which were acquired respectively on July 2, 2018 and on October 1, 2018. Those two results are included in the December 31, 2018 interim condensed consolidated financial statements of Héroux-Devtek and constituted approximately 37.1% of total assets as at December 31, 2018 and 14.4% of total revenues for the nine-month period ended December 31, 2018. Management expects that Beaver and CESA business acquisitions will be included in management's assessment and certification on the design of DCP and effectiveness ICFR by the second and third quarters of fiscal 2020, respectively.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2018. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2019			2018				2017
	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter
Sales	**$ 144,528**	$ 95,665	$ 85,770	$ 113,024	$ 97,006	$ 89,677	$ 86,857	$ 120,886
Operating income	**11,904**	5,289	4,857	6,697	6,629	4,644	5,408	8,678
Adjusted operating income (1)	**13,973**	6,165	5,217	12,089	7,238	5,590	5,408	12,312
Adjusted EBITDA (1)	**22,883**	13,176	12,244	19,369	13,563	12,032	11,940	19,181
Net Income	**7,390**	3,294	3,552	5,858	626	3,163	4,027	8,895
Adjusted Net Income (1)	**9,367**	4,405	3,786	10,439	5,690	4,057	4,027	9,077
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.20**	0.09	$ 0.10	$ 0.16	$ 0.02	$ 0.09	$ 0.11	$ 0.25
Adjusted earnings per share (1)	**0.26**	0.12	0.10	0.29	0.16	0.11	0.11	0.25
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.4**	36.5	36.4	36.4	36.4	36.3	36.3	36.3

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

Seasonal trends

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

ECONOMIC OUTLOOK (1)

In the commercial aerospace market, the International Air Transport Association's ("IATA") most recent forecast calls for demand to remain healthy in calendar 2019 in both passenger and cargo volume. Passenger traffic expressed in revenue passenger kilometers ("RPK") rose 6.6% on a year-over-year basis in the first eleven months of calendar 2018, which is above the average annual growth of 5.6% recorded in the previous 20-year period. IATA expects to see RPK growth of 6.0% in 2019 as the pace of global economic expansion is slowing. Furthermore, global GDP growth has been revised downward by the International Monetary Fund to 3.5% for 2019 and 3.6% for 2020, 0.2% and 0.1% below last October's projections, mainly due to recently announced trade measures, which could have an impact on RPK growth in 2019. Meanwhile, air cargo volume measured in freight ton kilometers ("FTK") increased 3.9% in the first eleven months of calendar 2018. This is well below the double-digit rates of 2016-17, but is still faster than the average pace over the past decade. IATA expects FTK to grow by 3.7% in 2019, supported in part by fast-growing areas such as e-commerce.[2]

In the large commercial aircraft sector, Boeing and Airbus are adjusting their production rates as they introduce certain more fuel-efficient aircraft variants on several leading programs. These adjustments are scheduled through calendar 2020. Order backlogs have increased year-over-year and remain strong for both manufacturers driven by a higher combined total of new orders and commitments at the end of 2018.[3]

In the business jet market, aircraft shipments increased by 3% for the first nine months of calendar 2018, according to data published by the General Aviation Manufacturers Association ("GAMA"). Looking ahead, the business jet industry is expected to experience growth in the short to medium term, supported by several new airplane models coming to market and an improved used aircraft environment.[4]

In the defence aerospace market, the U.S. administration has indicated its intention to increase funding for the Department of Defense (DOD) over the next several years. Supporting the above, the fiscal 2019 President's Budget increased by 7.2% to US$716 billion from US$668 billion in 2018. In Canada, the new defence policy calls for a rise in spending, from $18.9 billion in the 2017 fiscal year to $32.7 billion in the 2027 fiscal year. Europe is also committing more funds to defence, as evidenced by a 7.2% projected overall spending increase by members of NATO for 2019 (expressed in US dollars, assuming constant prices and exchange rates).[5]

(1) Refer to Forward-Looking Statements in Overview for further information regarding forward-looking statements and related risks.
(2) Sources: Air Passenger Market Analysis, IATA, November 2018; Air Freight Market Analysis, IATA, November 2018; World Economic Outlook, International Monetary Fund, January 2019.
(3) Sources: Airbus press release January 8, 2019; Boeing press releases January 8, 2019.
(4) Sources: GAMA press release November 14, 2018; Business Aviation Market Forecast, Jetcraft, October 2018.
(5) Sources: DOD press release September 28, 2018; NATO press release, December 19, 2018.

GUIDANCE[1]

Metric	Initial fiscal 2019 guidance	**Updated Fiscal 2019 guidance**
Fiscal 2019 sales	Stable as compared to fiscal 2018	**Sales of $460 to $470 million**
Fiscal 2019 additions to PP&E	Approximately $15 million	**Approximately $20 million**
Long-term sales growth	N/A	**Fiscal 2022 sales of $620 to $650 million**

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

In October 2018, Management provided updated Fiscal 2019 sales guidance as well as guidance on Fiscal 2019 additions to PP&E and Long-term sales growth in order to reflect the expected contributions of Beaver and CESA to Héroux-Devtek's performance.

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, including those of CESA and Beaver but no other material acquisition;
- Existing OEM backlogs, production rates and disclosed production and delivery expectations;
- Stability of government defence budget, spending climates, trends and expectations;
- Stability of overall economic conditions;
- Stability of foreign exchange rates;
- The Corporation's ability to deliver on key contract initiatives; and,
- The successful deployment of integration and cross-selling initiatives.

Refer to the *Risk Management* section of the Corporation's MD&A for the fiscal year ended March 31, 2018 for discussion of certain other factors which may cause future results to differ from this guidance.