MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2019

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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 March 31, 2019. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2019 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, 2019, 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, 2019 and 2018 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", "forecast", "guidance", "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.

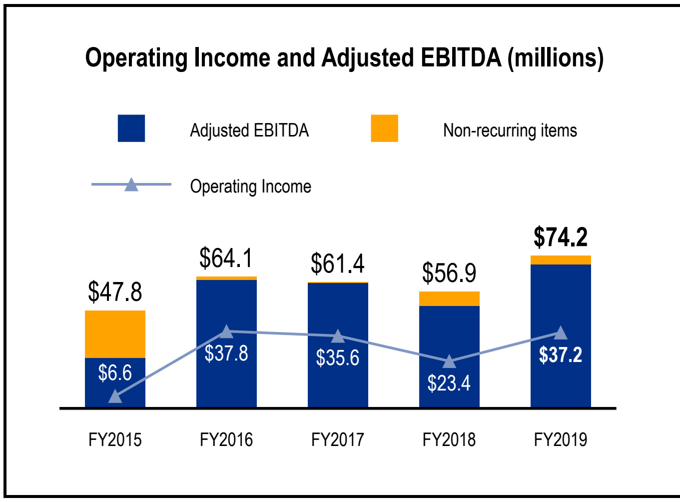
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity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

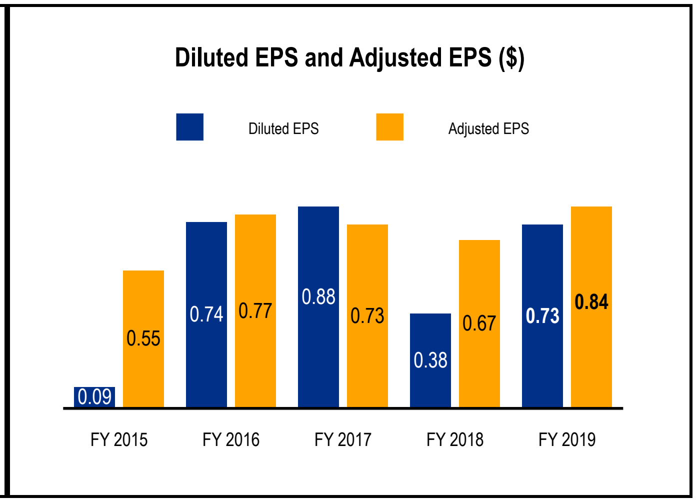
Héroux-Devtek provides such forward-looking statements for the purpose of assisting the reader in understanding the Corporation's financial performance and prospects and to present management's assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate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

Although management believes in the expectations conveyed by the forward-looking statements and 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 OF THE YEAR

Fiscal year	2019	2018
Sales	$ 483,877	$ 386,564
Operating income	37,240	23,378
Adjusted operating income (1)	41,563	30,325
Adjusted EBITDA (1)	74,213	56,904
Net income	26,194	13,674
Adjusted net income (1)	30,352	24,213
Cash flows related to operating activities	69,969	56,122
Free cash flow (1)	58,121	50,811
In dollars per share		
EPS - basic and diluted	$ 0.73	$ 0.38
Adjusted EPS (1)	0.84	0.67
In millions of dollars, as at	March 31, 2019	March 31, 2018
Funded backlog (2)	$ 624	$ 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.*

Key Events

- On October 1, 2018, the Corporation completed the acquisition of Compañia Española de Sistemas Aeronáuticos, S.A. ("CESA"), a subsidiary of Airbus SE (PA: AIR) and on July 2, 2018, the Corporation completed the acquisition of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver"). See *Business Acquisitions* for further details.
- The Corporation achieved sales of $483.9 million, operating income of $37.2 million and Adjusted EBITDA of $74.2 million in fiscal 2019 compared to $386.6 million, $23.4 million and $56.9 million in fiscal 2018. See *Operating Results* for further details.
- Héroux-Devtek generated cash flows related to operating activities of $70.0 million and record free cash flow of $58.1 million during fiscal 2019, compared to $56.1 million and $50.8 million in fiscal 2018.
- Backlog increased to $624.0 million, compared to $466.0 million as at March 31, 2018 due to contributions by CESA and Beaver totaling $113.8 million and an organic increase of $44.2 million.
- In January 2019, the Corporation received the final customer certification required to perform all surface treatment planned to produce the Boeing 777 and 777X major landing gear components at its Strongsville, Ohio facility.
- On July 17, 2018, Héroux-Devtek announced that it had been selected by The Boeing Company ("Boeing") to manufacture the main landing gear and side braces for the F/A 18 Super Hornet and EA-18G Growler aircraft. First deliveries are expected in the third quarter of calendar 2020. The contract also includes potential spare parts and aftermarket services.
- In April 2019, subsequent to the end of the fiscal year, the Corporation announced that it had been selected by Boeing to supply the complete landing gear system for the MQ-25 unmanned aerial refueling program.

OVERVIEW OF THE BUSINESS

Profile

Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul (R&O) of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. 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.

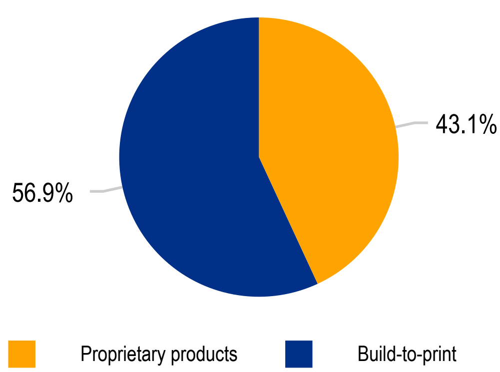
In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft in the United States and Europe. As a result, a significant portion of the 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, St-Hubert and Montreal); Kitchener, Cambridge and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; Everett, Washington; Livonia, Michigan; Seville and Madrid, Spain; as well as Bolton, Runcorn and Nottingham in the United Kingdom.

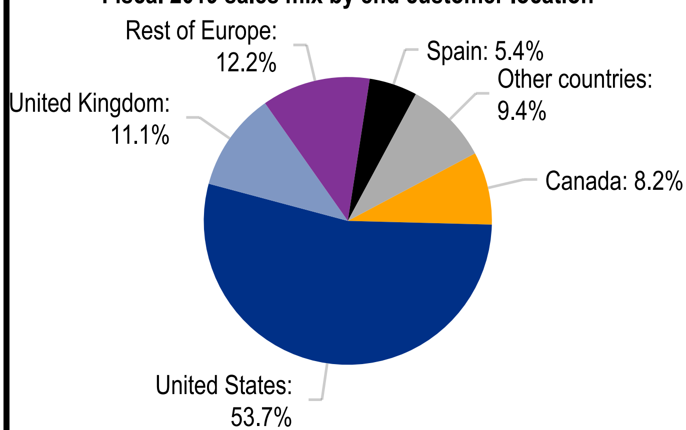
Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Airbus, Lockheed Martin, Leonardo, Embraer and BAE Systems; to Tier 1 suppliers such as Safran Landing Systems and AAR; and to end users in the aftermarket where its largest customer is the U.S. Air Force ("USAF"). In fiscal 2019, sales to these nine customers represented approximately 63% of total consolidated sales. More specifically, the Corporation has one customer representing 22% of its consolidated sales.

The following charts describe Héroux-Devtek's revenue segmentation in terms of intellectual property and destination:

Fiscal 2019 sales, BTP* vs proprietary **



Fiscal 2019 sales mix by end customer location



** BTP: Build to Print*

*** Based on fiscal 2019 actual annualized sales for Beaver, CESA and Tekalia*

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 €130.4 million ($195.8 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition allows 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 €23.7 million ($35.6 million) upon closing.

For the period between October 1, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included €42.1 million ($63.5 million) and €2.7 million ($4.0 million), generated by CESA, respectively. Management is satisfied with the first six-month of performance 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 consolidated sales and net income of CESA would have amounted to $117.3 million and $2.8 million, respectively, for the fiscal year ended March 31, 2019.

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$21.6 million ($28.5 million). This price includes a working capital adjustment received in April 2019 of US$0.3 million ($0.4 million) and 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 allows 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 March 31, 2019, the Corporation's consolidated sales and net income included US$18.9 million ($24.8 million) and US $1.4 million ($1.8 million), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of Beaver would have amounted to $33.2 million and $2.2 million, respectively, for the fiscal year ended March 31, 2019.

Acquisition of Tekalia

On January 23, 2019, the Corporation completed the acquisition of 60% of the shares of Tekalia Aeronautik (2010) Inc. ("Tekalia"), a supplier of surface treatment services to the aerospace sector with annual sales of approximately $12.0 million, for a purchase price of $6.5 million. The transaction was financed through the Corporation's cash and was treated as a business combination. The acquisition of Tekalia allows the Corporation to further secure surface treatment capacity to support its North American customers' growth.

Purchase Prices

The purchase prices and the 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:

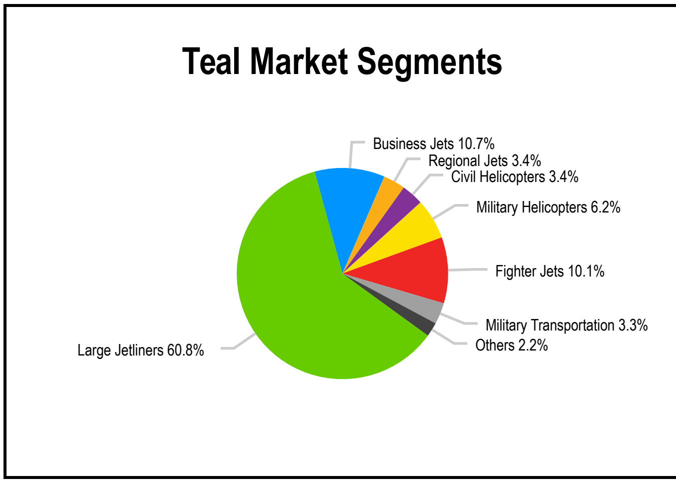
	CESA	Beaver	Tekalia	Total
Cash payment	$ 170,930	$ 23,671	$ 3,548	$ 198,149
Long-term debt assumed	35,594	574	2,981	39,149
Working capital adjustment receivable	(10,708)	(388)	—	(11,096)
Balance of purchase price payable	—	4,609	—	4,609
Total purchase price for the Corporation's interest	**$ 195,816**	**$ 28,466**	**$ 6,529**	**$ 230,811**
Non-controlling interests	—	—	2,365	2,365
	$ 195,816	**$ 28,466**	**$ 8,894**	**$ 233,176**

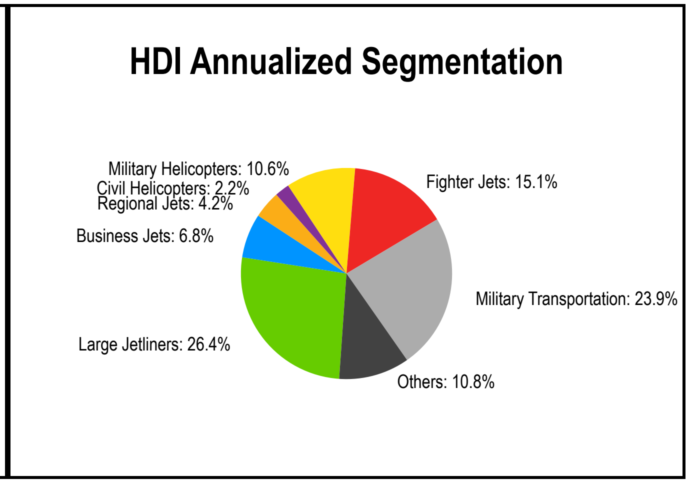
Purchase Price Allocations

	CESA	Beaver	Tekalia	Total
Accounts receivable	$ 28,293	$ 6,787	$ 2,406	$ 37,486
Inventories	36,692	10,165	1,105	47,962
Income tax receivable	505	—	—	505
Other current assets	596	50	182	828
	66,086	**17,002**	**3,693**	**86,781**
Property, plant and equipment	44,923	3,635	8,566	57,124
Finite-life intangible assets	40,407	4,050	176	44,633
Deferred income tax assets	—	2,774	—	2,774
Other long-term assets - Tax credits receivable	7,843	—	—	7,843
Total identifiable assets	**$ 159,259**	**$ 27,461**	**$ 12,435**	**$ 199,155**
Accounts payable and accrued liabilities	16,773	2,588	4,833	24,194
Provisions	11,897	2,118	—	14,015
Customer advances and progress billings	4,188	450	—	4,638
	32,858	**5,156**	**4,833**	**42,847**
Provisions	4,308	8,549	—	12,857
Deferred income tax liabilities	3,465	—	—	3,465
Other liabilities - long-term accounts payable	4,365	—	—	4,365
Total identifiable liabilities	**$ 44,996**	**$ 13,705**	**$ 4,833**	**$ 63,534**
Net identifiable assets and liabilities	**114,263**	**13,756**	**7,602**	**135,621**
Goodwill	81,553	14,710	1,292	97,555
Total purchase price	**$ 195,816**	**$ 28,466**	**$ 8,894**	**$ 233,176**

The purchase price allocations of CESA and Tekalia are preliminary. The purchase price of CESA is subject to final working capital adjustments. In the case of Tekalia, due to the limited time between the date of acquisition and the date of the financial statements, management is in the process of gathering all the information necessary to finalize it. Accordingly, the final purchase price allocations could result in changes to the fair value of assets acquired and liabilities assumed.

ECONOMIC OUTLOOK[1]





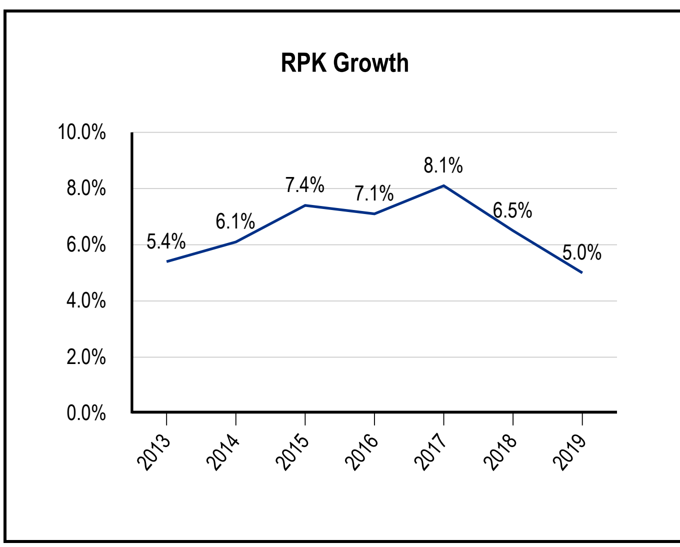
Commercial Aerospace Growth Forecasts Remain Positive in Light of Recent Signs of a Slowdown in Global Expansion

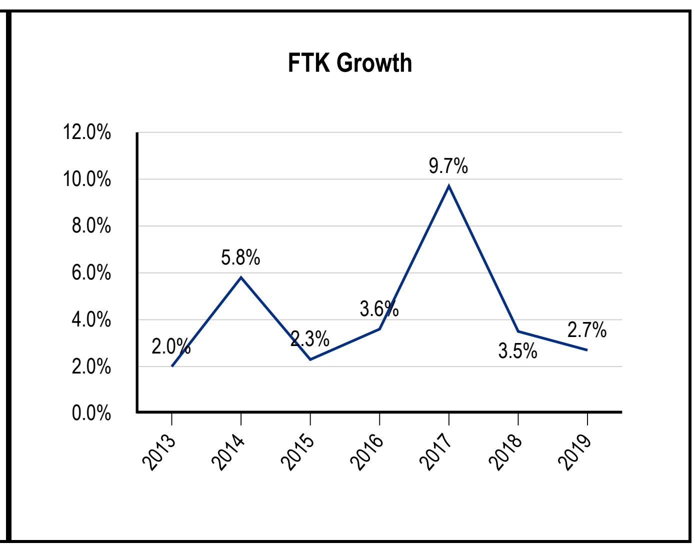
The commercial market represents approximately/over 75% of the total value of aircraft production in Calendar 2018.[5]

Passenger traffic volumes and air cargo volumes, measured in revenue passenger kilometers (RPK) and freight ton kilometers (FTK) respectively are two important metrics used to measure commercial air traffic volumes.

International Air Transport Association's ("IATA") most recent forecast for 2019 calls for passenger volumes to remain broadly in line with the average annual growth rate of 5.6% recorded in the previous 20-year period. Passenger traffic volumes, expressed in revenue passenger kilometres ("RPK"), eased to a year-over-year growth of 5.3% in February 2019. In April 2019, the International Monetary Fund ("IMF") issued a downward revision to its global GDP growth forecast to 3.3% in calendar 2019, with a return to 3.6% in 2020. This fourth revision in twelve months results from a slowing trend in business confidence (as indicated by the global composite Purchasing Manager's Index). Following the IMF's GDP forecast revision, the IATA reported that if the pace of growth of the global economy continued to slow down in 2019, RPK growth in 2019 would be closer to 5.0%, down from its previous forecast of 6.0%. In spite of these short-term revisions, the long-term outlook for the airline industry remains positive.

Air cargo volume, measured in freight ton kilometres ("FTK"), were marginally higher by 0.1% year-over-year in March 2019, resulting from softness in global trade and recent economic indicators. According to the IATA, leading indicators suggest that FTK growth should remain subdued in the coming months. IATA's last update to its FTK long-term growth forecast was published in March 2019 and forecasts an annual growth of 2.7% for 2019 and of 4.4% per year over the next five years. This positive outlook is supported in part by fast-growing areas such as e-commerce.[3]





"Air traffic has proven to be resilient to external shocks and doubles every 15 years[2]", Airbus 2018-2037 Global Market Forecast.

Customers' Commercial and Defence Order Backlogs Remain Strong

Meanwhile, in the large commercial aircraft sector, Boeing reported record revenue and profitability results in 2018 mainly driven by commercial and defence airplane deliveries. Boeing's commercial airplanes order backlog reached 5,900 airplanes. Over the next 20 years, Boeing forecasts a need for 43,000 new commercial airplanes, which would double the size of today's fleet.

Airbus also reported robust 2018 profitability resulting from strong operational performance. Their commercial aircraft order backlog reached an industry record of 7,577 aircrafts at year end. Airbus reported strong first quarter 2019 results on robust commercial aircraft deliveries and production ramp-up and continues to see good prospects in its helicopter and defence business.

Both 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.(4) Their combined backlogs represent a total of 13,477 aircraft representing over 8 years of production based on calendar 2018 production rates.

Defence Remains a Solid Growth Market with Spending on the Rise

The defense market in Calendar 2018 represented about 25% of global aircraft production, according to Teal Group(5). It remains a "solid growth" market, driven by rising global tensions and an aging fleet. Fighter jets are forecasted as the largest share aircraft production at approximately $293 billion over the next ten years. (TEAL)

On March 11, 2019, the U.S. administration sent Congress a Proposed Fiscal Year 2020 Budget request to increase funding for the Department of Defense (DOD) to US$718 billion from US$668 billion in 2018 representing 7.5% of year over year growth. 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, an increase of over 70%. 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).(6)

New Certifications and Demand in North America Drive Business Jet Deliveries

Business jets are forecasted as the third largest segment new aircraft production over the next ten years at approximately US$253 billion. (TEAL)

In the business jet market, aircraft shipments increased by 3.8% in calendar 2018, to 703 aircrafts, 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. The North American market took delivery of 65.1% of all business jets delivered in 2018.(7)

(1) Refer to Forward-Looking Statements in Overview for further information regarding forward-looking statements and related risks.
(2) Source: Airbus Global Market Forecast, 2018-2037
(3) Sources: Air Passenger Market Analysis, IATA, February 2019; Air Freight Market Analysis, IATA, May 2019; IMF Downgrades GDP Forecast, But Growth Still Looks OK, April 2019; World Economic Outlook, International Monetary Fund, April 2019.
(4) Sources: Airbus press release February 14, 2019 and April 30, 2019; Boeing press releases January 30, 2019 and April 9, 2019; Speech from Boeing CEO Dennis Muilenberg: 2019 Address to Shareholders, April 29, 2019. Statement from Boeing CEO Dennis Muilenburg: We Own Safety - 737 MAX Software, Production and Process Update, April 5, 2019.
(5) Source: World Military and Civil Aircraft Briefing, Teal Group Corporation, March 2019.
(6)Sources: DOD press release March 12, 2019; NATO press release, December 19, 2018; The Standing Senate Committee on National Finance Evidence, February 19, 2019.
(7) Sources: GAMA press release February 20, 2019, GAMA annual report 2018; Business Aviation Market Forecast, Jetcraft, October 2018.

GUIDANCE

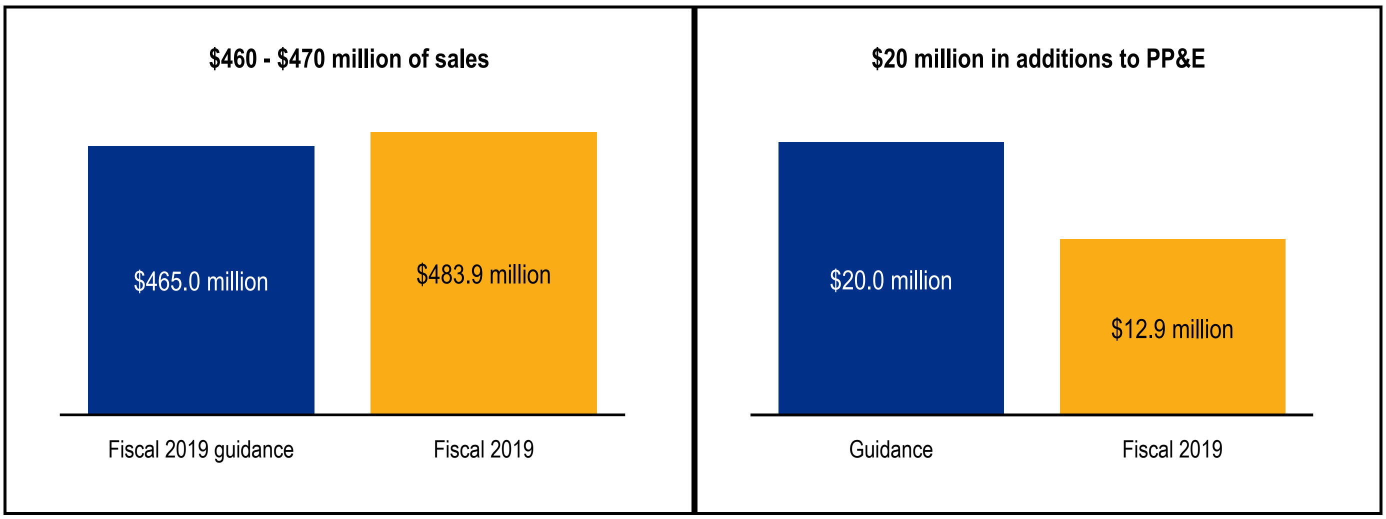
See *Forward-Looking Statements* for cautionary notice regarding Guidance and *Risk Management* for discussion of certain factors which may cause future results to differ from guidance included in this section.

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 financial performance.

As such, revised guidance for fiscal 2019 was as follows:

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**

FISCAL 2019 OPERATING RESULTS COMPARED TO REVISED 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.*

Fiscal 2019 sales were slightly above guidance owing to strong results both from the Corporation's existing and acquired operations. Additions to property, plant and equipment totaled $12.9 million, compared to guidance of $20 million due mainly to the timing of certain investment initiatives.

FISCAL 2020 GUIDANCE

Metric	Fiscal 2020 Guidance
Fiscal 2020 sales	Fiscal 2020 sales of $560 to $580 million
Long-term sales growth	Fiscal 2022 sales of $620 to $650 million

The growth in fiscal 2020 sales over fiscal 2019 mainly relates to a full year of contribution from acquired businesses as well as increased deliveries related to the Boeing 777 and 777X programs.

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;
- The Corporation's ability to deliver on key contract initiatives; and,
- The successful deployment of integration and cross-selling initiatives.

FOREIGN EXCHANGE

As a Corporation with operations in various 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, Spain and the United Kingdom, and thus incurs costs denominated in the respective currencies of these four countries, the Canadian dollar ("CAD"), United States dollar ("USD") Euros ("EUR") and British pound ("GBP"). In addition to costs denominated in their local currencies, a large portion of materials costs of the Canadian, Spanish and British operations are denominated in USD, as is a large portion of their sales.

The Corporation must convert 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, 2019	March 31, 2018
USD (Canadian equivalent of US$1.0)	**1.3363**	1.2894
EUR (Canadian equivalent of €1.0)	**1.5002**	N/A
GBP (Canadian equivalent of £1.0)	**1.7418**	1.8106

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,**	
	2019	2018	**2019**	2018
USD (Canadian equivalent of US$1.0)	**1.3292**	1.2648	**1.3122**	1.2834
EUR (Canadian equivalent of €1.0)	**1.5094**	N/A	**1.5192**	N/A
GBP (Canadian equivalent of £1.0)	**1.7315**	1.7607	**1.7228**	1.7022

Héroux-Devtek is most exposed to the performance of the USD versus CAD, GBP and EUR due to the prevalence of USD in Aerospace market transactions and the geographical location of operations. Fiscal 2019 featured a notable increase in the value of the USD compared to CAD, EUR and GBP, the main impact of which was growth in the value of the Corporation's U.S. denominated sales and assets. Approximately 70% of the Corporation's sales are denominated in USD, compared to only a bit less than half of the related costs, which creates significant net inflows of USD, the value of which fluctuate with the USD/CAD, USD/EUR and USD/GBP 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. See the Derivative Financial Instruments section under Additional Information for further details.

As at March 31, 2019, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $228.4 million denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US$146.9 million convertible into Canadian dollars at an average rate of 1.3060. These contracts mature at various dates between April 2019 and March 2023, with the majority maturing this fiscal year and the next.

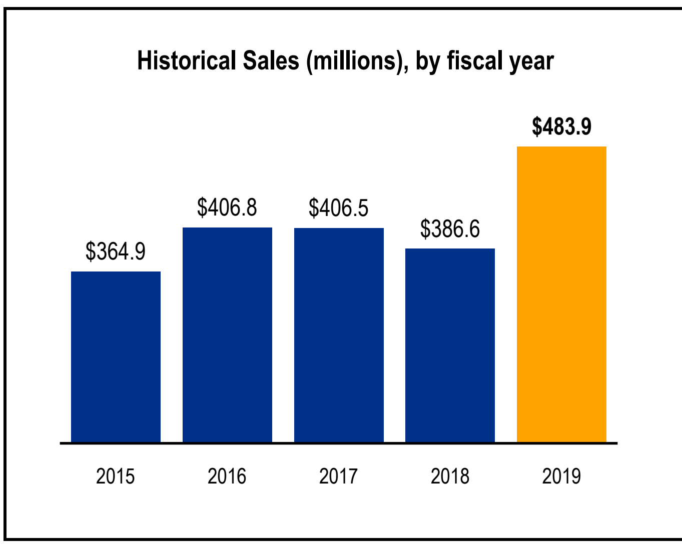
Consistent with hedge accounting under IFRS, gains and losses on these FFEC are accounted for in other comprehensive income until settlement, at which point they are realized in the consolidated statement of income along with the opposing gain or loss on translation of the related financial instruments. As at March 31, 2019, a 1% strengthening of the CAD versus the USD would result in a 0.4 million decrease in the Corporation's fiscal 2019 net income.

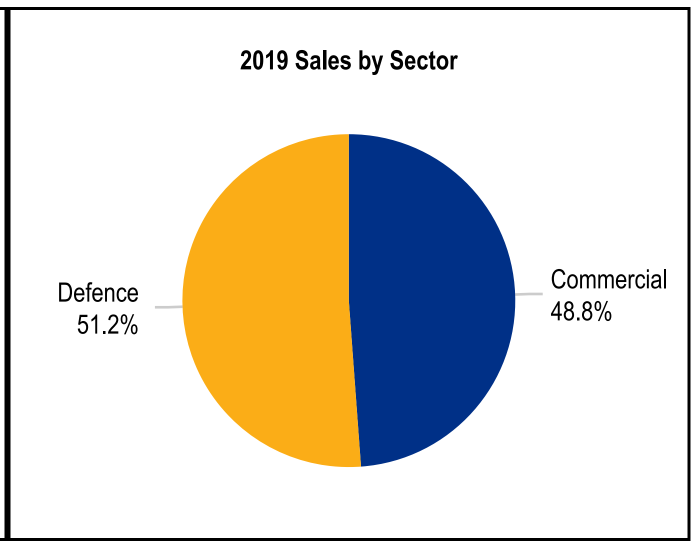
OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2019	2018	*Variance*	**2019**	2018	*Variance*
Sales	**$ 157,914**	$ 113,024	*$ 44,890*	**$ 483,877**	$ 386,564	*$ 97,313*
Gross profit	**29,730**	18,958	*10,772*	**83,196**	61,276	*21,920*
Selling and administrative expenses	**13,522**	6,869	*6,653*	**41,633**	30,951	*10,682*
Adjusted operating income(1)	**16,208**	12,089	*4,119*	**41,563**	30,325	*11,238*
Non-recurring items	**1,018**	5,392	*(4,374)*	**4,323**	6,947	*(2,624)*
Operating income	**15,190**	6,697	*8,493*	**37,240**	23,378	*13,862*
Financial (gains) expenses(2)	**1,402**	(389)	*1,791*	**6,811**	2,537	*4,274*
Income tax expense(2)	**1,830**	1,228	*602*	**4,235**	7,167	*(2,932)*
Net income	**$ 11,958**	$ 5,858	*$ 6,100*	**$ 26,194**	$ 13,674	*$ 12,520*
Adjusted net income(1)	**$ 12,794**	$ 10,439	*$ 2,355*	**$ 30,352**	$ 24,213	*$ 6,139*
As a percentage of sales						
Gross profit	**18.8%**	16.8%	*200 bps*	**17.2%**	15.9%	*130 bps*
Selling and administrative expenses	**8.6%**	6.1%	*250 bps*	**8.6%**	8.0%	*60 bps*
Operating income	**9.6%**	5.9%	*370 bps*	**7.7%**	6.0%	*170 bps*
Adjusted operating income(1)	**10.3%**	10.7%	*-40 bps*	**8.6%**	7.8%	*80 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.34**	$ 0.16	*$ 0.18*	**$ 0.73**	$ 0.38	*$ 0.35*
Adjusted EPS(1)	**$ 0.36**	$ 0.29	*$ 0.07*	**$ 0.84**	$ 0.67	*$ 0.17*

(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,	
	2019	2018	Acquisitions	FX impact	Net variance	
Commercial	**$ 78,004**	$ 57,509	$ 19,278	$ 1,685	$ (468)	(0.8)%
Defence[1]	**79,910**	55,515	24,172	1,760	(1,537)	(2.8)%
Total	**$ 157,914**	$ 113,024	$ 43,450	$ 3,445	$ (2,005)	(1.8)%

					Fiscal years ended March 31,	
	2019	2018	Acquisitions	FX impact	Net variance	
Commercial	**$ 236,283**	$ 195,101	$ 31,474	$ 2,108	$ 7,600	3.9 %
Defence[1]	**247,594**	191,463	58,924	2,208	(5,001)	(2.6)%
Total	**$ 483,877**	$ 386,564	$ 90,398	$ 4,316	$ 2,599	0.7 %

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

The following analysis excludes the impact of acquisitions and foreign exchange which are itemized in the table above.

Commercial

The $7.6 million net increase in commercial sales for the fiscal year was 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.

Commercial sales were relatively stable during the fourth quarter this year compared to last as increased deliveries for the Boeing 777 and 777X programs were offset by lower sales on Bell Helicopter programs.

Defence

The $5.0 million and $1.5 million respective net decreases in defence sales for the fiscal year and fourth quarter were mainly driven by:

- The net impact of the end of the USAF R&O contract partially offset by the ramp-up of the corresponding contract with AAR signed earlier this fiscal year; and
- Lower manufacturing sales to Boeing for the CH-47 contract;

These factors were partially offset by higher sales of spares, namely to the U.S. Navy and USAF.

Gross Profit

The respective increases in gross profit from 15.9% to 17.2% this fiscal year and from 16.8% to 18.8% for the quarter compared to the same periods last fiscal year were mainly driven by the impact of the Beaver and CESA acquisitions and higher throughput which led to better absorption of manufacturing costs. Foreign exchange did not have a significant impact on gross profit.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 8.8% and 8.5% of sales for the fiscal year and the quarter, respectively, compared to 8.0% and 7.6% for the same periods last fiscal year.

The increases compared to the same periods last fiscal year mainly relate to lower stock-based compensation expense last year due to the delay in fiscal 2018 long-term incentive plan issuances caused by trading blackouts as well as the impact of acquisitions.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Non-recurring items in operating income				
Acquisition-related costs	**$ 1,018**	$ 402	**$ 4,323**	$ 1,957
Restructuring charges	**—**	4,990	**—**	4,990
	$ 1,018	$ 5,392	**$ 4,323**	$ 6,947
Non-recurring items in financial expenses				
Net losses on certain derivative financial instruments	**$ —**	$ 698	**$ 391**	$ 89
	$ —	$ 698	**$ 391**	$ 89
Non-recurring items in income tax expense				
Impact of US Tax Reform	**$ —**	$ —	**$ —**	$ 4,912
	$ —	**$ —**	**$ —**	**$ 4,912**

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

Restructuring charges
In March 2018, the Corporation announced workforce adjustments of about 60 employees at its Longueuil facility following the non-renewal of the USAF contract. These adjustments along with other costs related to the decrease in volume resulted in restructuring charges totaling $5.0 million accounted for during the fourth quarter of fiscal 2018, including termination benefits of $2.7 million and other costs related to the reduction in volume totaling $2.3 million. The unpaid portion of these restructuring charges amounted to $0.3 million as at March 31, 2019 ($2.5 million as at March 31, 2018).

Net losses on certain derivative financial instruments
These 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 fiscal 2018 is related to the US Tax Reform enacted on December 22, 2017. Refer to the Income Tax section for further details.

Operating Income

The increases in operating income from 6.0% to 7.7% of sales (increase from 7.8% to 8.6% excluding non-recurring items) for the fiscal year and from 5.9% to 9.6% of sales (decrease from 10.7% to 10.3% excluding non-recurring items) for the quarter compared to the same periods last fiscal year were mainly the result of the factors described above.

Year-over-year, foreign exchange had a positive impact of $0.7 million on operating income, while it had a negative impact of $1.0 million during the fourth quarter of fiscal 2019 compared to the same period last fiscal year.

Net financial Expenses

	Quarters ended March 31,			Fiscal years ended March 31,		
	2019	2018	*Variance*	**2019**	2018	*Variance*
Interest on long-term debt	**$ 1,644**	$ 536	*$ 1,108*	**$ 4,914**	$ 2,614	*$ 2,300*
Net interest expense (income) related to government loans	**(549)**	(1,189)	*640*	**1,325**	466	*859*
Interest income (expense) related to financial instruments	**(46)**	441	*(487)*	**(409)**	(491)	*82*
Other interest income (expense)	**353**	(177)	*530*	**981**	(52)	*1,033*
	$ 1,402	$ (389)	*$ 1,791*	**$ 6,811**	$ 2,537	*$ 4,274*

The $4.3 million and $1.8 million respective increases during the fiscal year and fourth quarter compared to the same periods last fiscal year mainly reflect interest charges on new debt incurred to finance the CESA acquisition and higher interest rates, as well as the negative impact of discount rates on provisions compared to a positive impact last year. In addition, there was a lower gain resulting from revisions of the repayment schedules of governmental authorities' loans, described in *Government Authorities Loans* under *Liquidity and Capital Resources.*

Income Tax Expense

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Income before income tax expense	**$ 13,788**	$ 7,086	**$ 30,429**	$ 20,841
Income tax expense	**1,830**	1,228	**4,235**	7,167
Effective tax rate	**13.3%**	17.3%	**13.9%**	34.4%
Effect of US Tax Reform	**$ —**	$ —	**$ —**	$ 4,912
Income tax expense excluding U.S. Tax reform	**1,830**	1,228	**4,235**	2,255
Effective tax rate excluding the US Tax Reform impact	**13.3%**	17.3%	**13.9%**	10.8%
Canadian blended statutory income tax rate	**26.6%**	26.6%	**26.6%**	26.6%

For fiscal 2019, the Corporation's effective income tax rate is lower than the Canadian blended statutory rate by 12.7% primarily due to the favourable impact of earnings in lower tax rate jurisdictions of $4.8 million ($4.8 million in fiscal 2018), partially offset by non-deductible acquisition-related costs of $0.7 million ($0.5 million in fiscal 2018) and permanent differences of $0.5 million ($0.3 million in 2018).

The effective income tax rate for the quarter mainly reflects the $1.7 million favourable impact of earnings in lower tax rate jurisdictions ($0.9 million in fiscal 2018), partially offset by permanent differences totaling $0.1 million ($0.1 million in fiscal 2018). The effective income tax rate was also impacted by non-deductible acquisitions-related costs of $0.2 million incurred in the fourth quarter of fiscal 2018.

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 federal 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 fiscal 2018.

Net Income

Earnings increased from $13.7 million to $26.2 million (or increased from $24.2 million to $30.4 million excluding non-recurring items net of taxes) this fiscal year compared to last and increased from $5.9 million to $12.0 million (or increased from $10.4 million to $12.8 million excluding non-recurring items net of taxes) during the quarter compared to the same quarter last fiscal year mainly as a result of the factors described above.

During the fiscal year, earnings per share increased from $0.38 to $0.73 per share (or increased from $0.67 to $0.84 per share excluding non-recurring items net of taxes), while they increased from $0.16 to $0.34 per share (or increased from $0.29 to $0.36 excluding non-recurring items net of taxes) during the quarter compared to the same quarter last fiscal year.

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 about 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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Operating income	**$ 15,190**	$ 6,697	**$ 37,240**	$ 23,378
Non-recurring items	**1,018**	5,392	**4,323**	6,947
Adjusted operating income	**$ 16,208**	$ 12,089	**$ 41,563**	$ 30,325

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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	**2018**
Net income	**$ 11,958**	$ 5,858	**$ 26,194**	$ 13,674
Income tax expense	**1,830**	1,228	**4,235**	7,167
Financial income (expenses)	**1,402**	(389)	**6,811**	2,537
Amortization expense	**9,702**	7,280	**32,650**	26,579
EBITDA	**$ 24,892**	$ 13,977	**$ 69,890**	$ 49,957
Non-recurring items	**1,018**	5,392	**4,323**	6,947
Adjusted EBITDA	**$ 25,910**	$ 19,369	**$ 74,213**	$ 56,904

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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Net income	**$ 11,958**	$ 5,858	**$ 26,194**	$ 13,674
Non-recurring items net of taxes	**836**	4,581	**4,158**	10,539
Adjusted net income	**$ 12,794**	$ 10,439	**$ 30,352**	$ 24,213
In dollars per share				
Earnings per share - basic and diluted	**$ 0.34**	$ 0.16	**$ 0.73**	$ 0.38
Non-recurring items net of taxes	**0.02**	0.13	**0.11**	0.29
Adjusted earnings per share	**$ 0.36**	$ 0.29	**$ 0.84**	$ 0.67

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. They are also a component of certain performance-based employee remuneration.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

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 fiscal year ended March 31, 2019, increasing the credit limit from $200.0 million to $250.0 million in connection with the acquisition of CESA.

As at March 31, 2019, the Corporation had $94.9 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, net of US$21.0 million ($27.9 million) repayments made during the last six months of the fiscal year.

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

On September 24, 2018, the Corporation signed a 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.

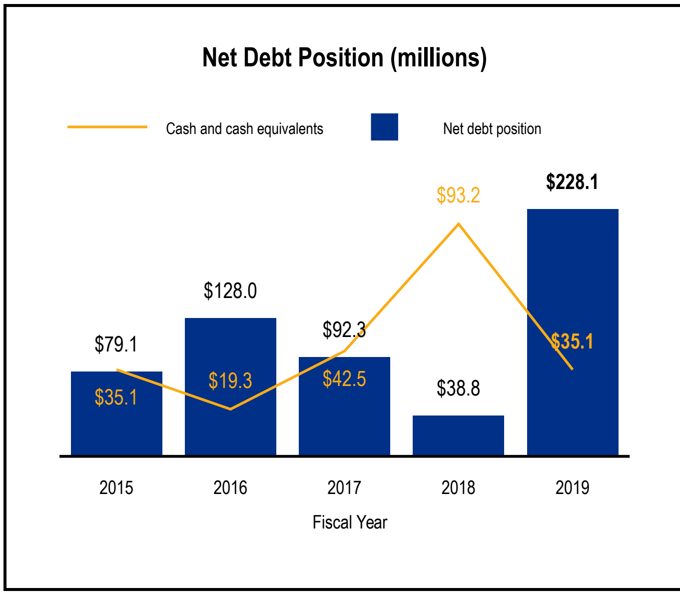
The initial $50.0 million loan, drawn on September 25, 2018, bears interest at 5.7% and is repayable at maturity on September 30, 2025. Starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

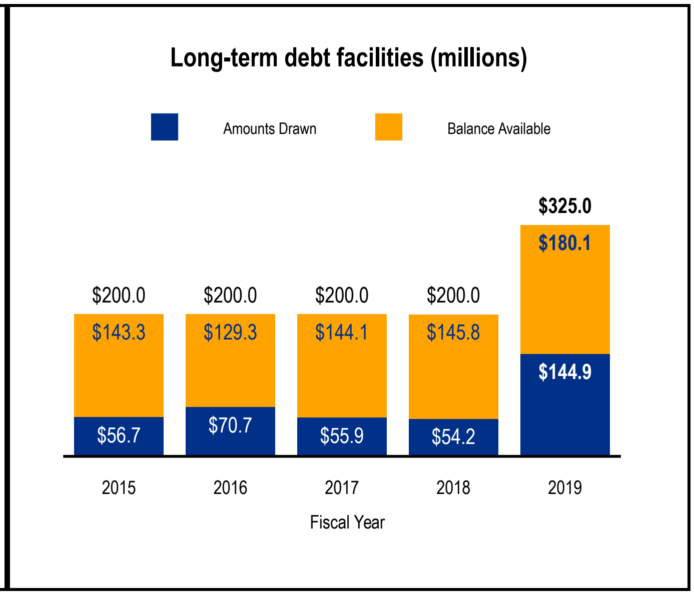
Net Debt Position

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

	March 31, 2019	March 31, 2018
Long-term debt, including current portion(1)	**$ 263,258**	$ 131,964
Less: Cash and cash equivalents	**35,128**	93,209
Net debt position	**$ 228,130**	$ 38,755

(1) *Excluding net deferred financing costs of $3.0 million as at* March 31, 2019 *and $0.9 million as at* March 31, 2018.





Long-term debt is subject to certain general and financial covenants related to, 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, 2019 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 financial needs.

GOVERNMENT 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 Canadian federal and provincial or Spanish industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be refund. Repayments, when not on a fixed schedule, are either based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines and bear no or below-market interest rate.

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 financial expense.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2019, the Corporation updated the estimated repayment schedule of its government authorities' loans, taking into account revised assumptions mainly related to sales forecasts. This resulted in a non-cash gain of $1,036 ($1,834 in fiscal 2018), which was included in net financial expenses.

As at March 31, 2019, the Corporation had a present value of $89.7 million outstanding under these agreements ($52.5 million as at March 31, 2018), bearing effective interest rates of 0.0% to 6.6% as at March 31, 2019 (2.5% to 7.2% as at March 31, 2018). 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,	
	2019	2018	**2019**	2018
Cash and cash equivalents at beginning of periods	**$ 28,639**	$ 70,642	**$ 93,209**	$ 42,456
Cash flows related to operating activities	**37,181**	18,521	**69,969**	56,122
Cash flows related to investing activities	**(7,926)**	3,121	**(208,619)**	(4,996)
Cash flows related to financing activities	**(22,096)**	20	**80,320**	(565)
Effect of changes in exchange rates on cash and cash equivalents	**(670)**	905	**249**	192
Cash and cash equivalents at end of periods	**$ 35,128**	$ 93,209	**$ 35,128**	$ 93,209

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,	
	2019	2018	**2019**	2018
Cash flows from operations	**$ 19,116**	$ 11,961	**$ 60,396**	$ 42,624
Net change in non-cash items	**18,065**	6,560	**9,573**	13,498
Cash flows related to operating activities	**$ 37,181**	$ 18,521	**$ 69,969**	$ 56,122

The respective $17.8 million and $7.2 million increases in cash flows from operations for the fiscal year and fourth quarter ended March 31, 2019 when compared to the same periods last fiscal year mainly relate to the contribution from the results of CESA and Beaver.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Accounts receivable	**$ (5,546)**	$ (19,305)	**$ (5,624)**	$ (2,335)
Income tax receivable	**(40)**	48	**(385)**	(184)
Inventories	**74**	7,520	**(1,746)**	9,539
Other assets	**(3,063)**	417	**(2,245)**	(869)
Accounts payable and accrued liabilities and other liabilities	**21,233**	4,165	**20,013**	719
Provisions	**(1,204)**	209	**(5,377)**	(3,335)
Customer advance and progress billings	**7,264**	8,913	**4,655**	7,097
Income tax payable	**(794)**	1,744	**(2,404)**	1,916
Effect of changes in exchange rates	**141**	2,849	**2,686**	950
Net change in non-cash items	**$ 18,065**	$ 6,560	**$ 9,573**	$ 13,498

For the fiscal year ended March 31, 2019, the positive net change in non-cash items mainly reflected:

- An increase in accounts payable due to the higher level of activity in the fourth quarter and the timing of cash outflows; and,
- An increase in customer advances following cash receipt, offset by revenue recognition.

These positive elements were partially offset by an increase in accounts receivable due to higher deliveries in the fourth quarter and an increase in inventories mainly related to the ramp-up of the Boeing 777 and 777X contract and a decrease in provisions mainly due to utilization of the restructuring and product warranty provisions.

For the fiscal year ended March 31, 2018, the positive net change in non-cash items mainly reflected:

- Lower inventories following the scheduled ending of a Tier-2 contract and lower spare parts volume with the U.S. Government; and,
- The receipt of customer advances.

These positive elements were partially offset by a decrease in certain provisions.

For the quarter ended March 31, 2019, the positive net change in non-cash items mainly reflected:

- An increase in accounts payable due to timing of cash outflows; and,
- An increase in customer advances following cash receipt, offset by revenue recognition.

These positive elements were partially offset by the timing of receivable collections and by the negative effect of change in exchange rates.

For the quarter ended March 31, 2018, the positive net change in non-cash items mainly reflected:

- The receipt of customer advances;
- A decrease in inventories following a high level of deliveries during the quarter; and,
- An increase in accounts payable due to a high level of activity in the fourth quarter.

These positive elements were partially offset by an increase in accounts receivable due to the high level of activity in the fourth quarter.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Additions to property, plant and equipment	**$ (4,513)**	$ (3,744)	**$ (12,858)**	$ (9,930)
Cash payments for business acquisition	**(3,548)**	—	**(198,149)**	—
Net decrease in finite-life intangible assets	**130**	6,799	**2,353**	4,761
Proceeds on disposal of property, plant and equipment	**5**	66	**35**	173
Cash flows related to investing activities	**$ (7,926)**	$ 3,121	**$ (208,619)**	$ (4,996)

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 $3.5 million payment made for the acquisition of Tekalia. For the fiscal year ended March 31, 2019, the cash payments related to investing activities also include a $170.9 million payment for the acquisition of CESA and a $23.7 million payment made for the acquisition of Beaver.

The net decrease in finite-life intangible assets during the quarter and the fiscal year ended March 31, 2019 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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Gross additions to property, plant and equipment	**$ 5,286**	$ 5,696	**$ 13,876**	$ 10,691
Government assistance	**(497)**	(352)	**(497)**	(619)
Additions to property, plant and equipment	**$ 4,789**	$ 5,344	**$ 13,379**	$ 10,072
Variation in unpaid additions included in Accounts payable	**(276)**	(1,600)	**(521)**	(142)
Additions, as per statements of cash flows	**$ 4,513**	$ 3,744	**$ 12,858**	$ 9,930

Net decrease in finite-life intangible assets shown above can be reconciled as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Decrease (increase) in finite-life intangible assets	**(692)**	6,799	**1,531**	4,761
Variation in unpaid additions included in Accounts payable	**822**	—	**822**	—
Net decrease, as per statements of cash flows	**$ 130**	$ 6,799	**$ 2,353**	$ 4,761

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Increase in long-term debt	**$ 1,278**	$ 1,603	**$ 117,883**	$ 3,821
Repayment of long-term debt	**(23,652)**	(1,264)	**(36,198)**	(4,634)
Issuance of common shares	**245**	205	**1,169**	772
Increase in deferred financing cost	**33**	(524)	**(2,534)**	(524)
Cash flows related to financing activities	**$ (22,096)**	$ 20	**$ 80,320**	$ (565)

The increase in long-term debt during the fiscal year ended March 31, 2019 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 fiscal year ended March 31, 2019, repayments of US$21.0 million or $27.9 million (US$16.0 million or $21.3 million in the last quarter) of the Revolving facility and scheduled repayments of finance leases and governmental loans totaling $8.3 million were made.

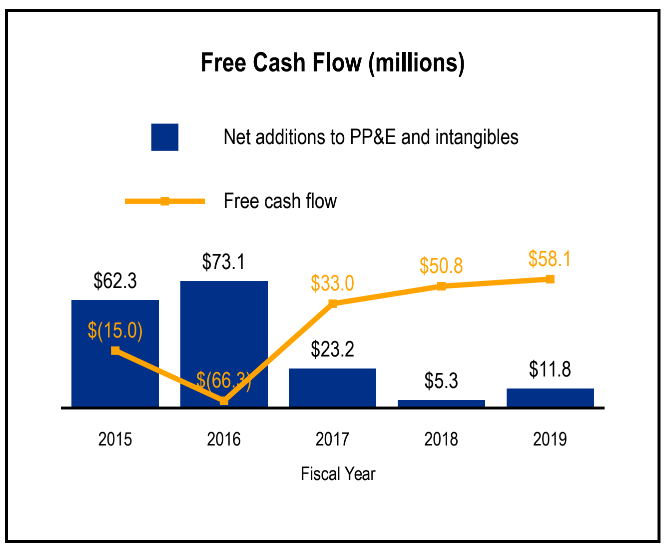
FREE CASH FLOW(1)

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	**2019**	2018
Cash flows related to operating activities	**$ 37,181**	$ 18,521	**$ 69,969**	$ 56,122
Additions to property, plant and equipment	**(4,789)**	(5,344)	**(13,379)**	(10,072)
Net decrease (increase) in finite-life intangible assets	**(692)**	6,799	**1,531**	4,761
Free cash flow(1)	**$ 31,700**	$ 19,976	**$ 58,121**	$ 50,811

(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 and fund investments.

Héroux-Devtek's Free Cash Flow has increased compared to last fiscal year mainly as a result of the contributions of CESA and Beaver.



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, 2019:

	Payments due by period				
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	$ 110,666	$ 6,780	$ 17,165	$ 21,938	$ 64,783
Finance leases	21,762	6,007	11,185	4,570	—
Credit facility	108,396	4,269	8,538	95,589	—
Term loan facility	69,225	2,850	5,700	5,700	54,975
Others	9,623	3,306	3,897	798	1,622
	319,672	23,212	46,485	128,595	121,380
Purchase obligations	205,451	172,500	30,855	1,825	271
Accounts payable	76,749	76,749	—	—	—
Building, machinery and equipment acquisition commitments	6,796	6,624	172	—	—
Operating leases - Buildings and facilities	16,823	2,517	4,685	3,637	5,984
Total contractual obligations(1)	**$ 625,491**	**$ 281,602**	**$ 82,197**	**$ 134,057**	**$ 127,635**

(1) *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, 2019, 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, 2019	March 31, 2018
Current portion of long-term debt	**$ 15,066**	$ 5,356
Long-term debt	**245,240**	125,685
Deferred financing costs, net	**2,952**	923
Less: Cash and cash equivalents	**35,128**	93,209
Net debt	**$ 228,130**	$ 38,755
Shareholders' equity	**404,098**	379,034
Net debt-to-equity ratio	**0.56:1**	0.10:1

The increase in net debt this fiscal year is mainly related to the business acquisitions, net of free cash flow generated during the year.

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2019		Fiscal year ended March 31, 2019	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,341,054	$ 79,361	36,218,572	$ 78,105
Issued for cash on exercise of stock options	17,250	276	107,450	1,101
Issued for cash under the stock purchase and ownership incentive plan	3,906	39	36,188	470
Ending balance	**36,362,210**	**$ 79,676**	**36,362,210**	**$ 79,676**

As at May 22, 2019, the number of common shares outstanding stood at 36,362,210.

Stock options varied as follows:

	Quarter ended March 31, 2019		Fiscal year ended March 31, 2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,187,720	$ 13.22	1,105,295	$ 12.09
Granted	—	—	207,500	16.21
Exercised	(17,250)	11.87	(107,450)	6.50
Cancelled / forfeited	(3,375)	14.97	(38,250)	15.24
Ending balance	**1,167,095**	**$ 13.23**	**1,167,095**	**$ 13.23**

During fiscal 2019, 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.

As at March 31, 2019, 2,762,507 common shares remained reserved for issuance upon exercise of stock options compared to 1,514,481 at March 31, 2018 and 22,678 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 58,866 at March 31, 2018.

As at May 22, 2019, the number of stock options outstanding stood at 1,167,095.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 22, *Issued Capital*, to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

The acquisitions of CESA, Beaver and Tekalia contributed assets and liabilities to the Corporation's balance sheet as at March 31, 2019 as detailed in the *Business Acquisitions* section under *Overview*.

Working Capital

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

	March 31, 2019	March 31, 2018	*Variance*	
Current assets	**$ 364,467**	$ 310,649	*$ 53,818*	*17.3 %*
Current liabilities	**186,840**	108,750	*78,090*	*71.8 %*
Net working capital	**$ 177,627**	$ 201,899	*$ (24,272)*	*(12.0)%*
Working capital ratio	**1.95**	2.86		

The $53.8 million increase in current assets is mainly due to:

- $86.8 million of current asset as acquired through business acquisitions; and,
- $58.1 million of free cash flow generated during fiscal 2019.

These positive factors were partly offset by $82.9 million of cash used for the business acquisitions.

The $78.1 million increase in current liabilities is mainly due to $42.8 million assumed in business acquisitions and an increase of $26.2 million in accounts payable and accrued liabilities as previously explained.

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

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

	March 31, 2019	March 31, 2018	*Variance*	
Long-term assets	**$ 510,273**	$ 321,513	*$ 188,760*	*58.7%*
Long-term liabilities	**283,802**	144,378	*139,424*	*96.6%*
Shareholder's equity	**404,098**	379,034	*25,064*	*6.6%*

The increase in long-term assets is mainly due to $211.0 million acquired with CESA, Beaver and Tekalia, including $97.6 million of goodwill.

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.

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:

	2019	2018
Net defined benefit obligations, beginning of year	**$ (3,958)**	$ (3,610)
Net gains (losses) from remeasurement	**(2,487)**	261
Employer contributions	**1,335**	1,489
Current service cost	**(1,192)**	(1,459)
Interest on net defined benefit obligations	**(150)**	(153)
Other	**(198)**	(486)
Net defined benefit obligations, end of year	**$ (6,650)**	$ (3,958)

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

	March 31, 2019	**March 31, 2018**
Present value of defined benefit obligations of funded plans	**$ 65,962**	$ 61,216
Fair value of plan assets	**60,710**	58,974
Funding ratio	**92.0%**	96.3%

The Corporation made contributions of $1.3 million and $3.5 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2019, and expects to make respective contributions of $1.7 million and $3.6 million during fiscal 2020.

ADDITIONAL INFORMATION

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 and adjusted net income. Incentive pay also relies on individual objectives and, in the case of stock-based compensation, share price performance.

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 and its 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 programs	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 9 of Héroux-Devtek's customers represent approximately 63% of consolidated sales, including one customer representing 22% of its consolidated sales. The loss of one of these customers would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio. In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.
Acquisitions and integrations	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 and integrations via thorough due diligence work, internal experience and external assistance, as needed. Héroux-Devtek plans integration of acquisitions from the top down and dedicates resources over the long term in order to optimize integration and achieve strategic goals.

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 require 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, unsecured subordinated term loan facility 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 identifies 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 specific to or result from Héroux-Devtek's operations than strategic risks.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Litigation	Héroux-Devtek is subject to possible litigation in the ordinary course of its 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 coverage 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: - A security program based on the NIST framework, including frequent maturity assessments, audits and penetration tests; - 24/7 monitoring via a security operations center; - Intrusion detection and prevention solutions; - A global security committee, strict governances process and policies regarding information technology; - A cybersecurity awareness program and phishing campaigns; and, - Disaster recovery planning.
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 and also 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.

External Risks

External 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 environmental incident which could lead to a larger loss, the Corporation also subscribes to insurance policies which may partially mitigate such losses.

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 the *Risk Management* section under *Overview* for further details of Héroux-Devtek's risk management practices.

As at March 31, 2019, 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 32 to the Consolidated financial statements.

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 the interest rates of the underlying debt would increase related the net financial expenses.

As at March 31, 2019, 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

The Corporation's net income is exposed to fluctuations of its share price through its DSUs and PSUs (see note 22 to the consolidated financial statements). In order to mitigate this exposure, the Corporation has 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 resulting from the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2019, the equity swap agreement covered 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 2020.

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 17 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 25 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.

Customer Relationships

Customer relationships acquired in business acquisitions are considered intangible assets with finite lives. Their value was estimated upon acquisition using valuation methodologies which rely on many underlying assumptions, including:

- Expected future order intake;
- Operational execution and cost management;
- Stability of economical conditions, including foreign exchange rates;
- Production rates;
- Government spending.

They are recorded at cost less accumulated impairment and amortization and are amortized on a straight-line basis over their useful lives without exceeding 15 years.

INTERNAL CONTROLS AND PROCEDURES

In compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings* ("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, 2019, 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, 2019, 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.

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 exclude the controls, policies and procedures of Beaver and CESA, which were acquired respectively on July 2, 2018 and October 1, 2018. Those results are included in the March 31, 2019 consolidated annual financial statements of Héroux-Devtek and constituted approximately 34.6% of total assets as at March 31, 2019 and 18.3% of total revenues for the year ended March 31, 2019. 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 of fiscal 2020, respectively.

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, 2019 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

NEW ACCOUNTING STANDARDS

IFRS 9, Financial Instruments

In July 2014, the IASB issued a complete and final version of IFRS 9 "Financial Instruments", replacing the current standard on financial instruments (IAS 39). IFRS 9 introduces a single, principle-based approach for the classification of financial assets, driven by the nature of cash flows and the business model in which an asset is held. IFRS 9 also provides guidance on an entity's own credit risk relating to financial liabilities and has modified the hedge accounting model to align the economics of risk management with its accounting treatment. The standard results in a single expected-loss impairment model rather than an incurred losses model.

The Corporation adopted IFRS 9 on April 1, 2018 and this adoption did not have a significant impact on the Corporation's consolidated financial statements.

Initial recognition

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss ("FVTPL"), measured at amortized cost ("AC") or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Corporation's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Corporation's financial assets are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion are classified and subsequently measured at amortized cost. They consist of cash and cash equivalents, accounts receivable and certain other current and long-term assets.

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 include certain 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.

AC

AC are non-derivative financial assets with fixed or determinable payments not quoted in an active market. AC are mainly comprised of accounts receivable and certain other current and long-term assets. AC are carried at amortized cost using the effective interest rate method. An allowance for doubtful accounts is recorded when an account receivable become impaired. Also, under the forward-looking expected credit loss ("ECL") approach, all financial assets, except for those measured at FVTPL, are subject to review for impairment at least at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For accounts receivables, the Corporation has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses and the amount was insignificant at March 31, 2019 and 2018.

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.

FVTOCI

These include cross-currency interest rate swap agreements that are used to hedge the net investments in certain foreign subsidiaries and forward foreign exchange contracts. 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, if any.

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

IFRS 15, Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") jointly issued IFRS 15, a converged standard on the recognition of revenue from contracts with customers. It supersedes the IASB's current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts", and related interpretations. IFRS 15 provides a single principle-based five-step model to use when accounting for revenue arising from contracts with customers.

On April 1, 2018, the Corporation adopted IFRS 15 using the full retrospective method and this adoption did not have a material impact on the Corporation's consolidated financial statements.

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods. 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, which is generally achieved upon the delivery of the products.

Revenues from the sale of new or overhauled aerospace components are considered a single performance obligation and are recognized at the point in time when the customer has obtained control of the component and the Corporation has satisfied its performance obligation. Generally, these conditions are met upon delivery of the goods.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

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 based on the full retrospective or modified retrospective (without restating comparative figures) approaches 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 operating leases will be required to be brought on balance sheet while others do not as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

- Account for leases for which the remaining lease term ends within 12 months of the effective date as a short-term lease; and
- Recognize short-term leases and low value leases on a straight-line basis as is the case currently under IAS 17, leases as part of the operating expenses in the consolidated statements of income.

Upon the initial application of this standard on April 1, 2019, using the modified retrospective approach, the Corporation expects its opening assets (right-of-use assets) and liabilities (lease liabilities) to increase by an approximate amount of $15.0 million in its consolidated financial statements.

SELECTED FINANCIAL INFORMATION

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

Fiscal year	2019				2018			
	Fourth quarter	**Third quarter**	**Second quarter**	**First quarter**	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	**$157,914**	**$144,528**	**$ 95,665**	**$ 85,770**	$113,024	$ 97,006	$ 89,677	$ 86,857
Operating income	**15,190**	**11,904**	**5,289**	**4,857**	6,697	6,629	4,644	5,408
Adjusted operating income [1]	**16,208**	**13,973**	**6,165**	**5,217**	12,089	7,238	5,590	5,408
Adjusted EBITDA [1]	**25,910**	**22,883**	**13,176**	**12,244**	19,369	13,563	12,032	11,940
Net Income	**11,958**	**7,390**	**3,294**	**3,552**	5,858	626	3,163	4,027
Adjusted Net Income [1]	**12,794**	**9,367**	**4,405**	**3,786**	10,439	5,690	4,057	4,027
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.34**	**$ 0.20**	**$ 0.09**	**$ 0.10**	$ 0.16	$ 0.02	$ 0.09	$ 0.11
Adjusted Earnings per share [1]	**0.36**	**0.26**	**0.12**	**0.10**	0.29	0.16	0.11	0.11
In millions of shares								
Weighted average number of common diluted shares outstanding	**36.5**	**36.4**	**36.5**	**36.4**	36.4	36.4	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

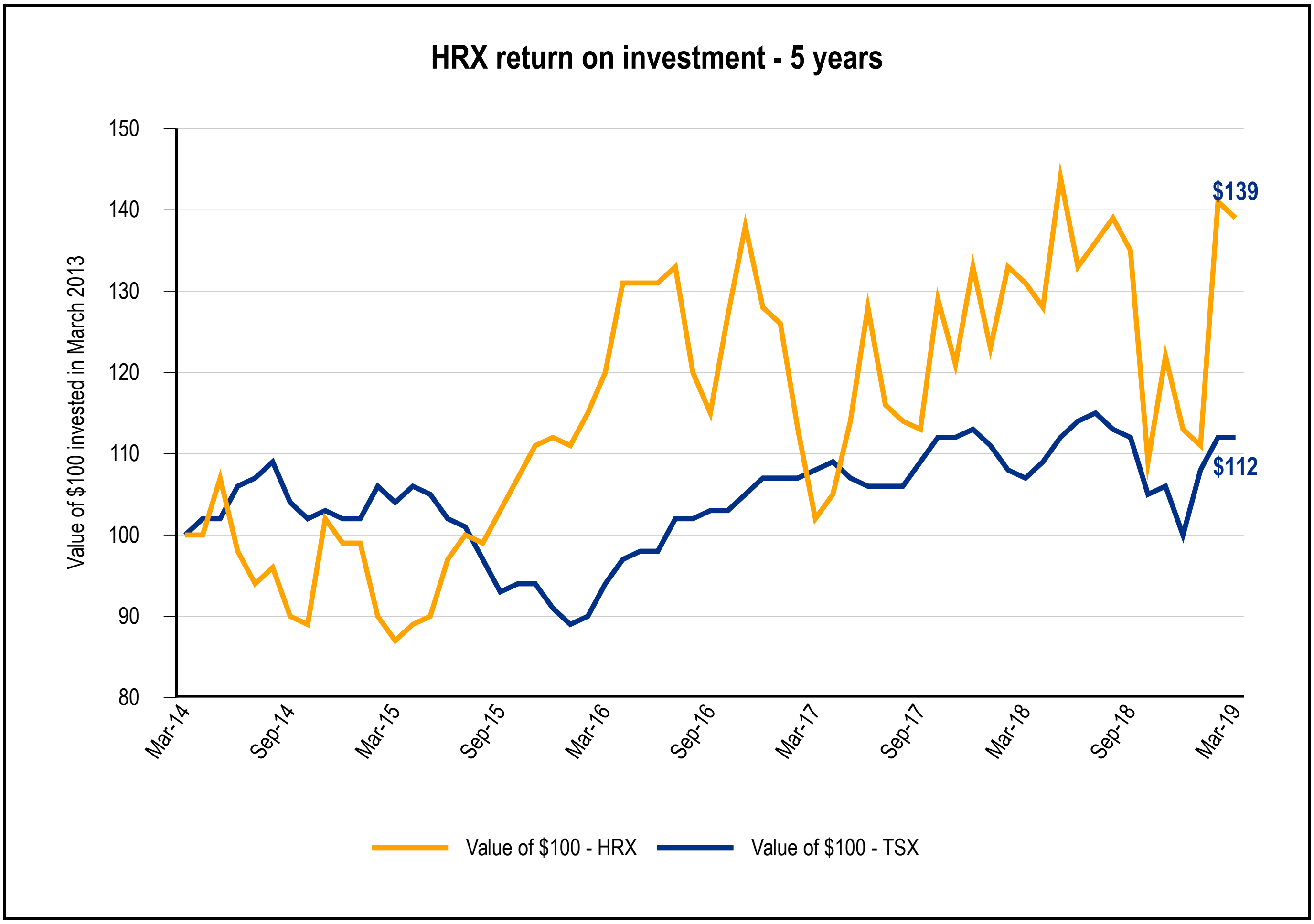
Héroux-Devtek's first semester is usually slower than the last one due to seasonality such as plant shutdowns and summer vacations.

Selected financial information is as follows, for fiscal years:

	2019	2018	2017
Sales	**$ 483,877**	$ 386,564	$ 406,536
Operating income	**37,240**	23,378	35,552
Adjusted operating income[1]	**41,563**	30,325	35,880
Adjusted EBITDA[1]	**74,213**	56,904	61,448
Net income	**26,194**	13,674	31,768
Adjusted net income[1]	**30,352**	24,213	26,353
Earnings per share ($) - basic and diluted	**0.73**	0.38	0.88
Adjusted earnings per share[1] ($)	**0.84**	0.67	0.73
Cash and cash equivalents	**35,128**	93,209	42,456
Total assets	**874,740**	632,162	607,286
Long-term financial liabilities[2]	**268,273**	137,388	138,257

[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.*



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 22, 2019. 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.