MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2018

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OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2017 and March 31, 2018. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2018 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, 2018, 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, 2018 and 2017 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.

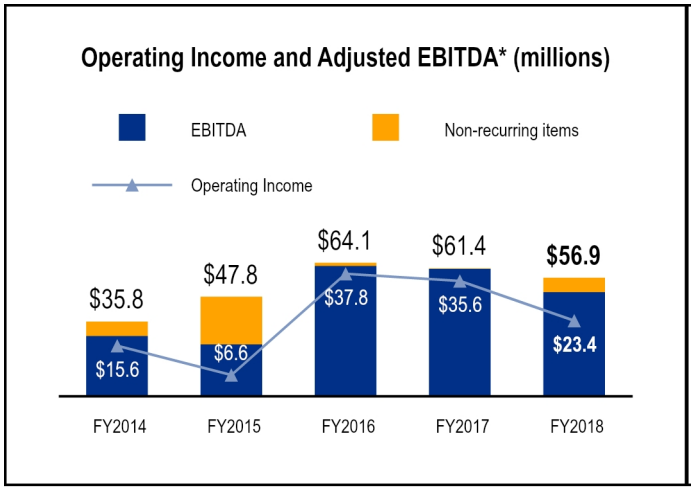
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity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

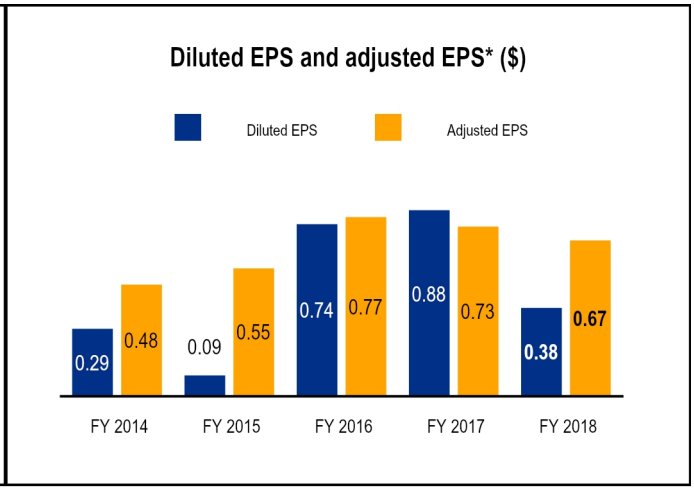
Héroux-Devtek provides such forward-looking statements for the purpose of assisting the reader in understanding the Corporation's financial performance and prospects and to present management's assessment of future plans and operations. The reader is cautioned that such statements may not be appropriate 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	2018	2017
Sales	$ 386,564	$ 406,536
Operating income	23,378	35,552
Adjusted operating income*	30,325	35,880
Adjusted EBITDA*	56,904	61,448
Net income	13,674	31,768
Adjusted net income*	24,213	26,353
Cash flows related to operating activities	56,122	56,148
Free cash flow*	50,811	32,979
In dollars per share		
EPS - basic and diluted	$ 0.38	$ 0.88
Adjusted EPS*	0.67	0.73
In millions of dollars		
Funded backlog**	$ 466	$ 405





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

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

Key Events

- The Corporation achieved sales of $386.6 million, operating income of $23.4 million and Adjusted EBITDA of $56.9 million in fiscal 2018 compared to $406.5 million, $35.6 million and $61.4 million in fiscal 2017. See *Operating Results* for further details.
- Backlog increased to $466.0 million, compared to $405.0 million as at March 31, 2017.
- Héroux-Devtek generated cash flows related to operating activities of $56.1 million and record free cash flow of $50.8 million during fiscal 2018, compared to $56.1 million and $33.0 million in fiscal 2017.
- During the fiscal year, the Corporation announced two strategic acquisition agreements:
  - In October 2017, Héroux-Devtek signed an agreement to acquire Compañia Española de Sistemas Aeronauticos, S.A., a leading European manufacturer of actuation, hydraulic and landing gear systems; and,
  - In February 2018, the Corporation signed an agreement to acquire Beaver Aerospace and Defense, U.S. manufacturer of ball screws and actuation systems, and its wholly-owned subsidiary PowerTHRU Inc.

  Both acquisitions are currently undergoing regulatory approvals. Refer to *Agreements to Acquire CESA and Beaver* for further details.
- In March 2018, following the non-renewal of services provided to the US Air Force ("USAF") announced on March 27, 2017, the Corporation announced workforce adjustments of about 60 employees at its Longueuil facility. This initiative, which will be completed throughout the current calendar year, resulted in a non-recurring charge of $5.0 million which was accounted for during the fourth quarter.
- On May 16th, subsequent to the end of the fiscal year, Héroux-Devtek announced the signing of a contract with AAR Corporation to perform the remanufacturing of landing gear assemblies of the KC-135 aircraft, the manufacturing of spare parts for the C-130 and KC-135 aircraft and the manufacturing of other landing gear components, all in support of a contract AAR was recently awarded by USAF. The contract's total value could exceed $65.0 million.

OVERVIEW OF THE BUSINESS

Profile

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

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

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

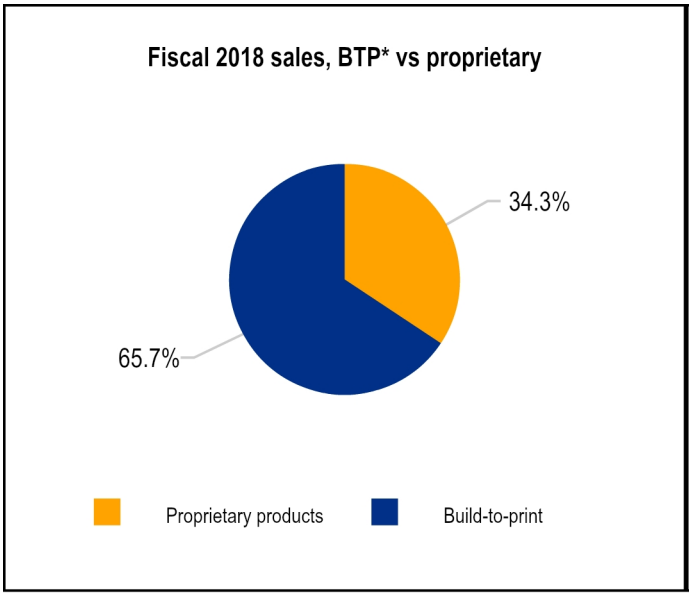
Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Lockheed Martin, Leonardo Helicopters and BAE Systems; to Tier 1 suppliers such as Safran Landing Systems; and to end users in the aftermarket where its largest customer is the US Air Force. In fiscal 2018, sales to these six customers represented approximately 60% of total consolidated sales. More specifically, the Corporation has two customers representing 26% and 11% of its consolidated sales. In March 2017, USAF selected a competing bidder for a comprehensive Performance Based Logistics contract related to repair and overhaul of landing gears. As a result, Héroux-Devtek anticipates that its related sales will gradually decrease over the course of Fiscal 2019, though this will be partially offset by the contract signed with AAR Corporation in May 2018, whose scope covers a portion of the volume Héroux-Devtek had with USAF.

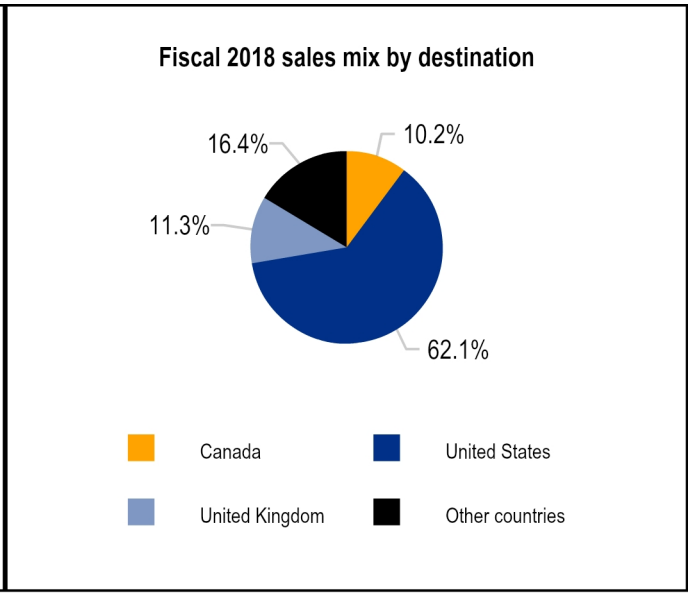
History

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

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

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





** BTP: Build to Print*

AGREEMENTS TO ACQUIRE CESA AND BEAVER

Agreement to Acquire CESA

On October 2, 2017, the Corporation announced an agreement to acquire Compañia Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE (the "Transaction"), for €140 million ($222 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry with annual sales of approximately €94 million ($149 million). Its main product lines include landing gear, actuation and hydraulic systems. This strategic and accretive acquisition will significantly enhance the Corporation's reach in Europe and will provide access to a direct, long-term business relationship with Airbus.

CESA provides an integrated product and service offering comprised of design and development engineering, certification, manufacturing, assembly and fleet support to a broad range of customers and aircraft programs. It has cultivated long-term relationships with customers across several key platforms. It operates a 366,000 square foot state-of-the-art industrial complex in Madrid, as well as another facility in Seville. CESA employs a skilled workforce of approximately 340 employees.

The Transaction will be financed through:

- A $50.0 million, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- The assumption of debt amounting to approximately $46.0 million;
- The Corporation's existing credit facility, whose limit will be increased to a fully committed amount of $250.0 million; and,
- The Corporation's available cash balance.

Closing of the Transaction is expected during Héroux-Devtek's second quarter of fiscal 2019 and is subject to certain approvals, including authorization by the Spanish Council of Ministers. The Transaction exposes the Corporation to new foreign exchange and interest rate risks. Please refer to *Derivative Financial Instruments* under *Additional Information* for further information about these risks and the derivative financial instruments the Corporation has acquired to mitigate them.

Agreement to Acquire Beaver

On February 27, 2018, the Corporation announced an agreement to acquire the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver"), from Phillips Service Industries Inc., for a purchase price of approximately US$23.5 million ($30 million).

Founded in 1952, Beaver is a vertically integrated manufacturer with annual sales of approximately US$30 million ($38 million) and a growing portfolio of company-designed products. It designs and manufactures custom ball screws from a variety of materials based on customer and application requirements as well as designs, manufactures, assembles and tests electromechanical actuators. Beaver operates three facilities totaling 82,200 square feet in Livonia, Michigan and employs approximately 100 people.

The transaction will be financed through the Corporation's existing revolving credit facility, and is expected to close during the Corporation's first quarter of fiscal 2019, subject to customary closing adjustments and certain regulatory approvals.

Acquisition Financing

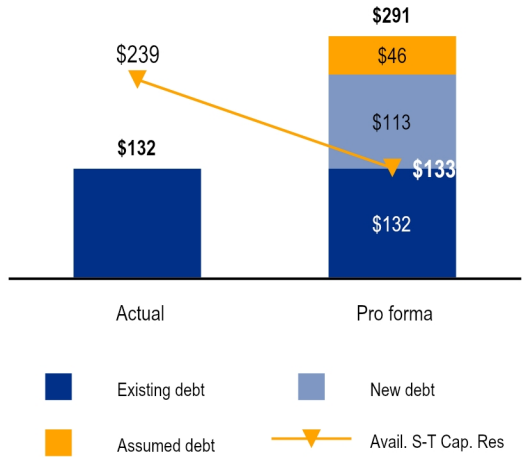
Héroux-Devtek's financial situation on March 31, 2018 was very healthy, with available short-term capital resources totaling $239.0 million, comprised of $93.2 million of cash and cash equivalents and $145.8 million of available capacity in its Credit Facility, while long term debt totaled $132.0 million.

The following graph presents the Corporation's pro forma net debt as at March 31, 2018, prepared utilizing the following assumptions:

- Acquisitions close on March 31, 2018, under the pricing and financing terms described above;
- All outstanding cash is used to finance the transactions;
- Credit facility size is increased to $250 million as per above;

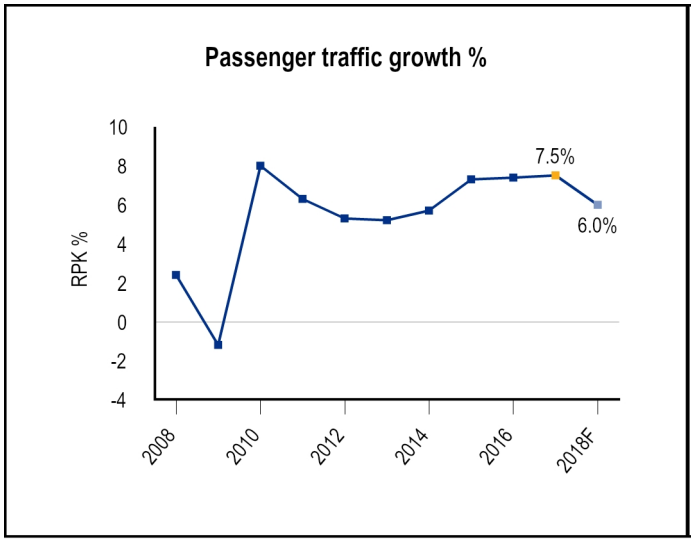
This pro forma financial information is provided for illustrative purposes in order to assist in projecting the Corporation's financial situation after acquisitions, and is not appropriate for other purposes. Please refer to *Forward-Looking Statements* for further considerations regarding such projections.

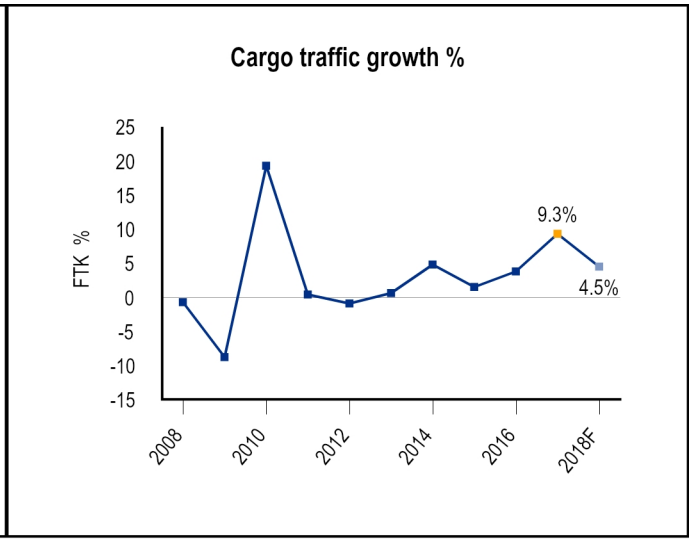
Pro forma debt and available short-term capital resources as at March 31, 2018, in millions



ECONOMIC OUTLOOK[1]

In the commercial aerospace market, the International Air Transport Association's ("IATA") most recent forecast calls for demand to remain healthy in calendar 2018 in both the passenger and cargo volume. Passenger traffic expressed in revenue passenger kilometers ("RPK") rose 7.2% on a year-over-year basis in the first quarter of calendar 2018 and is expected to grow by 6.0% for the full calendar year, a figure above the average annual growth of 5.6% recorded in the previous 20-year period. This performance will be driven by solid GDP growth, which is expected to reach 3.9% according to the International Monetary Fund. Meanwhile, air cargo volume measured in freight ton kilometers ("FTK") increased 5.4% in the first quarter of calendar 2018 and is expected to rise by 4.5% for the entire calendar year, which is broadly in line with its five-year average[2].





In the large commercial aircraft sector, Boeing and Airbus are proceeding with production rate adjustments ahead of introducing certain more fuel efficient aircraft variants on several leading programs through calendar 2020. Both manufacturers recorded higher year-over-year new order intake in the first quarter of calendar 2018 and their order backlogs remain strong. New order intake remains more robust in the single-aisle market, but relatively less important for twin-aisle aircraft, a category that includes the Boeing 777 and 777X programs.[3]

In the business jet market, aircraft shipments increased slightly in calendar 2017 and 1.5% in the first quarter of calendar 2018, according to data published by the General Aviation Manufacturers Association ("GAMA"). Looking ahead, while the number of new jets entering service is expected to increase at a modest pace, the trend towards larger, long-range business aircraft is expected to continue.[4]

In the defence aerospace market, the new U.S. administration has indicated its intention to increase funding for the Department of Defense (DOD) over the next several years. Supporting the above, the initial fiscal 2019 President's Budget calls for a 12.1% funding increase over annualized continuing resolution funding for fiscal 2018 provided in the Bipartisan Budget Act of 2018. In Canada, the new defence policy calls for a rise in defence spending, from $18.9 billion in the 2017 fiscal year to $32.7 billion in the 2027 fiscal year. Europe is also committing more funds to defence, as evidenced by a 4.1% overall spending increase by members of NATO for 2017 (expressed in US dollars, assuming constant prices and exchange rates) in an effort to reach a target of defence spending set at 2% of GDP[5].

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

[1] Refer to Forward-Looking Statements in Overview for further information regarding forward-looking statements and related risks.
[2] Source: Economic Performance of the Airline Industry, IATA, December 2017; World Economic Outlook, International Monetary Fund, April 2018
[3] Sources: Airbus press releases January 15, 2018; October 18, 2017; July 12, 2016; February 24, 2016; Boeing press releases April 25, 2018; January 9, 2018; January 21, 2016.
[4] Source: GAMA press releases May 10, 2018; February 21, 2018; Business Jet Aviation Forecast, Honeywell, October 2017; Business Aviation Market Forecast, Jetcraft, October 2017.
[5] Sources: DOD press release February 12, 2018; NATO Secretary General's 2017 Annual Report, March 15, 2018; International Institute for Strategic Studies press release February 15, 2018.

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.

GUIDANCE

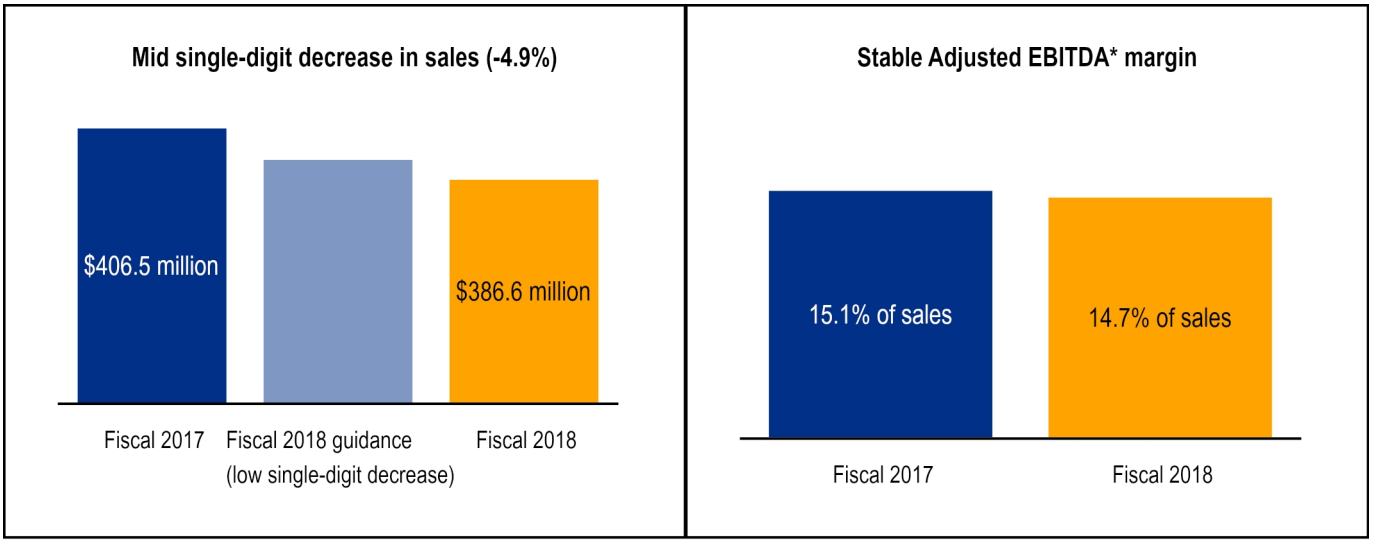
See *Forward-Looking Statements* for cautionary notice regarding Guidance and *Risk Management* for discussion of certain factors which may cause future results to differ from guidance included in this section.

During the fiscal year, guidance for additions to property, plant and equipment ("PP&E") for fiscal 2018 issued with the fiscal 2017 third quarter results, which previously forecasted approximately $20 million of additions, was revised to $15 million due to lower expected investments related to a customer contract.

As such, revised guidance for fiscal 2018 was as follows:

Metric	Initial Fiscal 2018 Guidance	**Revised Fiscal 2018 Guidance**
Fiscal 2018 sales growth	Low single-digit decrease	**Low single-digit decrease**
Long-term sales growth	Sales of $480-$520 million for FY2021	Sales of $480-520 million for FY2021
Fiscal 2018 additions to PP&E	Approximately $20 million	**Approximately $15 million**
Fiscal 2018 adjusted EBITDA* margin	None provided	**Stable as compared to fiscal 2017**

FISCAL 2018 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 2018 sales were slightly below guidance, decreasing in the mid-single digits at 4.9%, versus guidance of a low single-digit decrease, due mainly to lower than expected aftermarket requirements and the timing of certain deliveries in the defence sector.

Adjusted EBITDA margin was largely in line with guidance, with a variance of 40 basis points.

Additions to property, plant and equipment totaled $10.1 million, compared to guidance of $15 million due mainly to the timing of certain investment initiatives.

FISCAL 2019 GUIDANCE

Metric	Fiscal 2019 Guidance
Fiscal 2019 sales growth	Stable as compared to Fiscal 2018
Fiscal 2019 additions to PP&E	Approximately $15 million
Long-term sales growth	To be updated after closing of acquisitions

This guidance excludes the contributions of CESA and Beaver as regulatory approvals of the two transactions are still pending.

Sales are expected to be stable in Fiscal 2019 due to the ramp-down of the USAF contract, offset by higher defense volume from other customers and increased deliveries related to the Boeing 777 and 777X programs.

Long-term sales growth guidance is not being provided at this time as it will be materially impacted by the acquisitions of CESA and Beaver. New long-term sales guidance will be provided after the closing of these two transactions.

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

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

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 6 of Héroux-Devtek's customers represent approximately 60% of consolidated sales, including two customers representing 26% and 11% 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, 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.

Environmental Risks

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

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

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

The Corporation must 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, 2018	March 31, 2017
USD (Canadian equivalent of US$1.0)	**1.2894**	1.3299
GBP (Canadian equivalent of £1.0)	**1.8106**	1.6662

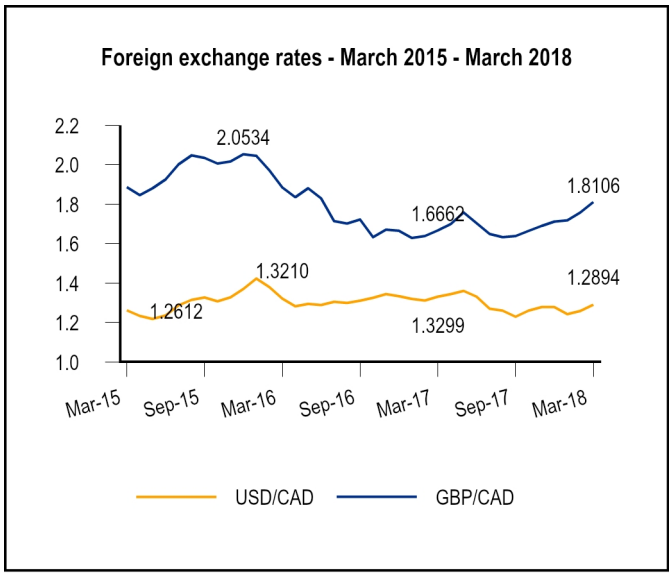
The foreign exchange rates used to translate revenues and expenses into Canadian dollars were as follows:

	Quarters ended March 31,		**Fiscal years ended March 31,**	
	2018	2017	**2018**	2017
USD (Canadian equivalent of US$1.0)	**1.2648**	1.3230	**1.2834**	1.3126
GBP (Canadian equivalent of £1.0)	**1.7607**	1.6399	**1.7022**	1.7144

Héroux-Devtek is most exposed to the USD to CAD and GBP to CAD exchange rates due to the prevalence of USD in Aerospace market transactions and the geographical location of operations. Fiscal 2018 featured a notable increase in the value of the GBP, the main impact of which was growth in the value of the Corporation's U.K. denominated sales and assets. Héroux-Devtek's GBP sales incur substantial GBP denominated costs, which partially hedges gross profit from currency impacts. Over 80% of the Corporation's sales, however, are denominated in USD, compared to only a bit more than half of the related costs, which creates more significant net inflows of USD, the value of which fluctuate with the USD/CAD exchange rate.

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

The acquisition of CESA also exposes the Corporation to new risks related to the Euro. See the *Derivative Financial Instruments* section under *Additional Information* for further details.



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

As at	**March 31, 2018**	March 31, 2017	March 31, 2016
Notional amount outstanding (USD '000s)	**110,050**	152,350	165,200
Average exchange rate	**1.3046**	1.3178	1.2900

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.

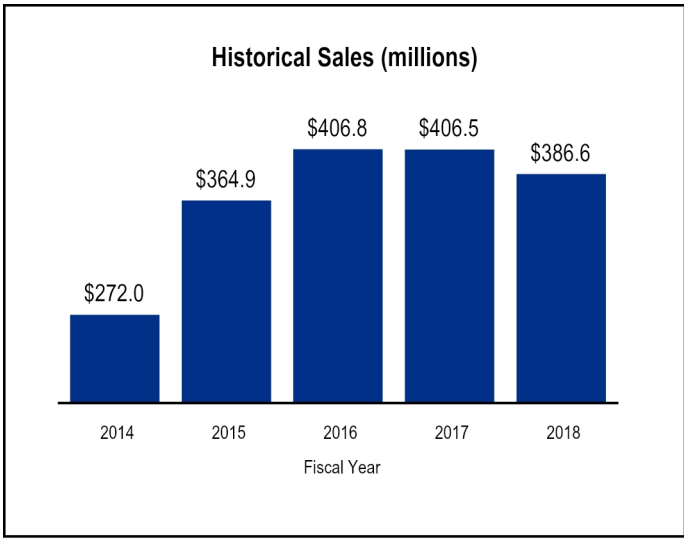
Foreign exchange had a net positive impact of 0.6% on Héroux-Devtek's gross margin, mainly related to the higher FX rate of FFEC delivered in fiscal 2018 as compared to fiscal 2017. As at March 31, 2018, a 1% strengthening of the CAD versus the USD would result in a $0.2 million decrease in the Corporation's fiscal 2018 net income.

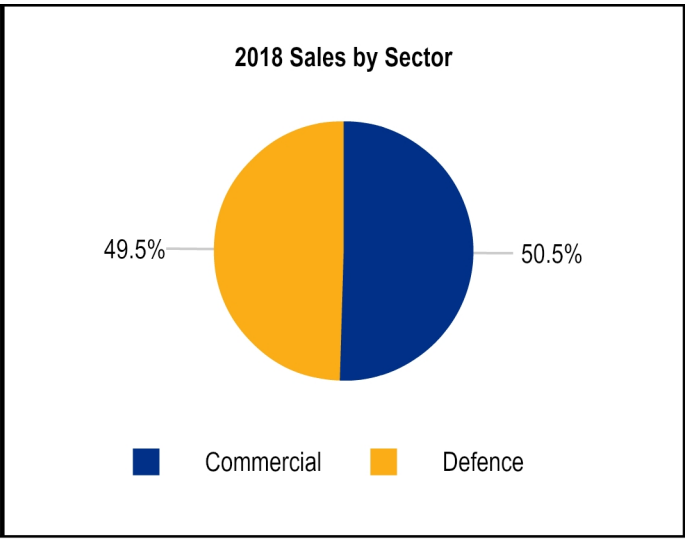
OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2018	2017	*Variance*	**2018**	2017	*Variance*
Sales	**$ 113,024**	$ 120,886	*$ (7,862)*	**$ 386,564**	$ 406,536	*$ (19,972)*
Gross profit	**18,958**	20,786	*(1,828)*	**61,276**	67,969	*(6,693)*
Selling and administrative expenses	**6,869**	8,474	*(1,605)*	**30,951**	32,089	*(1,138)*
Adjusted operating income[1]	**12,089**	12,312	*(223)*	**30,325**	35,880	*(5,555)*
Non-recurring items	**5,392**	3,634	*1,758*	**6,947**	328	*6,619*
Operating income	**6,697**	8,678	*(1,981)*	**23,378**	35,552	*(12,174)*
Financial expenses (income)[2]	**(389)**	(1,736)	*1,347*	**2,537**	(546)	*3,083*
Income tax expense[2]	**1,228**	1,519	*(291)*	**7,167**	4,330	*2,837*
Net income	**$ 5,858**	$ 8,895	*$ (3,037)*	**$ 13,674**	$ 31,768	*$ (18,094)*
Adjusted net income[1]	**$ 10,439**	$ 9,077	*$ 1,362*	**$ 24,213**	$ 26,353	*$ (2,140)*
As a percentage of sales						
Gross profit	**16.8%**	17.2%	*-40 bps*	**15.9%**	16.7%	*-80 bps*
Selling and administrative expenses	**6.1%**	7.0%	*-90 bps*	**8.0%**	7.9%	*10 bps*
Operating income	**5.9%**	7.2%	*-130 bps*	**6.0%**	8.7%	*-270 bps*
Adjusted operating income[1]	**10.7%**	10.2%	*50 bps*	**7.8%**	8.8%	*-100 bps*
In dollars per share						
EPS - basic and diluted	**$ 0.16**	$ 0.25	*$ (0.09)*	**$ 0.38**	$ 0.88	*$ (0.50)*
Adjusted EPS[1]	**$ 0.29**	$ 0.25	*$ 0.04*	**$ 0.67**	$ 0.73	*$ (0.06)*

[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,				
	2018	2017	FX impact	Net variance	
Commercial	**$ 57,509**	$ 60,764	$ (716)	$ (2,539)	(4.2)%
Defence[1]	**55,515**	60,122	(699)	(3,908)	(6.5)%
Total	**$ 113,024**	$ 120,886	$ (1,415)	$ (6,447)	(5.3)%

	Fiscal years ended March 31,				
	2018	2017	FX impact	Net variance	
Commercial	**$ 195,101**	$ 210,788	$ (1,230)	$ (14,457)	(6.9)%
Defence[1]	**191,463**	195,748	(1,207)	(3,078)	(1.6)%
Total	**$ 386,564**	$ 406,536	$ (2,437)	$ (17,535)	(4.3)%

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

Commercial

The $14.5 million and $2.5 million respective net decreases in commercial sales for the fiscal year and fourth quarter were mainly due to lower large commercial programs sales, including the scheduled ending of a Tier-2 contract, and lower aftermarket customer requirements for regional aircraft.

These negative factors were partly offset by increased Boeing 777 deliveries.

Defence

The $3.1 million net decrease in defence sales compared to last fiscal year was mainly due to:

- Lower spare parts requirements from the U.S. Government; and,
- Lower repair and overhaul ("R&O") sales on the P-3 program.

These negative factors were partially offset by higher manufacturing sales to civil customers.

The $3.9 million net decrease in defence sales for the quarter compared to the same quarter last fiscal year was mainly driven by lower spare parts requirements from the U.S. Government.

Gross Profit

The decrease in gross profit from 16.7% to 15.9% this fiscal year compared to last fiscal year was mainly due to higher under-absorption, including excess processing and finishing costs related to the Boeing 777 program.These excess processing and finishing costs are expected to normalize upon completion of the customer qualification and approval of Héroux‑Devtek's surface treatment processes. This negative factor was partially offset by favourable U.S. dollar exchange rate fluctuations, representing 0.6% of sales.

The decrease in gross profit margin from 17.2% to 16.8% this quarter compared to the same quarter last fiscal year was mainly driven by unfavourable product mix, mainly related to lower sales of spares and aftermarket requirements for regional aircraft.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 8.0% and 7.6% of sales for the fiscal year and the quarter, respectively, compared to 8.6% and 7.5% for the same periods last fiscal year.

The decrease this fiscal year versus last was mainly related to lower employee-related costs while the selling and administrative expenses were fairly stable as a percentage of sales during the fourth quarter compared to the same period last year.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Non-recurring items in operating income				
Restructuring charges	**$ 4,990**	$ 3,634	**$ 4,990**	$ 3,634
Acquisition-related costs	**402**	—	**1,957**	—
Gain on settlement of a litigation	**—**	—	**—**	(5,247)
Legal and other professional fees	**—**	—	**—**	1,941
	$ 5,392	$ —	**$ 6,947**	$ 328
Non-recurring items in financial expenses				
Net losses on certain derivative financial instruments	**$ 698**	$ —	**$ 89**	$ —
Revision of governmental authorities loans repayment estimates	**—**	(3,426)	**—**	(6,375)
	$ 698	$ (3,426)	**$ 89**	$ (6,375)
Non-recurring items in income tax expense				
Impact of US Tax Reform	**$ —**	$ —	**$ 4,912**	$ —
	$ —	**$ —**	**$ 4,912**	**$ —**

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 quarter, 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 $2.5 million as at March 31, 2018.

In February 2017, following production rate reductions for certain aircraft programs announced by OEMs, Héroux-Devtek announced workforce adjustments of approximately 90 employees throughout its offices and plants. This initiative, which was completed in calendar 2017, resulted in restructuring charges of $3.6 million, mainly comprised of employee-related costs.

Acquisition-related costs

During the twelve-month and quarter period ended March 31, 2018, the Corporation's incurred acquisition-related costs of $2.0 million and $0.4 million, respectively. These costs mainly pertain to professional fees and expenses in connection with the agreements to acquire CESA and Beaver.

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

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

Net losses on certain derivative financial instruments

These losses are related to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks related to the purchase price and financing of CESA. Refer to the *Derivative Financial Instruments* section under *Additional Information* for further details.

Revision of governmental authorities loans repayment estimates

Refer to *Government Authorities Loans* under *Liquidity and Capital Resources* for the description of these revisions.

Impact of US Tax Reform

This one-time tax expense of $4.9 million recorded during fiscal 2018 is related to US Tax Reform enacted on December 22, 2017. Refer to the *Income Tax Expense* section for further details.

Operating Income

The decreases in operating income from 8.7% to 6.0% of sales (decrease from 8.8% to 7.8% excluding non-recurring items) for the fiscal year and from 7.2% to 5.9% of sales (increase from 10.2% to 10.7% 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 negative impact of $0.6 million on operating income, while it had a positive impact of $0.8 million during the fourth quarter of fiscal 2018 compared to the same period last fiscal year.

Financial Expenses

	Quarters ended March 31,			Fiscal years ended March 31,		
	2018	2017	*Variance*	**2018**	2017	*Variance*
Interest on long-term debt	**$ 536**	$ 746	*$ (210)*	**$ 2,614**	$ 2,829	*$ (215)*
Net interest related to government loans	**(1,189)**	(2,868)	*1,679*	**466**	(4,122)	*4,588*
Interest income (expense) related to financial instruments	**441**	(18)	*459*	**(491)**	(34)	*(457)*
Other interest income (expense)	**(177)**	404	*(581)*	**(52)**	781	*(833)*
	$ (389)	$ (1,736)	*$ 1,347*	**$ 2,537**	$ (546)	*$ 3,083*

The $3.1 million increase during the fiscal year compared to last mainly reflects the lower gains resulting from revisions of the repayment schedules of governmental authorities loans, described in *Government Authorities Loans* under *Liquidity and Capital Resources*, partly offset by higher interest income from cash and cash equivalents and lower other non-cash financial expenses.

Financial expenses increased by $1.3 million during the quarter compared to the same period last fiscal year, mainly reflecting lower gains 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,	
	2018	2017	**2018**	2017
Income before income tax expense	**$ 7,086**	$ 10,414	**$ 20,841**	$ 36,098
Income tax expense	**1,228**	1,519	**7,167**	4,330
Effective tax rate	**17.3%**	14.6%	**34.4%**	12.0%
Effect of US Tax Reform	**$ —**	$ —	**$ 4,912**	$ —
Income tax expense excluding U.S. Tax reform	**1,228**	1,519	**2,255**	4,330
Effective tax rate excluding the US Tax Reform impact	**17.3%**	14.6%	**10.8%**	12.0%
Canadian blended statutory income tax rate	**26.6%**	26.7%	**26.6%**	26.7%

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 the fiscal year ended March 31, 2018.

For the fiscal year, the Corporation's effective income tax rate, excluding the US Tax Reform impact, mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($4.3 million), partially offset by non-deductible acquisition-related costs ($0.5 million) and permanent differences ($0.3 million). The Corporation's effective tax rate for fiscal year ended 2017 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($4.7 million) and the non-taxable gain on settlement of a litigation ($0.8 million), partially offset by permanent differences ($0.3 million).

The effective income tax rate for this quarter mainly reflects the favourable impact of earnings in lower tax rate jurisdictions ($0.9 million), partially offset by non-deductible acquisition-related costs ($0.2 million) and permanent differences ($0.1 million). The Corporation's effective tax rate for the quarter ended March 31, 2017 mainly reflected the favourable impact of earnings in lower tax rate jurisdictions ($1.3 million) partially offset by permanent differences ($0.1 million).

Net Income

Earnings decreased from $31.8 million to $13.7 million (or decreased from $26.4 million to $24.2 million excluding non-recurring items net of taxes) this fiscal year compared to last and decreased from $8.9 million to $5.9 million (or increased from $9.1 million to $10.4 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 decreased from $0.88 to $0.38 per share (or decreased from $0.73 to $0.67 per share excluding non-recurring items net of taxes), while they decreased from $0.25 to $0.16 per share (or increase from $0.25 to $0.29 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,	
	2018	2017	**2018**	2017
Operating income	**$ 6,697**	$ 8,678	**$ 23,378**	$ 35,552
Non-recurring items	**5,392**	3,634	**6,947**	328
Adjusted operating income	**$ 12,089**	$ 12,312	**$ 30,325**	$ 35,880

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,	
	2018	2017	**2018**	**2017**
Net income	**$ 5,858**	$ 8,895	**$ 13,674**	$ 31,768
Income tax expense	**1,228**	1,519	**7,167**	4,330
Financial income (expenses)	**(389)**	(1,736)	**2,537**	(546)
Amortization expense	**7,280**	6,869	**26,579**	25,568
EBITDA	**$ 13,977**	$ 15,547	**$ 49,957**	$ 61,120
Non-recurring items	**5,392**	3,634	**6,947**	328
Adjusted EBITDA	**$ 19,369**	$ 19,181	**$ 56,904**	$ 61,448

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,	
	2018	2017	**2018**	2017
Net income	**$ 5,858**	$ 8,895	**$ 13,674**	$ 31,768
Non-recurring items net of taxes	**4,581**	182	**10,539**	(5,415)
Adjusted net income	**$ 10,439**	$ 9,077	**$ 24,213**	$ 26,353
In dollars per share				
Earnings per share - basic and diluted	**$ 0.16**	$ 0.25	**$ 0.38**	$ 0.88
Non-recurring items net of taxes	**0.13**	—	**0.29**	(0.15)
Adjusted earnings per share	**$ 0.29**	$ 0.25	**$ 0.67**	$ 0.73

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

In May 2017, the Corporation renewed its Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") and extended it through May 2022, with the terms and conditions remaining substantially the same. Related financing costs totaling $0.5 million were deferred and are amortized over the term of the related loans using the effective interest rate method.

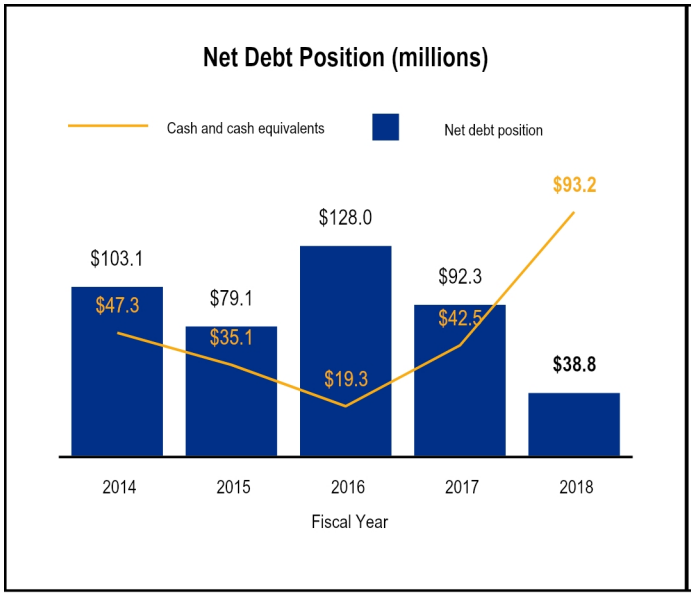
As at March 31, 2018, this Credit Facility allowed the Corporation and its subsidiaries to borrow up to $200.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies. It also included an accordion feature to increase the Credit Facility by an additional $100.0 million during the term of this agreement, subject to the approval of the lenders. This accordion feature was increased from $75.0 million during the renewal process.

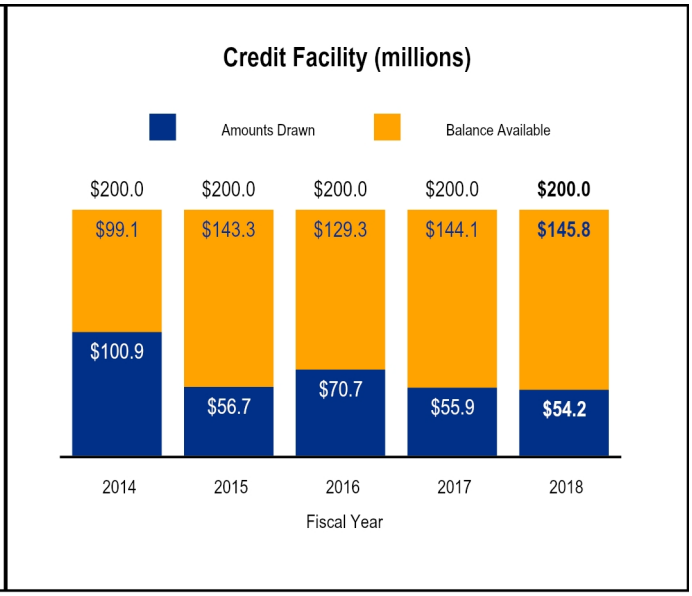
As at March 31, 2018, the Corporation had $54.2 million drawn against the Credit Facility, compared to $55.9 million as at March 31, 2017. Considering the Corporation's cash and cash equivalents position, its available Credit Facility and level of expected capital investments and results, the Corporation's management does not expect any significant liquidity risk in the foreseeable future.

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

	March 31, 2018	March 31, 2017
Long-term debt, including current portion[1]	**$ 131,964**	$ 134,776
Less: Cash and cash equivalents	**93,209**	42,456
Net debt position	**$ 38,755**	$ 92,320

[1] *Excluding net deferred financing costs of $0.9 million as at* March 31, 2018 *and $0.6 million as at* March 31, 2017.





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, 2018 and expects to continue to comply with these restrictive financial covenants through the current fiscal year. In general terms, the Corporation has a healthy financial situation and is well positioned to face its financing needs.

GOVERNMENT AUTHORITIES LOANS

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

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

These loans have varying terms governing the timing and amount to be refunded. Repayments are mainly based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines. Assumptions underlying loan repayments are reviewed at least annually. During fiscal 2018, updating these estimates resulted in a non-cash gain of $1.8 million, representing a reversal of accretion.

Last fiscal year, the Corporation recorded a $3.4 million non-cash gain related to an agreement with a government authority extending the duration of the investment period of a loan by three years. Héroux-Devtek also recorded $3.0 million of non-cash gains last fiscal year related to the revision of assumptions underlying the repayment schedule estimates and other adjustments. The total $6.4 million of gains in fiscal 2017 were classified as a non-recurring item.

As at March 31, 2018, the Corporation had a present value of $52.5 million outstanding under these agreements ($49.1 million as at March 31, 2017), bearing effective interest rates of 2.2% to 7.2%. These loans have repayment terms extending to fiscal 2033 at the latest.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Cash and cash equivalents at beginning of periods	**$ 70,642**	$ 18,856	**$ 42,456**	$ 19,268
Cash flows related to operating activities	**18,521**	29,149	**56,122**	56,148
Cash flows related to investing activities	**3,121**	(5,442)	**(4,996)**	(24,103)
Cash flows related to financing activities	**20**	(38)	**(565)**	(8,736)
Effect of changes in exchange rates on cash and cash equivalents	**905**	(69)	**192**	(121)
Cash and cash equivalents at end of periods	**$ 93,209**	$ 42,456	**$ 93,209**	$ 42,456

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,	
	2018	2017	**2018**	2017
Cash flows from operations	**$ 11,961**	$ 13,117	**$ 42,624**	$ 52,842
Net change in non-cash items	**6,560**	16,032	**13,498**	3,306
Cash flows related to operating activities	**$ 18,521**	$ 29,149	**$ 56,122**	$ 56,148

The respective $1.2 million and $10.2 million decreases in cash flows from operations for the quarter and fiscal year ended March 31, 2018 when compared to the same periods last fiscal year are mainly explained by lower EBITDA.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Accounts receivable	**$ (19,305)**	$ (6,589)	**$ (2,335)**	$ 4,106
Income tax receivable	**48**	6	**(184)**	2,325
Inventories	**7,520**	14,518	**9,539**	2,855
Other current assets	**417**	5,597	**(869)**	2,605
Accounts payable and accrued liabilities, Accounts payable – other and other liabilities	**4,165**	3,920	**719**	(5,115)
Provisions	**209**	2,140	**(3,335)**	(471)
Progress billings	**(388)**	(1,534)	**961**	(2,969)
Customer advances	**9,301**	(2,403)	**6,136**	2,587
Income tax payable	**1,744**	590	**1,916**	(178)
Effect of changes in exchange rates	**2,849**	(213)	**950**	(2,439)
Net change in non-cash items	**$ 6,560**	$ 16,032	**$ 13,498**	$ 3,306

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, 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.

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

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Additions to property, plant and equipment	**$ (3,744)**	$ (4,121)	**$ (9,930)**	$ (20,633)
Net decrease (increase) in finite-life intangible assets	**6,799**	(1,355)	**4,761**	(3,774)
Proceeds on disposal of property, plant and equipment	**66**	34	**173**	304
Cash flows related to investing activities	**$ 3,121**	$ (5,442)	**$ (4,996)**	$ (24,103)

The net decrease in finite-life intangible assets during the fiscal year and fourth quarter ended March 31, 2018 is due to the timing of certain customer funding for capitalized development costs 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,	
	2018	2017	**2018**	2017
Gross additions to property, plant and equipment	**$ 5,696**	$ 6,046	**$ 10,691**	$ 20,894
Government assistance	**(352)**	(1,018)	**(619)**	(1,499)
Additions to property, plant and equipment	**$ 5,344**	$ 5,028	**$ 10,072**	$ 19,395
Variation in unpaid additions included in Accounts payable	**(1,600)**	(1,096)	**(142)**	1,238
Deposits reclassified to property, plant and equipment upon completion[1]	**—**	189	**—**	—
Additions, as per statements of cash flows	**$ 3,744**	$ 4,121	**$ 9,930**	$ 20,633

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

The decrease in additions to property, plant and equipment this fiscal year compared to fiscal 2017 is due to the completion of planned investments related to the Boeing 777 and 777X contract and the timing of certain investment initiatives.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Increase in long-term debt	**$ 1,603**	$ 715	**$ 3,821**	$ 23,021
Repayment of long-term debt	**(1,264)**	(993)	**(4,634)**	(32,797)
Issuance of common shares	**205**	240	**772**	1,040
Increase in deferred financing cost	**(524)**	—	**(524)**	—
Cash flows related to financing activities	**$ 20**	$ (38)	**$ (565)**	$ (8,736)

The net decrease in long-term debt over fiscal 2017 was mainly the result of net repayments of $16.2 million of the Credit Facility, partially offset by additions to finance leases totaling $9.8 million.

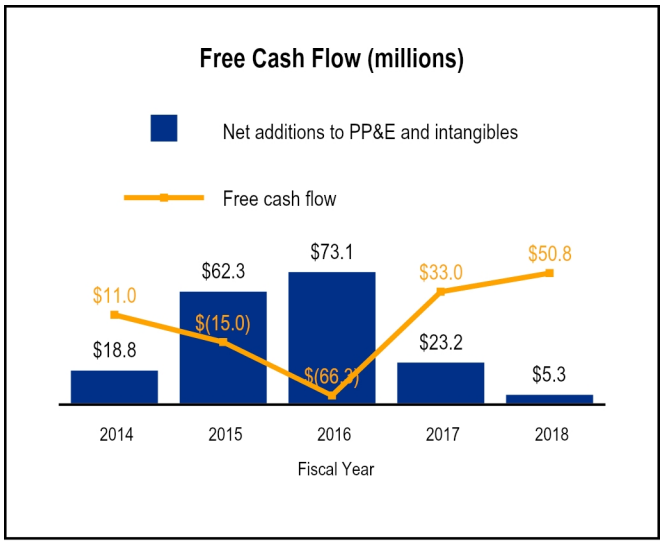
FREE CASH FLOW[1]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2018	2017	**2018**	2017
Cash flows related to operating activities	**$ 18,521**	$ 29,149	**$ 56,122**	$ 56,148
Additions to property, plant and equipment	**(5,344)**	(5,028)	**(10,072)**	(19,395)
Net decrease (increase) in finite-life intangible assets	**6,799**	(1,355)	**4,761**	(3,774)
Free cash flow[1]	**$ 19,976**	$ 22,766	**$ 50,811**	$ 32,979

[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 as a result of lower additions to property, plant and equipment and timing of customer funding received for capitalized development costs, as described in Investing *Activities* above under *Variations in Cash and Cash Equivalents*.



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, 2018:

	Payments due by period				
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities loans	$ 72,855	$ 208	$ 5,008	$ 11,373	$ 56,266
Finance leases	27,197	5,839	11,380	8,759	1,219
Credit facility	60,891	1,625	3,250	56,016	—
	160,943	7,672	19,638	76,148	57,485
Purchase obligations	115,855	101,268	13,788	453	346
Accounts payable	41,645	41,645	—	—	—
Building, machinery and equipment acquisition commitments	2,952	2,952	—	—	—
Operating leases - Buildings and facilities	11,737	1,502	2,408	2,397	5,430
Total contractual obligations[1]	**$ 333,132**	**$ 155,039**	**$ 35,834**	**$ 78,998**	**$ 63,261**

[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, 2018, 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, 2018	March 31, 2017
Current portion of long-term debt	**$ 5,356**	$ 6,792
Long-term debt	**125,685**	127,347
Deferred financing costs, net	**923**	637
Less: Cash and cash equivalents	**93,209**	42,456
Net debt	**$ 38,755**	$ 92,320
Shareholders' equity	**379,034**	355,868
Net debt-to-equity ratio	**0.10:1**	0.26:1

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

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2018		**Fiscal year ended March 31, 2018**	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,169,757	$ 77,835	36,122,050	$ 77,217
Issued for cash on exercise of stock options	37,500	115	48,750	298
Issued for cash under the stock purchase and ownership incentive plan	11,315	155	47,772	590
Ending balance	**36,218,572**	**$ 78,105**	**36,218,572**	**$ 78,105**

As at May 23, 2018, the number of common shares outstanding stood at 36,226,243.

Stock options varied as follows:

	Quarter ended March 31, 2018		Fiscal year ended March 31, 2018	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	899,295	$ 10.87	914,295	$ 10.88
Granted	243,500	14.93	243,500	14.93
Exercised	(37,500)	1.31	(48,750)	3.71
Cancelled / forfeited	—	—	(3,750)	11.71
Ending balance	**1,105,295**	**$ 12.09**	**1,105,295**	**$ 12.09**

As at March 31, 2018, 1,514,481 common shares remained reserved for issuance upon exercise of stock options compared to 1,563,231 at March 31, 2017 and 58,866 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 106,638 at March 31, 2017.

As at May 23, 2018, the number of stock options outstanding stood at 1,105,295.

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

Working Capital

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

	March 31, 2018	March 31, 2017	*Variance*	
Current assets	**$ 310,649**	$ 269,559	*$ 41,090*	*15.2%*
Current liabilities	**108,750**	104,436	*4,314*	*4.1%*
Net working capital	**$ 201,899**	$ 165,123	*$ 36,776*	*22.3%*
Working capital ratio	**2.86**	2.58		

The $41.1 million increase in current assets is mainly the result of a $50.8 million increase in cash and cash equivalents as detailed in the *Liquidity and Capital Resources section,* partly offset by a decrease in inventories.

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, 2018	March 31, 2017	*Variance*	
Long-term assets	**$ 321,513**	$ 337,727	*$ (16,214)*	*(4.8)%*
Long-term liabilities	**144,378**	146,982	*(2,604)*	*(1.8)%*
Shareholder's equity	**379,034**	355,868	*23,166*	*6.5 %*

The $16.2 million decrease in long-term assets is mainly explained by:

- Amortization of tangible and intangible assets; and,
- Customer funding received for capitalized development costs.

These positive items were partly offset by the increase in converted value of the Corporation's U.K. assets following the increase in value of the British pound this fiscal year and net additions to property, plant and equipment.

The increase in shareholder's equity is mainly explained by comprehensive income of $21.8 million, mainly comprised of net income of $13.7 million and the effect of foreign exchange fluctuations of $7.9 million included in other comprehensive income. For further details, see the statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2018.

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:

	2018	2017
Net defined benefit obligations, beginning of year	**$ (3,610)**	$ (8,670)
Gains from remeasurement	**261**	5,078
Employer contributions	**1,489**	2,078
Current service cost	**(1,459)**	(1,500)
Interest on net defined benefit obligations	**(153)**	(330)
Other	**(486)**	(266)
Net defined benefit obligations, end of year	**$ (3,958)**	$ (3,610)

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

	March 31, 2018	**March 31, 2017**
Present value of defined benefit obligations of funded plans	**$ 61,216**	$ 59,064
Fair value of plan assets	**58,974**	57,496
Funding ratio	**96.3%**	97.3%

The Corporation made contributions of $1.5 million and $3.2 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2018, and expects to make respective contributions of $1.5 million and $3.2 million during fiscal 2019.

ADDITIONAL INFORMATION

DERIVATIVE FINANCIAL INSTRUMENTS

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

As at March 31, 2018, these derivative financial instruments are as follows:

Forward foreign exchange contracts

See *Foreign Exchange* under *Overview* for information about the Corporation's exposure to foreign exchange risks as well as the derivative financial instruments used to mitigate it. See also note 31 to the Consolidated financial statements.

Interest-rate swap agreements

The Corporation is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Credit Facility (see note 20 to the Consolidated financial statements). In addition, interest rate fluctuations could also have an impact on the Corporation's interest income which is derived from its cash and cash equivalents.

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

The following interest-rate swaps were used to this end during fiscal 2018 and 2017:

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

The interest-rate swap rates mentioned above exclude the additional bank relevant margin (see note 20 to the Consolidated financial statements). The cash flows related to the interest-rate swaps are expected to occur in the same periods as they are expected to affect net income.

Derivatives related to the agreement to acquire CESA

The agreement to acquire CESA exposes the Corporation to new foreign currency and interest rate risks related to the purchase price and related financing. An increase in value of the Euro compared to the Canadian dollar would increase the anticipated transaction price, and an increase in interest rates underlying expected debt would increase related financial expenses.

In order to mitigate these risks, the Corporation acquired €85.0 million (approximately $123.8 million) of foreign exchange collars which were settled during the fiscal year. (refer to the *Non-recurring items* section under *Operating results*).

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

Notional		Fixed EUR equivalent	Euro fixed rate	Inception	Maturity
US$	29,370	€25,000	1.86%	October 2017	May 2022
C$	50,000	€34,110	3.32%	October 2017	June 2025

Equity swap agreement

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

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

As at March 31, 2018, the equity swap agreement covered 150,000 common shares of the Corporation at a price of $11.45. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2019.

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 16 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.

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, 2018, 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, 2018, an evaluation of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 - Financial Instruments

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

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

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

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

The Corporation has completed its assessment of IFRS 9 and concluded that it will not have a significant impact on the consolidated financial statements. The Corporation will incorporate the new disclosure requirements of IFRS 9 upon its adoption on April 1, 2018.

IFRS 15 - Revenue from Contracts with Customers

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

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2018. In fiscal 2018, the Corporation completed its analysis of the impact of IFRS 15 adoption. The new standard will not result in material changes aside from disclosure requirements

IFRS 16 - Leases

In January 2016, the IASB released *IFRS 16 - Leases.* The new standard, which represents a major revision of the way in which companies account for leases, sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease, following a single model where previously leases were classified as either finance leases or operating leases. Most leases will be recognized on the Corporation's consolidated balance sheet. Certain exemptions will apply for short-term leases and leases of low-value assets. The Corporation anticipates the adoption of the IFRS will have an impact on the balance sheet and statement of income as all operating leases will be capitalized with a corresponding lease liability while the rent expense will be replaced by the amortization expense of the right to use the related assets and interest accretion expense from the liability recorded.

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

SELECTED FINANCIAL INFORMATION

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

Fiscal year				2018				2017
	Fourth quarter	**Third quarter**	**Second quarter**	**First quarter**	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	**$113,024**	**$ 97,006**	**$ 89,677**	**$ 86,857**	$120,886	$ 98,489	$ 91,571	$ 95,590
Operating income	**6,697**	**6,629**	**4,644**	**5,408**	8,678	7,694	11,584	7,596
Adjusted operating income [1]	**12,089**	**7,238**	**5,590**	**5,408**	12,312	7,694	7,873	8,001
Adjusted EBITDA [1]	**19,369**	**13,563**	**12,032**	**11,940**	19,181	13,851	14,095	14,321
Net Income	**5,858**	**626**	**3,163**	**4,027**	8,895	8,175	9,519	5,179
Adjusted Net Income [1]	**10,439**	**5,690**	**4,057**	**4,027**	9,077	6,015	5,677	5,584
In dollars per share								
Earnings per share - Basic & Diluted	**0.16**	**0.02**	**0.09**	**0.11**	0.25	0.23	0.26	0.14
Adjusted Earnings per share [1]	**0.29**	**0.16**	**0.11**	**0.11**	0.25	0.17	0.16	0.15
In millions of shares								
Weighted average number of common diluted shares outstanding	**36.4**	**36.4**	**36.3**	**36.3**	36.3	36.3	36.3	36.3

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

Seasonal trends

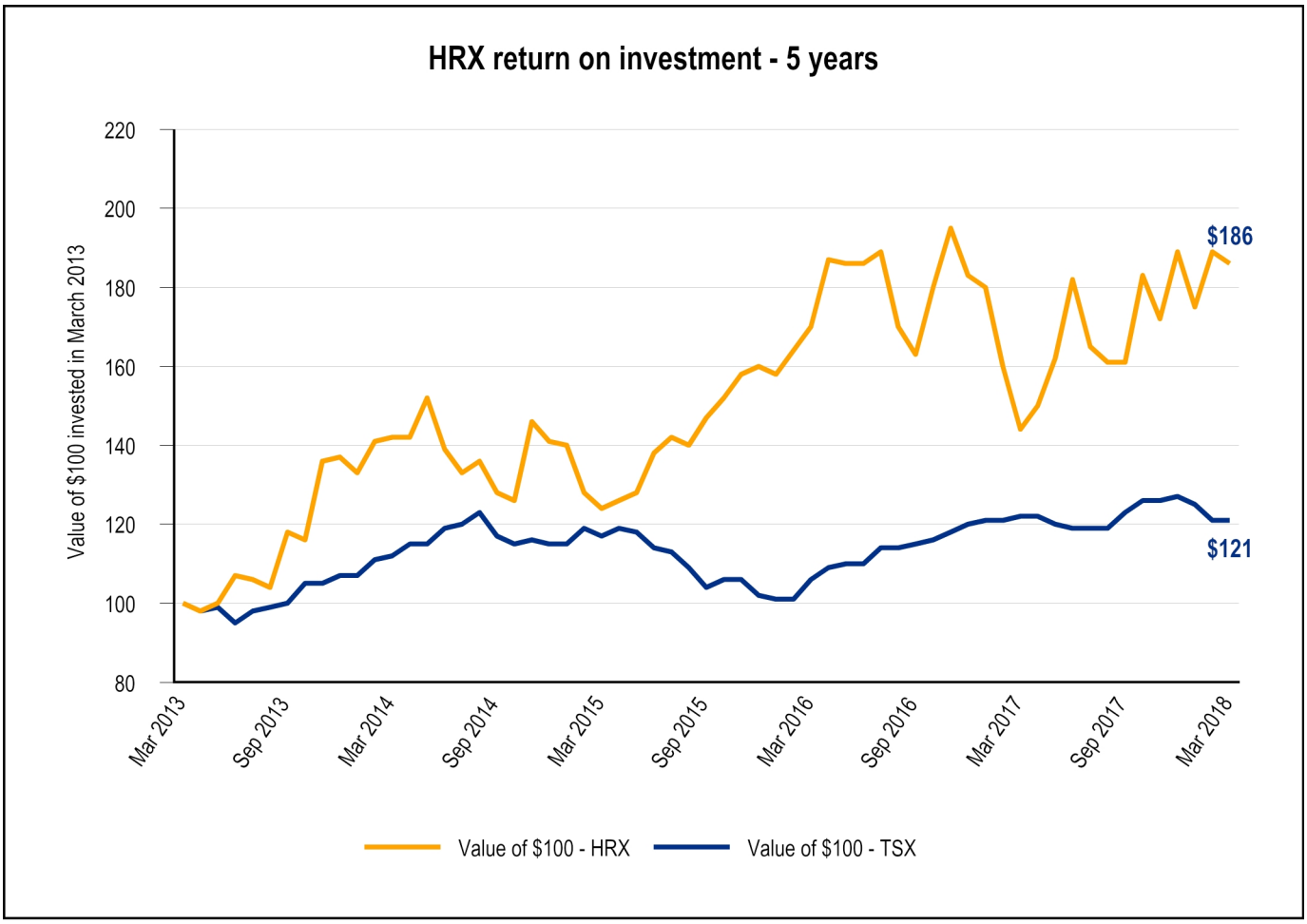
Héroux-Devtek's second quarter is usually slower than the others due to seasonality such as plant shutdowns and summer vacations, whereas the fourth quarter is usually the strongest.

Selected financial information is as follows, for fiscal years:

	2018	2017	2016
Sales	**$ 386,564**	$ 406,536	$ 406,812
Operating income	**23,378**	35,552	37,783
Adjusted operating income[1]	**30,325**	35,880	39,263
Adjusted EBITDA[1]	**56,904**	61,448	64,070
Net income	**13,674**	31,768	26,641
Adjusted net income[1]	**24,213**	26,353	27,650
Earnings per share ($) - basic and diluted	**0.38**	0.88	0.74
Adjusted earnings per share[1] ($)	**0.67**	0.73	0.77
Cash and cash equivalents	**93,209**	42,456	19,268
Total assets	**632,162**	607,286	609,403
Long-term financial liabilities[2]	**137,388**	138,257	156,267

[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 23, 2018. 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.