MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended June 30, 2018

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OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2018 and June 30, 2018. It also compares the operating results and cash flows for the quarter ended June 30, 2018 to those of the same period of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2018, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2018, all of which are available on the Corporation's website at www.herouxdevtek.com and on www.sedar.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated. This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on August 9, 2018.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

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

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

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

FOREIGN EXCHANGE ("FX")

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

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

	June 30, 2018	March 31, 2018
USD (Canadian equivalent of US$1.0)	**1.3168**	1.2894
GBP (Canadian equivalent of £1.0)	**1.7357**	1.8106

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

	Quarters ended June 30,	
	2018	2017
USD (Canadian equivalent of US$1.0)	**1.2912**	1.3448
GBP (Canadian equivalent of £1.0)	**1.7567**	1.7201

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

HIGHLIGHTS

	Three months ended June 30, 2018	2017
Sales	$ 85,770	$ 86,857
Operating income	4,857	5,408
Adjusted operating income[(1)]	5,217	5,408
Adjusted EBITDA[(1)]	12,244	11,940
Net income	3,552	4,027
Adjusted net income[(1)]	3,786	4,027
Cash flows related to operating activities	8,450	2,568
Free cash flow[(1)]	6,368	468
In dollars per share		
EPS and Adjusted EPS [(1)] - basic and diluted	$ 0.10	$ 0.11
In millions of dollars, as at	**June 30, 2018**	March 31, 2018
Funded backlog[(2)]	$ 454	$ 466

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

[(2)] *Represents firm orders*

- For the quarter ended June 30, 2018, the Corporation achieved consolidated sales of $85.8 million and adjusted EBITDA of $12.2 million, compared to $86.9 million and $11.9 million during the same period last fiscal year.
- For the quarter ended June 30, 2018, the Corporation generated cash flows related to operating activities of $8.5 million, compared to $2.6 million during the same quarter last fiscal year and a free cash flow[(1)] of $6.4 million, compared to $0.5 million during the same quarter last fiscal year.
- For the quarter ended June 30, 2018, Héroux-Devtek announced the signing of a 4-years term sales 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.

Subsequent to the quarter end

- On July 2, 2018, Héroux-Devtek completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. See *Acquisition of Beaver* below for further details.
- On July 17, 2018, Héroux-Devtek announced that it had been selected by The Boeing Company to manufacture the main landing gear and side braces for the F/A 18 Super Hornet and EA-18G Growler aircraft. First deliveries are expected in the third quarter of calendar 2020. The contract also includes potential spare parts and aftermarket services.
- On July 18, 2018, the Corporation announced that it had been awarded a five-year contract by Lockheed Martin Aeronautics Company to manufacture landing gear for the C130-J Hercules aircraft. The contract renewal covers the manufacture and assembly of landing gear and provision of spare parts beginning in January 2020.

[(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.*

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 €140.0 million ($222.0 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 new customer base including Airbus.

Closing of the Transaction is expected during the 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 *Derivatives* under *Additional Information* for further information about these risks and the derivative financial instruments the Corporation has acquired to mitigate them.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver"), from Phillips Service Industries Inc., for a purchase price of US$23.5 million ($30.0 million), including a US$3.5 million ($4.5 million) balance of sale payable over the next two years and subject to final working capital adjustments. The transaction was financed through the Corporation's cash.

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.

OPERATING RESULTS

	Three months ended June 30,		
	2018	2017	*Variance*
Sales	**$ 85,770**	$ 86,857	*$ (1,087)*
Gross profit	**13,066**	12,920	*146*
Selling and administrative expenses	**7,849**	7,512	*337*
Adjusted operating income[(1)]	**5,217**	5,408	*(191)*
Non-recurring items	**360**	—	*360*
Operating income	**4,857**	5,408	*(551)*
Financial expenses	**1,000**	1,306	*(306)*
Income tax expense	**305**	75	*230*
Net income	**$ 3,552**	$ 4,027	*$ (475)*
Adjusted net income[(1)]	**$ 3,786**	$ 4,027	*$ (241)*
As a percentage of sales			
Gross profit	**15.2%**	14.9%	*30 bps*
Selling and Administrative expenses	**9.2%**	8.6%	*60 bps*
Operating income	**5.7%**	6.2%	*-50 bps*
Adjusted operating income[(1)]	**6.1%**	6.2%	*-10 bps*
In dollars per share			
EPS and Adjusted EPS [(1)] - basic and diluted	**$ 0.10**	$ 0.11	*$ (0.01)*

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

Sales

Sales by sector were as follows:

	Three months ended June 30,				
	2018	2017	FX impact	Net variance	
Commercial	**$ 45,761**	$ 43,328	$ (1,308)	$ 3,741	8.6 %
Defence[1]	**40,009**	43,529	(1,144)	(2,376)	(5.5)%
Total	**$ 85,770**	$ 86,857	$ (2,452)	$ 1,365	1.6 %

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

Commercial

The $3.7 million net increase in commercial sales for the three-month period was mainly driven by:

- Higher large commercial programs sales, mainly related to increased Boeing 777 and 777X deliveries; and,
- Higher business jet sales, mainly related to increased deliveries for the Embraer 450/500 program.

These positive factors were partly offset by lower engineering activities.

Defence

The $2.4 million net decrease in defence sales for the three-month period was mainly driven by:

- Lower manufacturing requirements for certain civil customers; and,
- The ramp-down of repair and overhaul ("R&O") activities for the United States Air Force.

These negative factors were partly offset by higher spare parts requirements from the U.S. Government.

Gross Profit

The increase in gross profit from 14.9% to 15.2% for the three-month period compared to the same period last fiscal year was mainly driven by higher absorption of costs related to the Boeing 777 program and improved production efficiencies. These factors were partly offset by unfavourable exchange rate fluctuations representing 0.3% of sales.

Selling and Administrative Expenses

When excluding gains and losses on translation of net monetary items, selling and administrative expenses represented 9.7% of sales for the quarter, compared to 8.3% for the same period last fiscal year. This increase is mainly associated with higher employee-related costs and professional fees.

Non-recurring items

	Three months ended June 30,	
	2018	2017
Non-recurring items in operating income		
Acquisition-related costs	**$ 360**	$ —
	$ 360	$ —
Non-recurring items in financial expenses		
Net losses (gains) on certain derivative financial instruments	**(126)**	—
	$ (126)	$ —

Acquisition-related costs

During the three-month period ended June 30, 2018, the Corporation's incurred acquisition-related costs of $0.4 million. These costs mainly pertain to professional fees and expenses in connection with the agreement to acquire CESA and the acquisition of Beaver.

Net gains on certain derivative financial instruments

These gains 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 *Derivatives* section under *Additional Information* below for further details.

Operating Income

The decrease in operating income from 6.2% to 5.7% of sales (or decrease from 6.2% to 6.1% excluding non-recurring items) for the quarter are mainly the result of the factors described above.

For the three-month period, foreign exchange had no net impact on the Corporation's operating income year-over-year.

Net Financial Expenses

	Three months ended June 30,		
	2018	2017	*Variance*
Interest on long-term debt	**$ 719**	$ 742	*$ (23)*
Interest related to government loans	**589**	555	*34*
Interest income related to financial instruments	**(520)**	(115)	*(405)*
Other interest expense	**212**	124	*88*
	$ 1,000	$ 1,306	*$ (306)*

The $0.3 million decrease in financial expenses for the three-month period when compared to the same period last fiscal year is mainly due to higher interest income on cash and cash equivalents balance.

Income Tax Expense

	Three months ended June 30,	
	2018	2017
Income before income tax expense	**$ 3,857**	$ 4,102
Income tax expense	**305**	75
Effective tax rate	**7.9%**	1.8%
Canadian blended statutory income tax rate	**26.6%**	26.7%

For the three-month period ended June 30, 2018, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($0.8 million) partially offset by non-deductible acquisition-related costs ($0.1 million).

For the three-month period ended June 30, 2017, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions ($1.1 million) partially offset by permanent differences ($0.1 million).

Net Income

Net income decreased from $4.0 million to $3.6 million (or decreased from $4.0 million to $3.8 million excluding non-recurring items net of taxes) during the three-month period compared to the same period last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

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

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

These Non-IFRS financial measures do not have any standardized meaning prescribed by IFRS and may therefore not be comparable to similar measures presented by other issuers. Management considers these metrics to be information which may assist investors in evaluating the Corporation's profitability and enable better comparability of the results from one period to another and with peers who may employ similar measures.

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

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

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

	Three months ended June 30,	
	2018	2017
Operating income	**$ 4,857**	$ 5,408
Non-recurring items	**360**	—
Adjusted operating income	**$ 5,217**	$ 5,408

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

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

	Three months ended June 30,	
	2018	2017
Net income	**$ 3,552**	$ 4,027
Income tax expense	**305**	75
Net financial expenses	**1,000**	1,306
Amortization expense	**7,027**	6,532
EBITDA	**$ 11,884**	$ 11,940
Non-recurring items	**360**	—
Adjusted EBITDA	**$ 12,244**	$ 11,940

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

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

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

	Three months ended June 30,	
	2018	2017
Net income	**$ 3,552**	$ 4,027
Non-recurring items, net of taxes	**234**	—
Adjusted net income	**$ 3,786**	$ 4,027
In dollars per share		
Earnings per share - basic and diluted	**$ 0.10**	$ 0.11
Non-recurring items, net of taxes	**—**	—
Adjusted earnings per share	**$ 0.10**	$ 0.11

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.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY, CASH AND CASH EQUIVALENTS

The Corporation has in place a Senior Secured Syndicated Revolving Credit Facility ("Credit Facility") with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This Credit Facility allows the Corporation and its subsidiaries to borrow up to $200.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies and will mature in May 2022. It also includes an accordion feature to increase the Credit Facility by an additional $100.0 million during the term of this agreement, subject to the approval of the lenders.

As at June 30, 2018, the Corporation had $55.3 million drawn against the Credit Facility, compared to $54.2 million as at March 31, 2018. 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:

	June 30, 2018	March 31, 2018
Long-term debt, including current portion[1]	**$ 132,436**	$ 131,964
Less: Cash and cash equivalents	**99,000**	93,209
Net debt position	**$ 33,436**	$ 38,755

[1] *Excluding net deferred financing costs of $0.9 million as at June 30, 2018 and March 31, 2018.*

In general terms, the Corporation has a healthy financial position and is well positioned to face its financing needs.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended June 30,	
	2018	2017
Cash and cash equivalents at beginning of periods	**$ 93,209**	$ 42,456
Cash flows related to operating activities	**8,450**	2,568
Cash flows related to investing activities	**(2,496)**	(3,423)
Cash flows related to financing activities	**(932)**	(962)
Effect of changes in exchange rates on cash and cash equivalents	**769**	(357)
Cash and cash equivalents at end of periods	**$ 99,000**	$ 40,282

Operating Activities

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

	Three months ended June 30,	
	2018	2017
Cash flows from operations	**$ 10,657**	$ 10,613
Net change in non-cash items	**(2,207)**	(8,045)
Cash flows related to operating activities	**$ 8,450**	$ 2,568

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

	Three months ended June 30,	
	2018	2017
Accounts receivable	**$ 18,728**	$ 8,803
Inventories	**(3,640)**	(7,597)
Other current assets	**(1,132)**	(2,680)
Accounts payable and accrued liabilities	**(10,612)**	(2,649)
Income taxes payable and receivable	**(1,842)**	(947)
Customer advances and progress billings	**(29)**	(47)
Provisions	**(2,972)**	(2,147)
Effect of changes in exchange rates	**(708)**	(781)
	$ (2,207)	$ (8,045)

For the three-month period ended June 30, 2018, the negative net change in non-cash items mainly reflects:

- Seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year;
- An increase in inventories mainly related to the Boeing 777 and 777X programs; and,
- A decrease in provisions mainly due to utilization of the restructuring provision.

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year.

For the three-month period ended June 30, 2017, the negative net change in non-cash items mainly reflected:

- An increase in inventories mainly related to the timing of delivery of certain defence manufacturing sales to civil customers; and
- The seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of fiscal 2017

These factors were partially offset by the seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of fiscal 2017.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended June 30,	
	2018	2017
Net additions to property, plant and equipment	**$ (2,073)**	$ (2,666)
Net increase in finite-life intangible assets	**(423)**	(787)
Proceeds on disposal of property, plant and equipment	**—**	30
Cash flows related to investing activities	**$ (2,496)**	$ (3,423)

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

	Three months ended June 30,	
	2018	2017
Gross additions to property, plant and equipment	**$ 1,659**	$ 1,442
Government assistance	**—**	(129)
Net additions to property, plant and equipment	**$ 1,659**	$ 1,313
Variation in unpaid additions included in Accounts payable - other and other liabilities	**414**	1,353
Net additions, as per statements of cash flows	**$ 2,073**	$ 2,666

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended June 30,	
	2018	2017
Repayment of long-term debt	**$ (1,273)**	$ (1,106)
Issuance of common shares	**341**	144
Cash flows related to financing activities	**$ (932)**	$ (962)

As at June 30, 2018, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW[1]

	Three months ended June 30,	
	2018	2017
Cash flows related to operating activities	**$ 8,450**	$ 2,568
Net additions to property, plant and equipment	**(1,659)**	(1,313)
Net increase in finite-life intangible assets	**(423)**	(787)
Free cash flow	**$ 6,368**	$ 468

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

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

The $5.9 million increase in free cash flow for the three-month period ended June 30, 2018 compared to the same period of fiscal 2018 was mainly related to a more favourable net change in non-cash items as described under *Variations in Cash and Cash Equivalents above*.

FINANCIAL POSITION

ISSUED CAPITAL

Capital stock varied as follows:

	Three months ended June 30, 2018		
	Number		Issued capital
Balance at beginning of periods	36,218,572	$	78,105
Issued for cash on exercise of stock options	61,700		396
Issued for cash under the stock purchase and ownership incentive plan	11,011		151
Balance at end of periods	36,291,283	$	78,652

As at August 9, 2018, the number of common shares outstanding stood at 36,294,857.

Stock options varied as follows:

	Three months ended June 30, 2018		
	Number of stock options		Weighted-average exercise price
Opening balance	1,105,295	$	12.09
Granted	201,000		16.22
Exercised	(61,700)		3.08
Ending balance	1,244,595	$	13.20

As at June 30, 2018, 1,452,781 common shares remained reserved for issuance upon exercise of stock options compared to 1,514,481 at March 31, 2018 and 47,855 common shares remained reserved for issuance under the stock purchase and ownership incentive plan compared to 58,866 at March 31, 2018.

As at August 9, 2018, the number of stock options outstanding stood at 1,244,595.

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

CONSOLIDATED BALANCE SHEETS

Working capital

As at	June 30, 2018	March 31, 2018	Variance	
Current assets	$ 301,846	$ 310,649	$ (8,803)	(2.8)%
Current liabilities	95,827	108,750	(12,923)	(11.9)%
Working capital	$ 206,019	$ 201,899	$ 4,120	2.0 %
Working capital ratio	3.15	2.86		

The decrease in current assets mainly reflects the seasonal decrease in accounts receivable and accrued liabilities offset by year to date net cash inflows, while the decrease in current liabilities mainly reflects the seasonal decrease in accounts payable following the higher level of activity during the fourth quarter of the prior fiscal year.

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

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

	June 30, 2018	March 31, 2018	Variance	
Long-term assets	$ 314,714	$ 321,513	$ (6,799)	(2.1)%
Long-term liabilities	$ 142,543	$ 144,378	$ (1,835)	(1.3)%
Shareholders' equity	$ 378,190	$ 379,034	$ (844)	(0.2)%
Net debt-to-equity ratio(1)	0.09:1	0.10:1		

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

The $6.8 million decrease in Long-term assets mainly reflects the year-to-date amortization expense and the net negative impact of exchange rate fluctuations on the conversion of the Corporation's assets accounted for in foreign functional currencies.

ADDITIONAL INFORMATION

DERIVATIVES

Forward foreign exchange contracts

The Corporation had the following forward foreign exchange contracts outstanding:

As at	June 30, 2018		March 31, 2018	
	USD	**GBP**	USD	GBP
Notional amount outstanding	**US$ 128,000**	**£ 5,000**	US$ 110,050	—
Average exchange rate	**1.3031**	**1.8089**	1.3046	—

As at June 30, 2018, these contracts mature at various dates between July 2018 and March 2021, with the majority maturing this fiscal year and the next.

Interest rate swap agreements

As at June 30, 2018 the Corporation had entered into the following interest rate swap agreements to fix the interest rate on a portion of the Credit Facility:

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 12, *Long-term debt*, to the interim condensed 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 of the transaction. 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.

The Corporation 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	August 2025

Equity swap agreement

As at June 30, 2018, the Corporation had entered into an equity swap agreement fixing 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.

NEW ACCOUNTING STANDARDS

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

IFRS 9, Financial Instruments

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

Classification and measurement

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

Impairment of financial assets

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

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

IFRS 15, Revenue from Contracts with Customers

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

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

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

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

INTERNAL CONTROLS AND PROCEDURES

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

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

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

No changes were made to the Corporation's internal controls over financial reporting during the three-month period ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	**2019**	2018				2017		
	First Quarter	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter
Sales	**$ 85,770**	$113,024	$ 97,006	$ 89,677	$ 86,857	$120,886	$ 98,489	$ 91,571
Operating income	**4,857**	6,697	6,629	4,644	5,408	8,678	7,694	11,584
Adjusted operating income (1)	**5,217**	12,089	7,238	5,590	5,408	12,312	7,694	7,873
Adjusted EBITDA (1)	**12,244**	19,369	13,563	12,032	11,940	19,181	13,851	14,095
Net Income	**3,552**	5,858	626	3,163	4,027	8,895	8,175	9,519
Adjusted Net Income (1)	**3,786**	10,439	5,690	4,057	4,027	9,077	6,015	5,677
In dollars per share								
Earnings per share - Basic & Diluted	**$ 0.10**	$ 0.16	$ 0.02	$ 0.09	$ 0.11	$ 0.25	$ 0.23	$ 0.26
Adjusted earnings per share (1)	**0.10**	0.29	0.16	0.11	0.11	0.25	0.17	0.16
In millions of shares								
Weighted-average number of common diluted shares outstanding	**36.4**	36.4	36.4	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.

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 6.8% on a year-over-year basis in the first five months of calendar 2018 and is expected to grow by 7.0% 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 5.3% in the first five months of calendar 2018. However, activity is expected to soften going forward due to the recent pick-up in protectionist measures, leading to a projected annual rise of 4.0% for the whole calendar year, slightly lower than the five-year average[(2)].

In the large commercial aircraft sector, Boeing and Airbus are adjusting their production rates as they introduce certain more fuel efficient aircraft variants on several leading programs. These adjustments are scheduled through calendar 2020. Order backlogs remain strong for both manufacturers driven by higher year-over-year new gross order intake in the first half of calendar 2018 and a combined total of new orders and commitments for more than 1,100 aircraft during the 2018 Farnborough Airshow.[(3)]

In the business jet market, aircraft shipments increased 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 should continue.[(4)]

In the defence aerospace market, the U.S. administration has indicated its intention to increase funding for the Department of Defense (DOD) over the next several years. Supporting the above, the 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 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 4.8% projected overall spending increase by members of North Atlantic Treaty Organization ("NATO") for 2018 (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)]. This target was reaffirmed during the most recent NATO summit.

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, June 2018; World Economic Outlook, International Monetary Fund, July 16, 2018.

(3) Sources: Airbus press releases July 19, 2018; January 15, 2018; October 18, 2017; July 12, 2016; Boeing press releases July 19, 2018; April 25, 2018; January 9, 2018.

(4) Source: GAMA press release May 10, 2018; Business Jet Aviation Forecast, Honeywell, October 2017; Business Aviation Market Forecast, Jetcraft, October 2017.

(5) Sources: DOD press release February 12, 2018; Defence Expenditures of NATO Countries report, July 10, 2018.

GUIDANCE[1]

Metric	Fiscal 2019 guidance	**Updated Fiscal 2019 guidance**[2]
Fiscal 2019 sales growth	Stable as compared to fiscal 2018	Mid single digit growth
Fiscal 2019 additions to PP&E	Approximately $15 million	Approximately $15 million

(1) *Refer to* Forward-Looking Statements *in* Overview *for further information regarding forward-looking statements and related risks.*
(2) Updated following the completion of the acquisition of Beaver Aerospace & Defence.

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

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, assuming no material acquisition;
- Existing OEM backlogs, production rates and disclosed production and delivery expectations;
- Stability of government defence budget, spending climates, trends and expectations;
- Stability of overall economic conditions;
- Stability of foreign exchange rates, particularly versus the U.S. dollar; and,
- The Corporation's ability to deliver on key contract initiatives.