HÉROUX DEVTEK

TOWARD

THE NEXT EXPANSION PHASE

2018 ANNUAL REPORT

TOWARD THE NEXT EXPANSION PHASE

TRANSFORMATION

In fiscal 2018, we announced the acquisition of Compañia Española de Sistemas Aeronauticos, S.A. (“CESA”), the largest in our history, and also of Beaver Aerospace & Defense, Inc (“Beaver”). The combination of these two acquisitions will have far-reaching strategic benefits and will propel us toward the next expansion phase. They will further enhance our leadership and international reach in the market for actuation and hydraulic systems, landing gear systems and related products.

PROPRIETARY PRODUCTS

Our programs involving proprietary products are on track and are advancing as expected. Sales of proprietary programs continued to increase as a proportion of total revenues, reaching nearly 35% of business activity. This percentage is set to further increase as a result of the upcoming acquisition of CESA and Beaver.

OPERATIONAL EFFICIENCY

We always strive to increase the efficiency of our operations. We have had a solid track record of identifying and capturing cross-selling and operational synergies. We expect more of the same with the upcoming integration of the CESA and Beaver acquisitions as well as the in-sourcing of the Boeing 777 surface treatment processes.

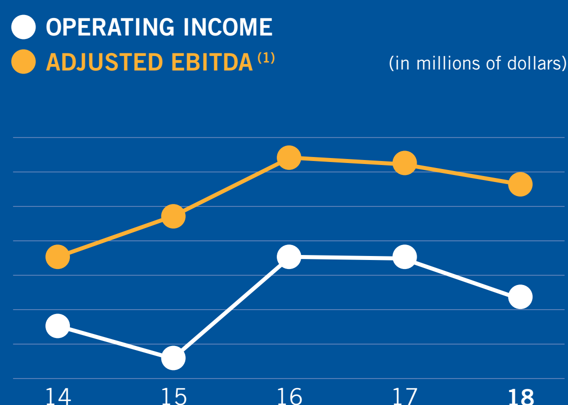
LEVERAGING INVESTMENTS AND CAPACITY

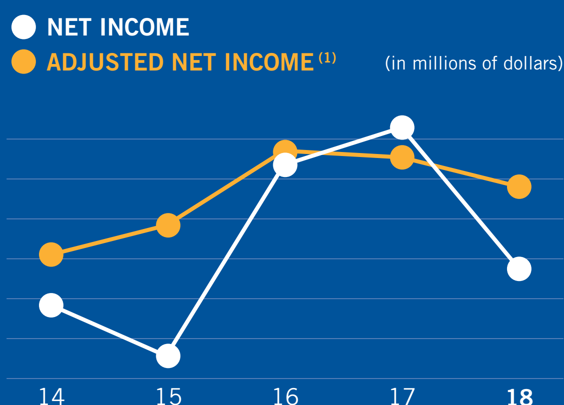
We are well positioned to leverage our past investments and sign new contracts for aircraft programs. We have the specialized teams, the resources and the available capacity to grow our business. We want to capitalize on our fully-integrated product and service offering, leading-edge equipment and international network spanning two continents.

www.herouxdevtek.com

FINANCIAL HIGHLIGHTS

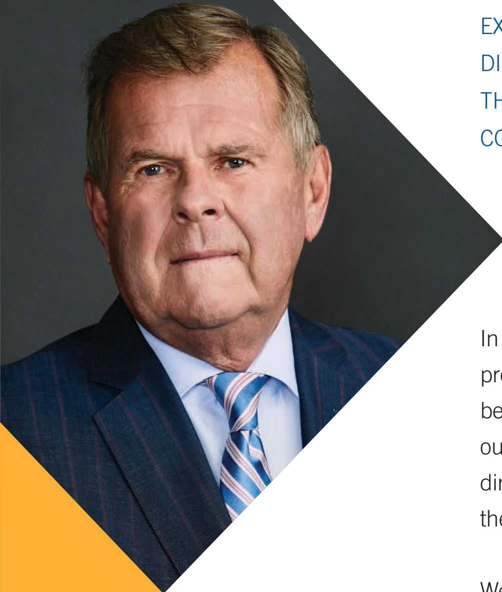
FISCAL YEARS ENDED MARCH 31 (in millions of dollars, except per share data and ratios)	**2018**	2017	2016	2015	2014
OPERATING RESULTS					
Sales	**386.6**	406.5	406.8	364.9	272.0
Operating income	**23.4**	35.6	37.8	6.6	15.6
Adjusted operating income (1)	**30.3**	35.9	39.3	29.4	22.5
Adjusted EBITDA (1)	**56.9**	61.4	64.1	47.8	35.8
Net income	**13.7**	31.8	26.6	3.2	9.2
Adjusted net income (1)	**24.2**	26.4	27.7	19.4	15.3
Cash flows related to operating activities	**56.1**	56.1	6.8	46.2	26.0
Free cash flow (1)	**50.8**	33.0	(66.3)	(15.0)	11.0
FINANCIAL POSITION					
Cash and cash equivalents	**93.2**	42.5	19.3	35.1	47.3
Working capital	**201.9**	165.1	150.5	109.7	160.8
Total assets	**632.2**	607.3	609.4	575.5	514.0
Long-term debt (2)	**132.0**	134.8	147.2	114.2	150.5
Shareholders' equity	**379.0**	355.9	331.1	293.5	240.1
PER SHARE DATA					
Earnings per share – basic and diluted	**0.38**	0.88	0.74	0.09	0.29
Adjusted earnings per share (1)	**0.67**	0.73	0.77	0.55	0.48
Average number of shares outstanding (diluted, in 000's)	**36,332**	36,284	36,119	35,016	31,662
FINANCIAL RATIOS					
Adjusted EBITDA (1) margin	**14.7%**	15.1%	15.7%	13.1%	13.2%
Working capital ratio	**2.86**	2.58	2.34	1.75	2.59
Net debt-to-equity (3)	**0.10**	0.26	0.39	0.27	0.43





(1) These are non-IFRS measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.
(2) Including the current portion, but excluding net deferred financing costs.
(3) Defined as the total long-term debt, including the current portion, but excluding net deferred financing costs, less cash and cash equivalents over shareholders' equity.

CHAIRMAN'S MESSAGE



DEAR SHAREHOLDERS,

I HAVE BEEN PRIVILEGED TO HAVE A SEAT ON THE BOARD OF HÉROUX-DEVTEK FOR ALMOST TWO DECADES. FROM THIS VANTAGE POINT, I HAVE WATCHED GILLES LABBÉ AND HIS TEAM BUILD AN EXTRAORDINARY GLOBAL ENTERPRISE. IT HAS BEEN MY HONOUR TO PARTICIPATE IN THE STRATEGIC DISCUSSIONS WHICH HAVE HELPED THIS REMARKABLE ORGANIZATION GROW AND PROSPER. IN THIS SEVENTY-FIFTH YEAR SINCE THE FOUNDING OF HÉROUX-DEVTEK'S ORIGINAL PRECURSOR, OUR COMPANY IS PROPERLY CELEBRATED AS ONE OF CANADA'S UNIQUE SUCCESS STORIES.

In my first year as Chairman, I would like to address the importance of corporate governance. In my view, a properly functioning Board is the basis for good corporate governance. In fact, an important characteristic behind Héroux-Devtek's success is the consistent interaction between the Board and Management. Excluding our President and CEO, it should be noted that all of our board members are independent. Furthermore, our directors are predominantly from the industry sector with deep related experience. With their understanding of the aerospace market and general business knowledge, they constitute a key source of counsel.

We regard the past year as a period of transition, considering the impact of reduced production rates announced by some OEMs for certain aircraft programs. The events of the year clearly underlined Héroux-Devtek's capacity to quickly react and adapt itself to a changing environment.

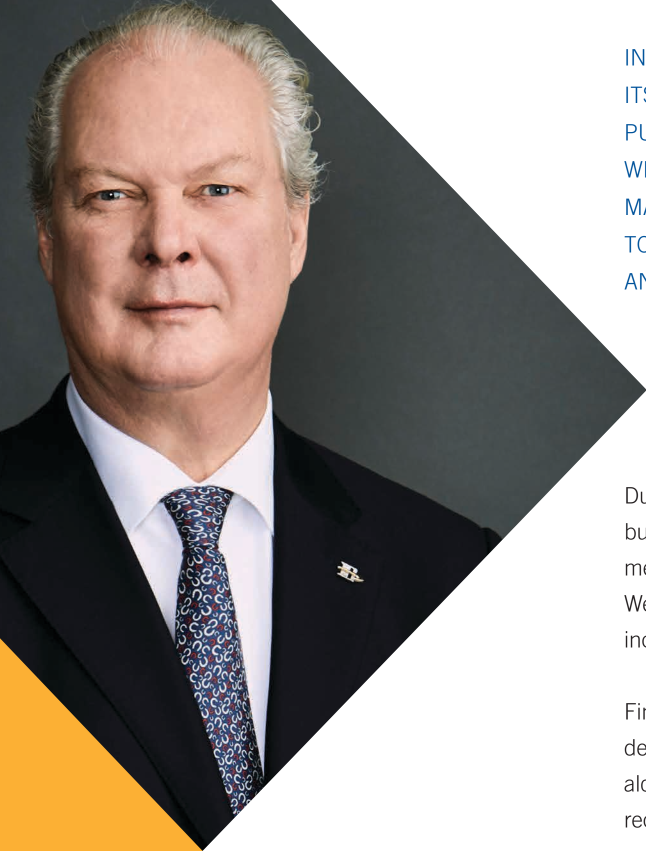
Of particular note were the announcements of two strategic acquisitions, namely Compañia Española de Sistemas Aeronauticos ("CESA"), a subsidiary of Airbus, in Spain and Beaver Aerospace & Defense Inc. in Michigan. Both transactions are subject to upcoming regulatory approvals. These highly strategic acquisitions will enable us to build a broader product offering and grow our customer base.

We occupy a privileged position in the aerospace industry. We have a solid balance sheet and we generate strong cash flow. Given the multi-year backlog of orders from the world's leading aircraft manufacturers, sustained demand for aircraft and increased defense budgets around the world, Héroux-Devtek in my view represents excellent value for long-term shareholders.

My immense pride in being closely associated with one of the world's leading manufacturers of landing gear systems is equally reflected by every member of the Héroux-Devtek family. I am pleased to be part of a highly engaged Board that is dedicated to the Corporation's long-term success.

It is the commitment of our people that accounts for our success, and I wish to take this opportunity to express the Board's gratitude to each and every one of Héroux-Devtek's employees. I have no doubt that their skill and dedication going forward will result in continued success – and still greater achievements.

Brian A. Robbins
Chairman of the Board



Gilles Labbé, FCPA, FCA
President and
Chief Executive Officer

PRESIDENT'S MESSAGE

IN THE LAST FISCAL YEAR, HÉROUX-DEVTEK MADE IMPORTANT STRIDES TOWARD ITS NEXT EXPANSION PHASE BY ANNOUNCING TWO STRATEGIC ACQUISITIONS AND PURSUING THE OPTIMIZATION OF ITS WORLD-CLASS NETWORK. MORE THAN EVER, WE ARE WELL POSITIONED TO WIDEN OUR REACH IN THE GLOBAL AEROSPACE MARKET. GIVEN THESE EXPANDED CAPABILITIES, THE CORPORATION WILL CONTINUE TO SEEK OPPORTUNITIES TO DEMONSTRATE ITS INDUSTRY-LEADING CAPABILITIES AND TO CREATE LASTING VALUE FOR SHAREHOLDERS.

During the fiscal year ended March 31, 2018, Héroux-Devtek continued to execute its business strategy aimed at building a sustainable future for the Corporation. We successfully met all planned delivery schedules for the large-scale Boeing 777 and 777X contract. We also made further progress carrying out important contracts awarded in prior years, including several life-cycle mandates for which we hold intellectual property.

Financial results for fiscal 2018 were relatively in line with our expectations. We had strong deliveries related to the Boeing 777 program, shipping 13 landing gears in the fourth quarter alone, bringing the total to 42 deliveries this fiscal year. Operating activities generated a record high free cash flow enabling Héroux-Devtek to improve an already healthy financial position.

This financial strength has allowed us to lay the foundation of our next expansion phase. By announcing two important acquisitions last year, which are pending regulatory approval as of this writing, Héroux-Devtek is bolstering its status as one of the foremost landing gear, actuation and hydraulic system designers and manufacturers in the global aerospace industry.

These pending additions to our international network will further enhance the appeal of our world-class, fully integrated capabilities that allow us to offer a complete range of solutions, from initial design and development to the maintenance of existing fleets through aftermarket products and services.

SOLID FREE CASH FLOW AND STRONG FINANCIAL POSITION

Héroux-Devtek concluded fiscal 2018 with sales of $386.6 million, slightly less than the year earlier. This decrease stems from the scheduled ending of a Tier-2 contract in the commercial aerospace market, partially offset by the ramp-up of complete landing gear system deliveries to Boeing for the 777 program. Sales of proprietary programs continued to increase as a proportion of total revenues, reaching nearly 35% of business activity.

Operating income was $23.4 million, while adjusted EBITDA* amounted to $56.9 million, representing an adjusted EBITDA margin* of 14.7%, relatively stable compared to the previous year. Net income reached $13.7 million, while adjusted net income* totalled $24.2 million, or $0.67 per share.

Operating activities produced a cash flow of $56.1 million, which yielded strong free cash flow* of $50.8 million and enabled Héroux-Devtek to improve an already healthy financial position at the end of the fiscal year. As we await the closing of our acquisitions, cash and cash equivalents stood at $93.2 million and we had available borrowing capacity of almost $146 million on our authorized Credit Facility of $200 million.

As at March 31, 2018, our firm order backlog, which includes business for which we have received purchase orders, amounted to $466 million and remains well diversified.

HÉROUX-DEVTEK ANNOUNCED TWO SIGNIFICANT ACQUISITIONS THAT WILL FURTHER ENHANCE ITS LEADERSHIP AND INTERNATIONAL REACH IN THE MARKET FOR LANDING GEAR SYSTEMS AND RELATED PRODUCTS.

HIGHLY STRATEGIC ACQUISITIONS THAT EXPAND OUR GLOBAL REACH

Héroux-Devtek announced two significant acquisitions that will further enhance its leadership and international reach in the market for landing gear systems and related products.

First, we reached an agreement to acquire the Spanish company Compañia Española de Sistemas Aeronauticos, S.A. (“CESA”), a subsidiary of Airbus SE. CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. Its main product lines include actuation and hydraulic systems, and landing gear systems. CESA provides an integrated product and service offering that includes design and development, engineering, certification, component manufacturing and assembly, as well as fleet support for a wide range of customers and aircraft programs. Annual sales amount to approximately 94 million Euros (approximately Cdn$149 million).

* These are non-IFRS measures. Please refer to the “Non-IFRS financial measures” section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

CESA's A350 program

This acquisition, the largest in Héroux-Devtek's history, has far-reaching strategic benefits:

- It greatly increases our presence in Europe, including a direct relationship with Airbus, which could offer more business opportunities. Airbus accounts for approximately 50% of CESA's sales.
- CESA provides an expansion into complementary actuation and hydraulic systems activities.
- It further diversifies Héroux-Devtek's customer base, both geographically and on several key aircraft programs.
- It brings an important portfolio of intellectual property rights and CESA's sole-source supply business.
- We expect to generate synergies from cross-selling opportunities by leveraging our multi-continent customer base and from operating efficiencies in procurement and technology development activities. The acquisition also strengthens our exposure to aftermarket sales.

The second acquisition, Michigan-based Beaver Aerospace & Defense Inc. ("Beaver"), is a vertically integrated manufacturer with 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. Beaver also designs, manufactures, assembles and tests electromechanical actuators. Annual sales were approximately US$30 million (approximately Cdn$38 million) last year.

This acquisition will broaden our existing product offering, while further expanding our footprint in North America. It is largely complementary with Héroux-Devtek's and CESA's businesses. As with CESA, we are looking forward to leveraging Beaver's relationships with industry-leading OEMs, particularly in the U.S. defence sector, while benefiting from cross-selling opportunities and operating efficiencies.

FAVOURABLE MARKET TRENDS

According to industry forecasts, passenger air traffic is expected to grow by approximately 6% in calendar 2018. This projected increase, slightly above historical average, should fuel additional momentum in the commercial aerospace industry.

In calendar 2017, large commercial aircraft manufacturers posted another year of record new aircraft deliveries, while continuing to adjust production rates for certain models to reflect the introduction of more fuel-efficient variants over the next few years. This includes

CESA's A400M Program

the Boeing 777 program given the forthcoming transition to the 777X variant. The overall volume of new orders has risen, allowing manufacturers to maintain healthy backlogs.

In the business jet sector, aircraft shipments increased slightly in calendar 2017. Héroux-Devtek remains well positioned over the mid-term in this market given the projected ramp-up of certain models for which it has designed the landing gear.

In the defence aerospace market, the U.S. administration is proposing higher funding for the U.S. government's 2019 fiscal year and potentially beyond, which could be positive for certain programs. Additionally, commitments by Canada and several European nations to increase defence funding bode well for Héroux-Devtek due to its presence on both sides of the Atlantic.

OUTLOOK

Héroux-Devtek has laid the foundation of its next expansion phase. The acquisitions will allow us to leverage our multi-continent customer base, while further optimizing the efficiency and flexibility of our wide manufacturing footprint. Moreover, our ability to generate free cash flow will enable us to confidently invest in value-creation opportunities to the benefit of shareholders.

HÉROUX-DEVTEK HAS LAID THE FOUNDATION OF ITS NEXT EXPANSION PHASE. THE ACQUISITIONS WILL ALLOW US TO LEVERAGE OUR MULTI-CONTINENT CUSTOMER BASE, WHILE FURTHER OPTIMIZING THE EFFICIENCY AND FLEXIBILITY OF OUR WIDE MANUFACTURING FOOTPRINT.

For the fiscal year ending March 31, 2019, excluding the potential contribution from pending acquisitions, we expect sales to remain relatively stable, as the planned ramp-down of a contract with the U.S. Air Force will be offset by higher volume from other customers in the defence market and increased deliveries for the Boeing 777 and 777X contract.

On behalf of Senior Management, I sincerely thank all our employees for their continued dedication and professionalism. As a world-class OEM supplier, we owe nothing less than perfection to our valued customers. Our teams allow us to consistently deliver this expertise. Thank you as well to our business partners and suppliers whose contribution to our success is key. I express deep gratitude to our Board of Directors for their guidance and to you, our shareholders, for your continued support.

Gilles Labbé, FCPA, FCA
President and Chief Executive Officer

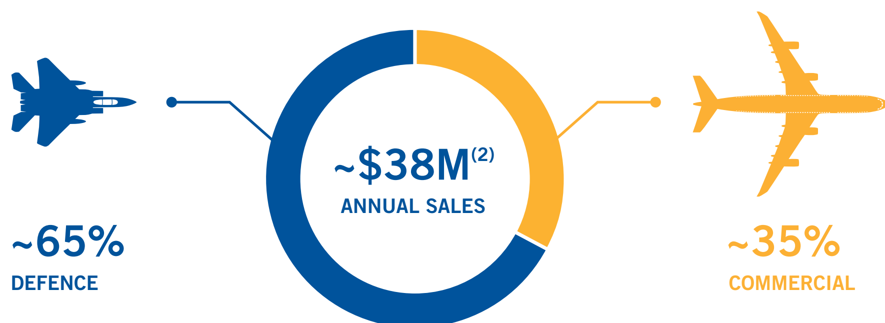
Beaver F-18 program

THE NEXT EXPANSION PHASE

HÉROUX-DEVTEK ANNOUNCED TWO HIGHLY STRATEGIC ACQUISITIONS THAT WILL FURTHER ENHANCE ITS LEADERSHIP AND INTERNATIONAL REACH IN THE MARKET FOR LANDING GEAR SYSTEMS AND RELATED PRODUCTS.

BEAVER AT A GLANCE

- Founded in 1952, Beaver operates three facilities totaling 82,200 sq.ft. in Livonia, Michigan
- Strong long-standing relationships with industry leading OEMs and their suppliers
- Vertically integrated with a growing portfolio of company-designed products
- The closing of the Beaver acquisition is expected to occur during the first quarter of fiscal 2019[1]



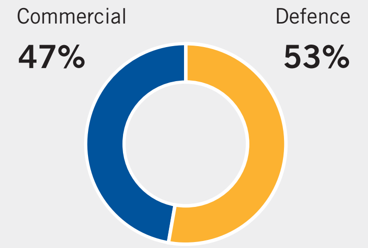
(1) Subject to customary closing adjustments and certain regulatory approvals.
(2) The sales and segmentation reflect information provided when the Beaver acquisition was announced on February 27, 2018.

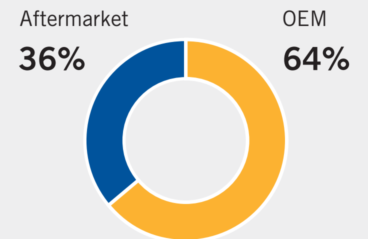
CESA AT A GLANCE

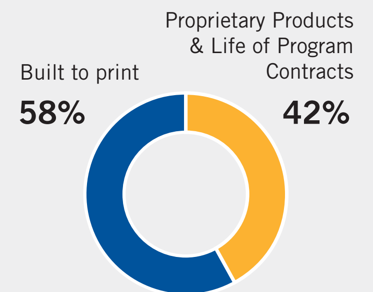
- Created in 1989, CESA operates a state-of-the-art industrial complex in Madrid of 366,000 sq.ft. and equipment with minimal investment requirements
- Designs, manufactures, assembles and tests high value components for both commercial and defence segments
- Following a longer than anticipated regulatory process[3], the CESA acquisition is now expected to close during the second quarter of fiscal 2019

(3) The transaction is subject to certain approvals, including by the Spanish Council of Ministers.
(4) The sales and segmentation reflect information provided when the CESA acquisition was announced on October 2, 2017. The exchange rates used are as of March 31, 2018.

Pro Forma Sales including CESA[5]







(5) The sales and segmentation reflect information provided when the CESA acquisition was announced on October 2, 2017. The pro forma sales do not include Beaver.

OPERATING REVIEW

IN FISCAL 2018, ALTHOUGH WE FACED A FEW SHORT-TERM HEADWINDS, SEVERAL IMPORTANT MILESTONES WERE ATTAINED. THESE INCLUDED PROGRESS ON THE BOEING 777 AND 777X CONTRACTS, THE CESA AND BEAVER ACQUISITION AGREEMENTS, AND THE EVOLUTION OF CURRENT DESIGN AND DEVELOPMENT PROGRAMS. I WILL REVIEW A FEW OF THE YEAR'S KEY HIGHLIGHTS, WHICH POSITION US WELL FOR THE FUTURE, AND WHICH CLEARLY REFLECT HÉROUX-DEVTEK'S LEADING ROLE IN THE GLOBAL AEROSPACE MARKET.

Martin Brassard
Executive Vice-President
and Chief
Operating Officer

FINAL SURFACE TREATMENT PROCESS EXPECTED TO BE APPROVED IN Q1 OF FISCAL 2019 FOR 777 AND 777X CONTRACT

In fall 2017, we received customer certification in regards to an additional surface treatment process at our Strongsville, Ohio facility. We anticipate obtaining Boeing's approval for the final main surface treatment process in the first quarter of fiscal 2019. This will be a significant accomplishment for Héroux-Devtek.

In-sourcing of the related processing from our third-party suppliers will start gradually in the second quarter of fiscal 2019 and should be completed by the end of fiscal 2019. As a result, we anticipate the effect of margin enhancements to be fully realized in fiscal 2020.

We will effectively control our own destiny once the surface treatment process is entirely internalized, with a greater ability to control costs, quality and delivery requirements. This in-house expertise will allow us to comprehensively leverage the investments we have made in Héroux-Devtek's finishing and assembly facility in Strongsville, Ohio. As always, the support from our suppliers has been critical and very much appreciated.

TRANSITION TO THE BOEING 777X PROGRAM PROGRESSING

In addition to working towards obtaining the final surface treatment approval for the Boeing 777 program, our team has also been manufacturing a new landing gear configuration for the 777X variant while maintaining the current production schedule for the 777. In fact, in fiscal 2018 we delivered 42 shipsets of the 777 landing gear and expect to deliver the first 777X full shipset in the first quarter of fiscal 2019, in line with the

Boeing 777X

customer's schedule. This delivery will represent another significant milestone in our involvement with the 777 and 777X programs. Our company-wide concerted effort has generated tremendous pride among all members of our team.

TOWARD THE NEXT EXPANSION PHASE

We are excited about the upcoming closing of the CESA and Beaver acquisitions and to start the integration process. We have successfully completed several acquisitions in the past and have a solid track record of identifying and capturing cross-selling and operational synergies. For example, our investments in our Runcorn UK facility completed in 2017 led to improved customer service and operating efficiencies which surpassed our expectations. Our customers have indicated their appreciation of our efforts and of our state-of-the-art facility. This showcases our ability to bring the operations of our acquisitions in line with Heroux-Devtek's world-class standards. We are proud of our engaged and dynamic employees who worked hard to make this happen.

The successful integration of the Runcorn facilities has greatly improved its efficiency.

F-35

Gripen

KF-X

POSITIONED FOR GROWTH

Many programs involving Héroux-Devtek's proprietary products are on track and are advancing as expected, including the CH-53K, F-35, Gripen and KF-X. Furthermore, we recently signed an amended contract with Dassault Aviation for the design and manufacture of the Falcon 6X landing gear, which demonstrates the confidence that our customers have in our capabilities. These programs are all very promising and should generate strong revenues in years to come.

In March 2017, the U.S. Air Force decided not to renew our services. However, in May 2018, we were able to recapture a portion of the previous contract with a 4-year agreement with AAR Corporation estimated at over $65 million. This agreement also reconfirms Héroux-Devtek's status as a world leader in the R&O market for defence aircraft landing gear and highlights the diversity of our activities in the global defence aerospace market.

In addition, we have been persistently focused on winning new business, as we seek to capitalize on our fully-integrated product and service offering, leading-edge equipment and international network spanning two continents. We have the specialized teams, the resources and the available capacity to grow our business.

Combined with Héroux-Devtek's excellent reputation and a proven track record in the global aerospace market, we are well positioned to leverage our past investments and sign new contracts for several aircraft programs. We are working diligently towards executing our next expansion phase.

A word of thanks to our teams at our various facilities who have helped underline our expertise and further grow our global reputation. We are very proud of you all.

Martin Brassard
Executive Vice-President and
Chief Operating Officer

HÉROUX DEVTEK

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.

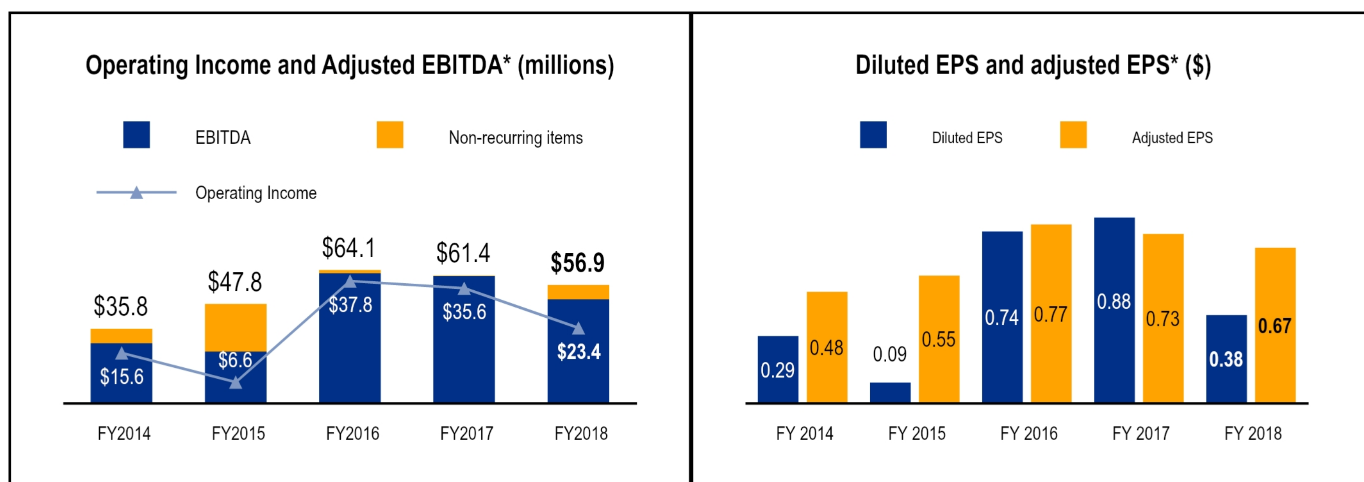
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity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

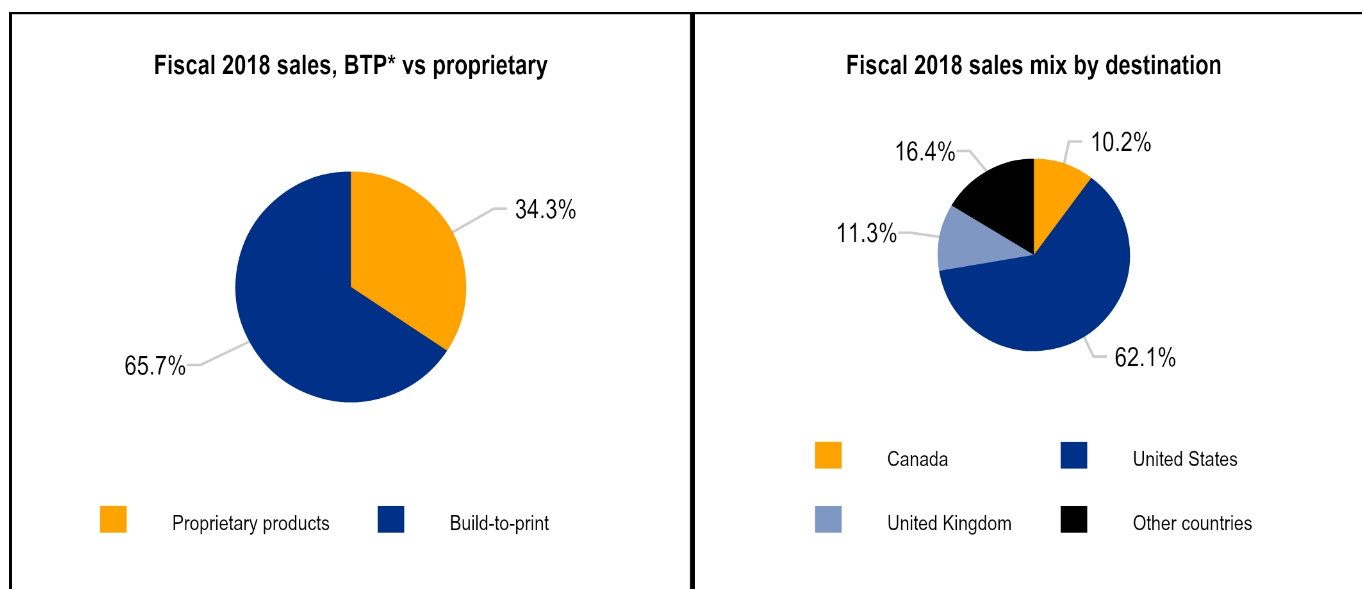
Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Lockheed Martin, Leonardo Helicopters and BAE Systems; to Tier 1 suppliers such as Safran Landing Systems; and to end users in the aftermarket where its largest customer is the US Air Force. In fiscal 2018, sales to these 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.

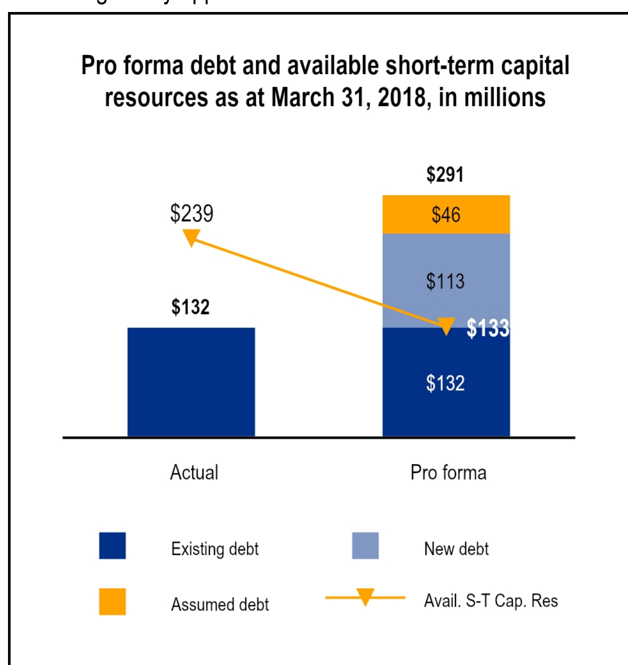
Acquisition Financing

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:

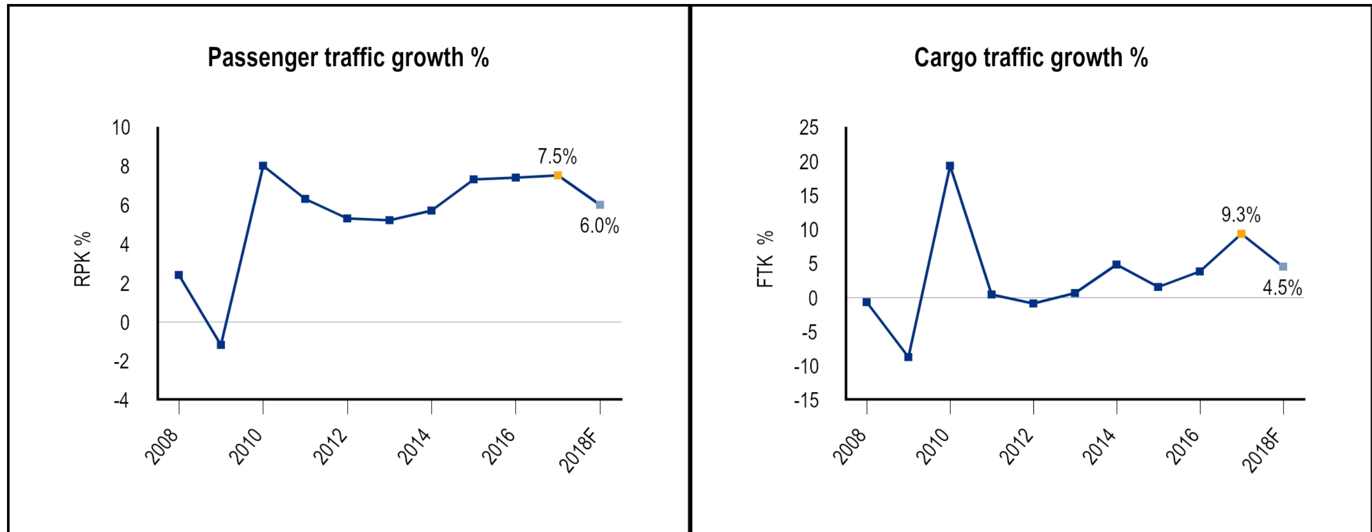
- Acquisitions close on March 31, 2018, under the pricing and financing terms described above;
- All outstanding cash is used to finance the transactions;
- Credit facility size is increased to $250 million as per above;

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.



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.

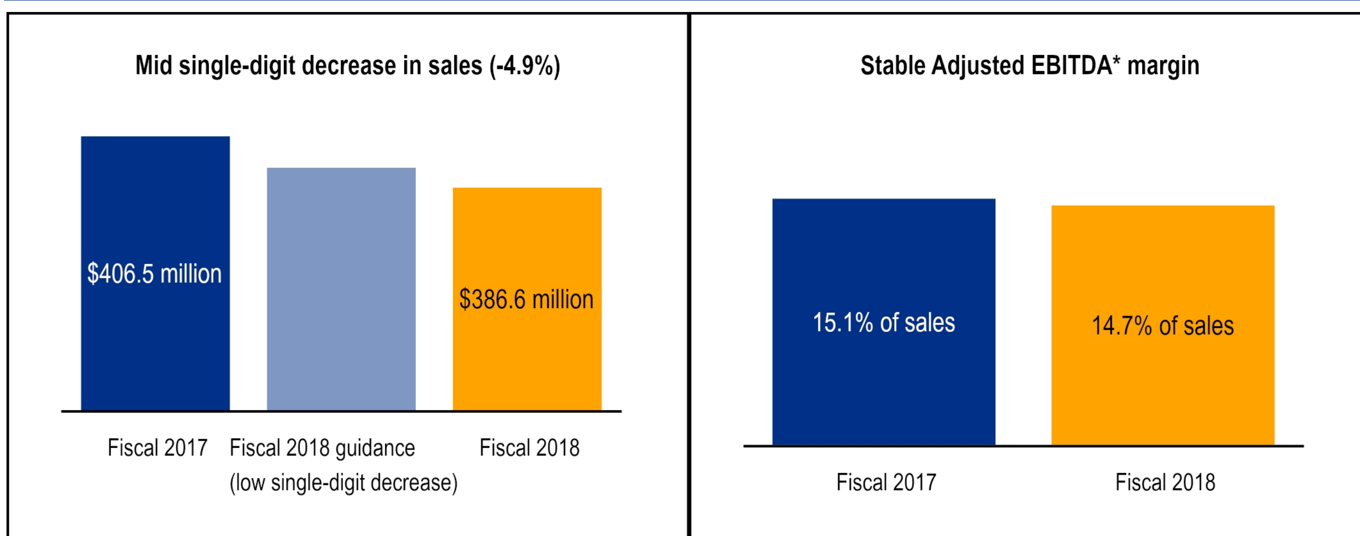
GUIDANCE

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**



***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

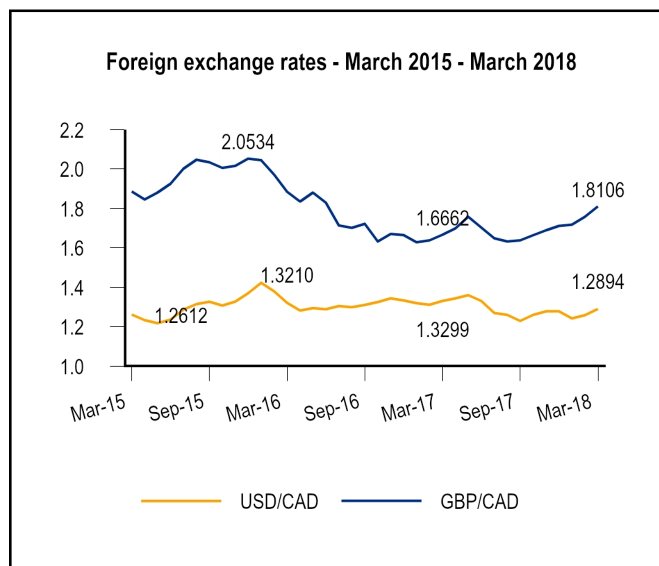
The foreign exchange rates used to translate revenues and expenses into Canadian dollars were as follows:

	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.

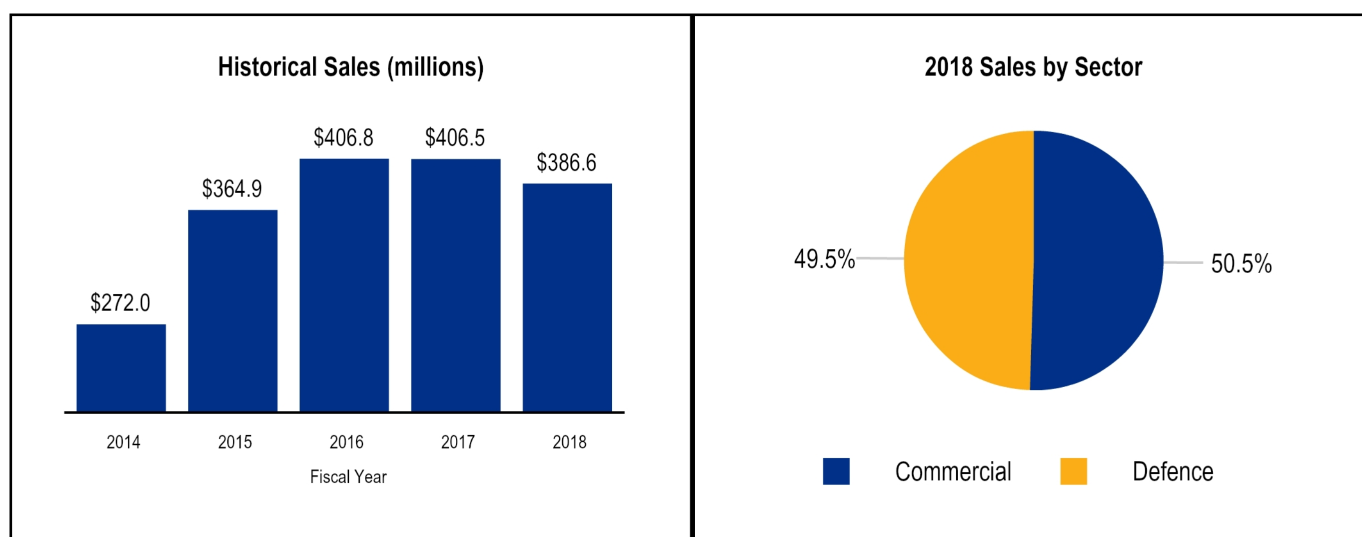
Foreign exchange had a net positive impact of 0.6% on Héroux-Devtek's gross margin, mainly related to the higher FX rate of FFEC delivered in fiscal 2018 as compared to fiscal 2017. As at March 31, 2018, a 1% strengthening of the CAD versus the USD would result in a $0.2 million decrease in the Corporation's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

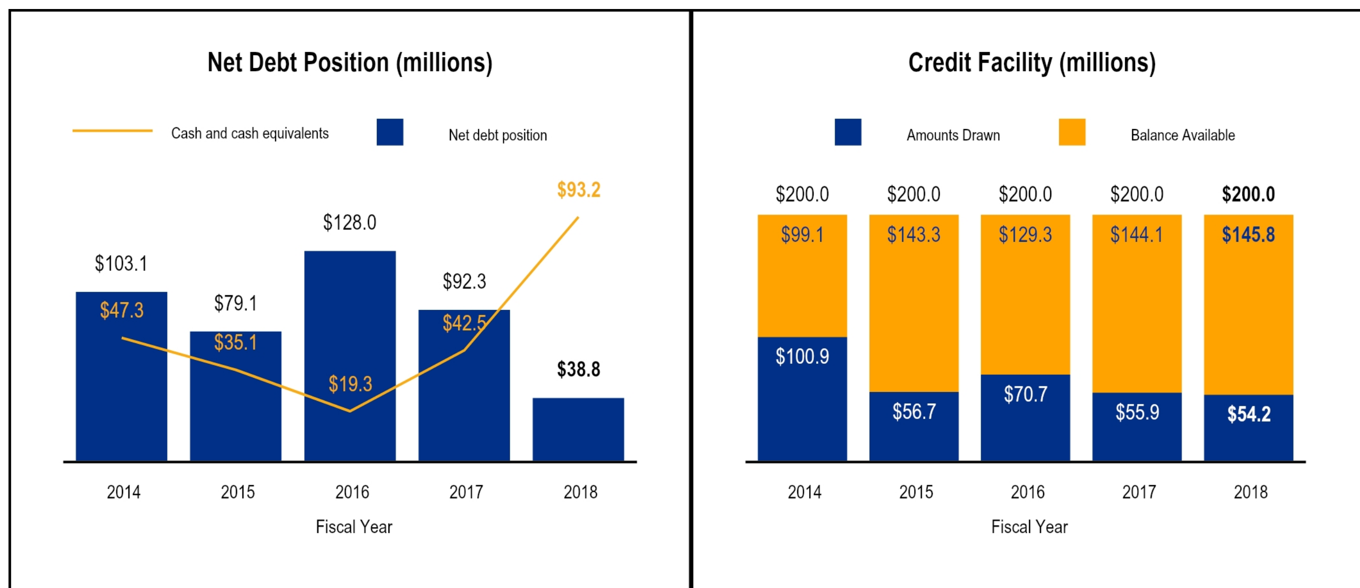
As at March 31, 2018, this Credit Facility allowed the Corporation and its subsidiaries to borrow up to $200.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies. It also included an accordion feature to increase the Credit Facility by an additional $100.0 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.

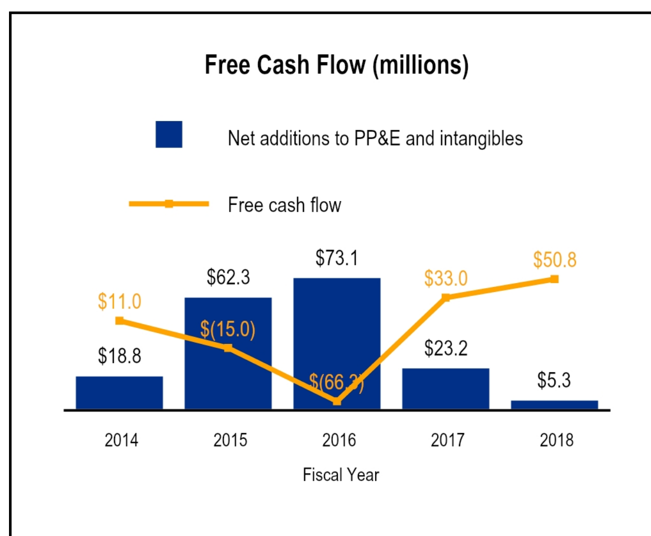
FREE CASH FLOW[1]

	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

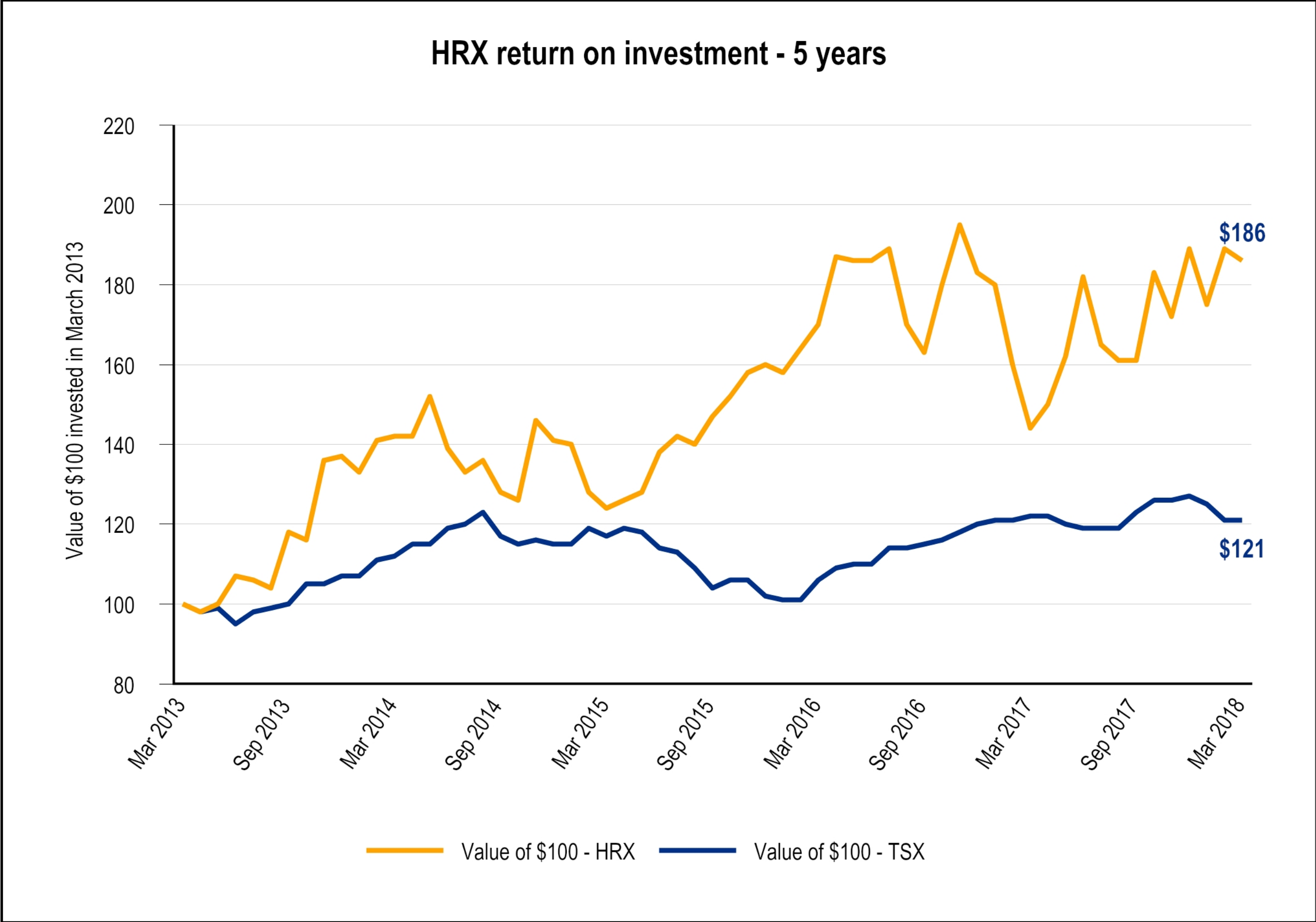
Héroux-Devtek's second quarter is usually slower than the others due to seasonality such as plant shutdowns and summer vacations, whereas the fourth quarter is usually the strongest.

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.

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HÉROUX DEVTEK

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
MARCH 31, 2018

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MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis ("MD&A") of Héroux-Devtek Inc. (the "Corporation") and all other information in this Annual Report are the responsibility of management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the consolidated financial statements. All figures presented in these consolidated financial statements are expressed in thousands of Canadian dollars unless otherwise indicated.

Héroux-Devtek Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting, the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as of the end of fiscal year 2018. As of March 31, 2018, management has concluded that the ICFR and DC&P effectively provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been disclosed in the consolidated financial statements and MD&A. Also, based on this assessment, the CEO and the CFO determined that there were no material weaknesses in the ICFR and DC&P. However, due to their inherent limitation, certain misstatements may not be prevented or detected by ICFR.

Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Regulation 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss ICFR and DC&P, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to Shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.

Gilles Labbé, FCPA, FCA
President and Chief Executive Officer

Stéphane Arsenault, CPA, CA
Chief Financial Officer

May 23, 2018

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

We have audited the accompanying consolidated financial statements of Héroux-Detek Inc., which comprise the consolidated balance sheets as at March 31, 2018 and 2017 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Héroux-Devtek Inc. as at March 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Québec
May 23, 2018

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

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2018	March 31, 2017
Assets	20		
Current assets			
Cash and cash equivalents		**$ 93,209**	$ 42,456
Accounts receivable		**73,469**	71,135
Income tax receivable		**1,412**	1,228
Inventories	11	**134,327**	143,866
Derivative financial instruments	12	**1,776**	3,509
Other current assets	13	**6,456**	7,365
		310,649	269,559
Property, plant and equipment, net	6, 14	**179,503**	192,847
Finite-life intangible assets, net	6, 15	**35,856**	45,467
Derivative financial instruments	12	**3,421**	292
Deferred income tax assets	24	**7,388**	9,964
Goodwill	16	**91,137**	86,049
Other long-term assets	13	**4,208**	3,108
Total assets		**$ 632,162**	$ 607,286
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	17	**$ 65,057**	$ 63,391
Accounts payable - other and other liabilities	18	**2,534**	2,556
Provisions	19	**16,869**	20,170
Customers advances		**12,577**	6,442
Progress billings		**2,945**	1,924
Income tax payable		**3,023**	1,106
Derivative financial instruments	12	**389**	2,055
Current portion of long-term debt	20	**5,356**	6,792
		108,750	104,436
Long-term debt	20	**125,685**	127,347
Provisions	19	**5,921**	6,398
Derivative financial instruments	12	**2,389**	508
Deferred income tax liabilities	24	**3,767**	5,942
Other liabilities	21	**6,616**	6,787
		253,128	251,418
Shareholders' equity			
Issued capital	22	**78,105**	77,217
Contributed surplus		**4,227**	3,735
Accumulated other comprehensive income	23	**14,217**	6,298
Retained earnings		**282,485**	268,618
		379,034	355,868
		$ 632,162	$ 607,286

Commitments and Contingencies (notes 26 and 27)

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors

Louis Morin
Director

Gilles Labbé
Director

CONSOLIDATED STATEMENTS OF INCOME

(In thousands of Canadian dollars, except per share data)

For the fiscal years ended March 31,	Notes	2018	2017
Sales		**$ 386,564**	$ 406,536
Cost of sales	6, 7, 11	**325,288**	338,567
Gross profit		**61,276**	67,969
Selling and administrative expenses	6, 7	**30,951**	32,089
Non-recurring items	9	**6,947**	328
Operating income		**23,378**	35,552
Net financial expenses (income)	8, 9	**2,537**	(546)
Income before income tax expense		**20,841**	36,098
Income tax expense	9, 24	**7,167**	4,330
Net income		**$ 13,674**	$ 31,768
Earnings per share – basic and diluted	10	**$ 0.38**	$ 0.88

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes		2018		2017
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from translating the financial statements of foreign operations	23	**$**	**5,860**	$	(11,435)
Cash flow hedges:	23				
Gains (losses) on valuation of derivative financial instruments			**4,450**		(3,378)
Net losses (gains) on derivative financial instruments transferred to net income			**(3,704)**		3,536
Deferred income taxes			**(201)**		(36)
			545		122
Gains (losses) on hedges of net investments in foreign operations	23		**1,701**		(1,310)
Deferred income taxes			**(187)**		133
			1,514		(1,177)
Items that are never reclassified to net income					
Defined benefit pension plans:	25				
Gains from remeasurement			**261**		5,078
Deferred income taxes			**(68)**		(1,355)
			193		3,723
Other comprehensive income (loss)		**$**	**8,112**	$	(8,767)
Comprehensive income					
Net income		**$**	**13,674**	$	31,768
Other comprehensive income (loss)			**8,112**		(8,767)
Comprehensive income		**$**	**21,786**	$	23,001

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2017	23	**$**	**77,217**	**$**	**3,735**	**$**	**6,298**	**$**	**268,618**	**$**	**355,868**
Common shares:	22										
Issued under the stock purchase and ownership incentive plan			590		—		—		—		590
Issued under the stock option plan			298		(116)		—		—		182
Stock-based compensation expense	22		—		608		—		—		608
Net income			—		—		—		13,674		13,674
Other comprehensive income			—		—		7,919		193		8,112
Balance as at March 31, 2018		**$**	**78,105**	**$**	**4,227**	**$**	**14,217**	**$**	**282,485**	**$**	**379,034**

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2016	23	**$**	**75,916**	**$**	**3,283**	**$**	**18,788**	**$**	**233,127**	**$**	**331,114**
Common shares:	22										
Issued under the stock purchase and ownership incentive plan			571		—		—		—		571
Issued under the stock option plan			730		(261)		—		—		469
Stock-based compensation expense	22		—		713		—		—		713
Net income			—		—		—		31,768		31,768
Other comprehensive income (loss)			—		—		(12,490)		3,723		(8,767)
Balance as at March 31, 2017		**$**	**77,217**	**$**	**3,735**	**$**	**6,298**	**$**	**268,618**	**$**	**355,868**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2018	2017
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		**$ 13,674**	$ 31,768
Items not requiring an outlay of cash:			
Amortization expense	14, 15	**26,579**	25,568
Deferred income taxes	24	**67**	(1,604)
Losses (gains) on sale of property, plant and equipment and software		**52**	(262)
Write-down of property, plant and equipment	9, 14	**886**	—
Non-cash net financial expenses (income)	8	**758**	(3,341)
Stock-based compensation expense	22	**608**	713
Cash flows from operations		**42,624**	52,842
Net change in non-cash items	28	**13,498**	3,306
Cash flows related to operating activities		**56,122**	56,148
Investing activities			
Additions to property, plant and equipment	14	**(9,930)**	(20,633)
Net decrease (increase) in finite-life intangible assets	15	**4,761**	(3,774)
Proceeds on disposal of property, plant and equipment		**173**	304
Cash flows related to investing activities		**(4,996)**	(24,103)
Financing activities			
Increase in long-term debt		**3,821**	23,021
Repayment of long-term debt		**(4,634)**	(32,797)
Fees incurred to renew the Credit Facility	20	**(524)**	—
Issuance of common shares	22	**772**	1,040
Cash flows related to financing activities		**(565)**	(8,736)
Effect of changes in exchange rates on cash and cash equivalents		**192**	(121)
Change in cash and cash equivalents during the year		**50,753**	23,188
Cash and cash equivalents, beginning of year		**42,456**	19,268
Cash and cash equivalents, end of year		**$ 93,209**	$ 42,456
Interest and income taxes reflected in operating activities:			
Interest paid		**$ 2,359**	$ 2,829
Interest received		**$ 580**	$ 34
Income taxes paid		**$ 5,282**	$ 3,609

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2018 and 2017

(In thousands of Canadian dollars, except per share data)

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 658, East Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic flight control actuators and fracture-critical components. It also includes the manufacture of electronic enclosures, heat exchangers and cabinets for airborne radar, electro-optic systems and aircraft controls through its Magtron operations as well as fluid filters products through its Bolton operations.

The Corporation operates as one reporting segment, which is the Aerospace segment.

NOTE 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for cash and cash equivalents and for derivative financial instruments that have been measured at fair value.

Statement of compliance
These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were approved for issue by the Board of Directors of the Corporation on May 23, 2018.

Reclassification of prior year presentation
Certain comparative figures have been reclassified to conform to the March 31, 2018 presentation.

Basis of consolidation
The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned. The principal wholly-owned subsidiaries included in these consolidated financial statements are the following:

Name	Location
Devtek Aerospace Inc.	Canada
HDI Landing Gear USA Inc.	United States
APPH Limited	United Kingdom

Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as Héroux-Devtek Inc., using consistent accounting policies.

All inter-company transactions and account balances are eliminated in full.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

A. Foreign currency

The consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation accounts for transactions in its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

The functional currency of Héroux-Devtek Inc. and of the Canadian operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar and the functional currency of the U.K. operations is the British pound. The functional currency is the currency that is representative of an operation's primary economic environment.

Conversion of transactions and account balances

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. All differences are included in the consolidated statements of income.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transactions.

Translation of financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the statements of income are translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

B. Cash and cash equivalents

Cash and cash equivalents comprise cash.

C. Inventories

Inventories include raw materials, direct labour and related manufacturing overhead costs.

Inventories consist of raw materials, work-in-progress and finished goods which are valued at the lower of cost (unit cost method except for certain raw materials that are valued at the weighted average cost method) and net realizable value.

The unit cost method is the cost method under which the actual production costs are charged to each unit produced and recognized in the consolidated statements of income as the unit is delivered. Estimates of net realizable value are based on the most reliable evidence available of the amount for which the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

D. Property, plant and equipment

Assets acquired

Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see H). Such cost may include the cost of replacing a major part of the property, plant and equipment and, in this situation, the carrying amount of the replaced part is derecognized. Cost also includes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (see F).

Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

- Buildings and leasehold improvements - 5 to 50 years,
- Machinery and equipment - 3 to 25 years,
- Tooling related to specific contracts - based on pre-determined contract quantities, not exceeding the lower of ten years or the useful life. Contract quantities are assessed at the beginning of the production stage considering, among other factors, existing firm orders and options. The Corporation's management conducts quarterly and annual reviews of the contract quantities,
- Standard and general tooling - 3 to 5 years,
- Automotive equipment - 3 to 10 years,
- Computer and office equipment - 3 to 5 years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the net carrying amount of the asset) is included in the consolidated statements of income in the fiscal year the asset is derecognized. The asset's residual value, useful life and method of amortization are reviewed and adjusted annually at year-end, or when warranted by specific circumstances.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to section L of this note and *note 4 - Significant accounting estimates and assumptions* for further information about provisions for asset retirement obligations.

Assets leased

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the Corporation. A finance lease is capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments are apportioned between interest expense and the reduction of the lease obligation. Interest expense is reflected in the consolidated statements of income. Capitalized leased assets are accounted for in the categories of property, plant and equipment corresponding to their nature. Capitalized leased assets are amortized over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments are recognized as an expense as incurred.

E. Finite-life intangible assets

Finite-life intangible assets include capitalized development costs, customer relationships and contracts and software. They are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

Finite-life intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for finite-life intangible assets are reviewed at each fiscal year-end or when warranted by specific circumstances. Changes in the expected useful life or the expected pattern of consumption of future economic benefits associated with finite-life intangible assets are accounted for as changes in accounting estimates.

The gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the net carrying amount of the asset and is recognized in the consolidated statements of income.

Development costs

Development costs of an individual sales contract are capitalized as an intangible asset when the Corporation can demonstrate:

- the feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development and to use or sell the intangible asset; and,
- the ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Capitalized development costs (design engineering, manufacturing engineering costs and other related costs) related to sales contracts are amortized based on predetermined expected quantities to be sold. They are presented net of related government assistance and amounts contributed by customers.

The expected quantities to be sold are established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders and options. The Corporation's management conducts quarterly reviews as well as a detailed annual review in the fourth quarter of the contract quantities, its capitalized development costs and their recoverability.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use. Usually, the development phase represents a period of 4 to 7 years. During the period of development, the asset is tested for impairment annually.

Customer relationships and contracts

Customer relationships and contracts are amortized on a straight-line basis over the estimated useful life of the related customer relationship and contracts, which represents a period of up to 12 years.

Software
Software is amortized over 3 to 7 years.

F. Borrowing costs

Borrowing costs are recognized as an expense when incurred, except when they are capitalized as part of the cost of a qualifying asset. Borrowing costs are capitalized when the Corporation:

- incurs expenditures for the asset;
- incurs borrowing costs; and
- undertakes activities that are necessary to prepare the asset for its intended use or sale, to the extent that these activities are performed over a period exceeding the normal operating cycle of the Corporation (12 months).

Conversely, the Corporation ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of a business combination is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition-related costs associated with the business combinations are expensed as incurred.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

H. Impairment of goodwill and other non-financial assets

Goodwill is tested for impairment annually on March 31 or when warranted by specific circumstances. A prior year's impairment test may be used in the annual impairment test when specific criteria are met. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent budget and strategic plan, which cover five years, approved by the Corporation's management and Board of Directors. These future cash flows consider each CGU's past performance, market share, economic trends, specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this five-year period. The perpetual growth rate is determined with regard to the specific markets in which the CGU participates. The discount rate used by the Corporation for cash flows is a pre-tax rate based on the weighted-average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risks specific to the assets. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For non-financial assets other than goodwill, the Corporation assesses at each reporting date whether there is an indication that the carrying amount may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the CGU's value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

For non-financial assets other than goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of income.

I. Financial assets

Initial recognition

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss ("FVTPL"), loans and receivables ("L&R") or effective hedging instruments ("Hedges").

When financial assets are recognized initially, they are measured at fair value, plus in the case of a financial asset other than FVTPL, the directly attributable transaction costs. Purchases and sales of financial assets are recognized on the transaction date, which is the date that the Corporation commits to purchase or sell the assets.

FVTPL

FVTPL are acquired for the purpose of selling in the near term. They include cash and cash equivalents and derivative financial instruments, except those that are designated as Hedges. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract.

L&R

L&R are non-derivative financial assets with fixed or determinable payments not quoted in an active market. L&R are mainly comprised of accounts receivable. L&R are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated statements of income. In the event that there is objective evidence that an impairment loss on L&R has been incurred (such as the probability of insolvency or significant financial difficulties of the debtor), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance for doubtful accounts and the loss is recognized in the consolidated statements of income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance for doubtful accounts. Any subsequent reversal of an impairment loss is recognized in the consolidated statements of income.

Hedges

These include forward foreign exchange contracts and interest rate swap agreements. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income.

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

J. Financial liabilities

Liabilities at fair value

Financial liabilities classified at fair value through profit or loss (FVTPL) are comprised of derivative financial instruments, except those that are designated as Hedges. They are carried at fair value with gains and losses recognized in the consolidated statements of income. Gains and losses on Hedges are recognized in other comprehensive income.

Other financial liabilities

All debts, accounts payable and accrued liabilities are initially recognized at fair value less directly attributable transaction costs when they have not been designated as FVTPL.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation underlying the liability is discharged, cancelled or has expired.

K. Derivative financial instruments and hedges

Derivative financial instruments

The Corporation uses derivative financial instruments such as forward foreign exchange contracts, interest rate swap agreements, cross-currency interest rate swap agreements and equity swap agreements to hedge its risks associated with foreign currency, interest rate and other price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Cash flow hedges

For the purpose of hedge accounting, all hedges are classified as cash flow hedges except for hedges of net investments in foreign operations (see below). Hedging exposure to variability in cash flows is attributable to a risk associated with a recognized liability or a highly probable forecast transaction in foreign currency.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed quarterly to determine that they actually have been highly effective throughout the designated periods.

The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income. Amounts recognized in other comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. In the event that the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in accumulated other comprehensive income are transferred to the consolidated statements of income.

Hedges of net investments in foreign operations

The Corporation designates certain long-term debt as a hedge of its net investments in foreign operations. The portion of gains or losses from the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recorded in the consolidated statements of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statements of income upon disposal of the related net investments.

L. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) 1) as a result of a past event; 2) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and, 3) when a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statements of income, net of any reimbursement.

If the known expected settlement date exceeds twelve months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

Onerous contracts

These represent anticipated negative margins on sales contracts in progress or in the funded backlog (firm customer purchase orders).

Asset retirement obligations

The Corporation's asset retirement obligations mainly consist of environmental rehabilitation costs related to one of the Corporation's manufacturing sites in Canada. The present value of these obligations is measured in the year in which they are identified and when a reasonable estimate of their present value can be made. The present value of the obligations is determined as the sum of the estimated discounted future cash flows of the costs associated with the legal obligations for future rehabilitation. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives. The discount fluctuation is expensed as incurred and recognized in the consolidated statements of income as financial expenses. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are recognized in the consolidated statements of income as changes occur.

Product warranty

This provision covers the cost of known or anticipated defects on products under terms of warranties.

Litigations and other
Due to the nature of its business activities including the purchase or sale of businesses, the Corporation is exposed to the risks of technical and business litigations. On the basis of information at its disposal at the reporting date, the Corporation carried out a review of the financial risks to which the Corporation could be exposed. The recorded provision covers the risks associated with these litigations.

Restructuring provisions are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create a constructive obligation. Restructuring provisions include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations.

M. Progress billings

Progress billings represent amounts received from customers for costs incurred on specific contracts. These amounts are reversed to sales at such time as the related units are delivered and billed to customers.

N. Deferred financing costs

Deferred financing costs related to long-term debt are amortized using the effective interest rate method over a five-year period which represents the duration of the related long-term debt.

O. Pensions and other retirement benefits

The Corporation has defined contribution pension plans as well as funded and unfunded defined benefit pension plans that provide pension benefits to its employees. The current and past service costs of these pension plans are recorded within the cost of sales and selling and administrative expenses under "Employee costs" in the consolidated statements of income while the administrative costs related to these pension plans are included in selling and administrative expenses. The net interest income or expense on the net surplus or deficit is recorded in financial expenses.

The actuarial determination of the defined benefit obligations for pensions uses the projected unit credit method which incorporates management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees, discount rates and other actuarial factors.

The Pension and other retirement benefit plans liabilities included in Other liabilities in the consolidated balance sheets represent the present value of the defined benefit obligations reduced by the fair value of plan assets.

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

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

P. Share-based payments

Stock option plan
The Corporation has a stock option plan in which options to purchase common shares are issued to officers and key employees. The Corporation uses a binomial valuation model to determine the fair value of stock options when granted. The resulting fair value is amortized to income over their earned period using the graded amortization method. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in contributed surplus.

Stock purchase and ownership incentive plan
The Corporation has a stock purchase and ownership incentive plan allowing key members of management to subscribe, by payroll deductions of a maximum of 10% of their annual base salary, to a number of common shares issued by the Corporation. The subscription price of the common shares represents 90% of the average closing quoted price (based on the five preceding days) of the Corporation's common share on the Toronto Stock Exchange ("TSE"). Common shares thus issued are accounted for as issued capital. The Corporation matches 50% of such employee contributions in the form of additional common shares acquired on the TSE at market price. The Corporation's matching award cannot exceed 4% of the employee's annual base salary. Common shares purchased by the Corporation on behalf of the employee are accounted for in selling and administrative expenses.

Deferred share unit ("DSU") plan

The Corporation has a DSU plan under which rights are issued to its non-employee directors. The DSU enables the participants to receive compensation at the end of their mandate as a member of the Board of Directors, representing a cash amount equal to one time the quoted price of the Corporation's common share for each DSU.

These DSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 100% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the DSUs are exercised and paid at the end of each director's mandate.

Performance share unit ("PSU") plan

The Corporation has a PSU plan as part of the incentive plan for management and key employees. PSUs vest over a period of three years. The PSU enables the participants to receive compensation at the expiry or termination date representing a cash amount equal to the quoted price of the Corporation's common share for each PSU vested, conditional on the achievement of certain financial targets.

PSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the PSUs are paid or cancelled at the expiry or termination date.

Q. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding sales tax and duties. However specific recognition criteria must also be met before revenue is recognized. Revenue from the sale of goods, which includes repair and overhaul works, is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, the sales price is determinable and collectability is reasonably assured. Generally these conditions are met upon delivery of goods.

R. Government assistance

Government assistance, which mainly includes investment and other tax credits, grants and the discount portion of the governmental authorities loans, is recognized when there is reasonable assurance that it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs that it is intended to subsidize. Where government assistance relates to an asset, it is deducted from the cost of the related asset.

Forgivable loans from governmental authorities are accounted for as government assistance when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Benefits derived from government authority loans with below-market interest rates are measured at the inception of the loans as the difference between the cash received and the amount at which the loans are initially recognized in the consolidated balance sheet. At initial recognition, the fair value of a loan with a below-market rate of interest is estimated at the present value of all future cash disbursements, discounted using a prevailing market rate of interest for a similar instrument with a similar credit rating.

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

S. Income taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income.

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible and taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all other deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date. Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in shareholders' equity is recognized directly in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. All deferred income tax assets and liabilities are classified as non-current.

Sales tax

Sales, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of sales tax included, if applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other current assets or accounts payable and accrued liabilities in the consolidated balance sheet.

T. Earnings per share

The earnings per share amounts are determined using the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share takes into consideration the exercise of all dilutive elements. This method assumes that the proceeds of the Corporation's in-the-money stock options would be used to purchase common shares at the average market price during the year.

U. Future changes in accounting policies

IFRS 9 - Financial Instruments

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

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

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

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

The Corporation 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.

NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

A. Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that may enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation. The key assumptions used to determine the recoverable amount of the CGUs, including sensitivity analysis, are further explained in note 16.

B. Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

C. Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 25.

D. Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in note 3. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and contract quantities. For purpose of impairment testing, the Corporation exercises judgment to identify the cash inflows and outflows. The recoverable amount is based on fair value less costs of disposal, generally determined using a discounted cash flow model. Other assumptions used to determine the recoverable amount include the applicable discount rate and the expected future cash flows which include costs to complete the development activities.

E. Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

F. Government authorities loans

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

NOTE 5. BUSINESS ACQUISITIONS

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, for €140,000 ($222,000). 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 €94,000 ($149,000). Its main product lines include landing gear, actuation and hydraulic systems.

The transaction will be financed through:

- A $50,000, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- The assumption of debt amounting to approximately $46,000;
- The Corporation's existing credit facility, whose limit will be increased to a fully committed amount of $250,000; and,
- The Corporation's available cash balance.

Closing of the transaction is expected during the Corporation's second quarter of fiscal 2019 and is subject to certain approvals, including authorization by the Spanish Council of Ministers.

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$23,500 ($30,000). 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.

These transactions expose the Corporation to new foreign exchange and interest rate risks. Refer to note 32 for further information on these risks and how they are being mitigated. In connection with these acquisitions, the Corporation incurred acquisition-related costs which are presented in note 9.

NOTE 6. GOVERNMENT ASSISTANCE

Government assistance deducted from the cost of the related assets or recognized as a reduction of expenses, was as follows, for fiscal year:

	2018	2017
Finite-life intangible assets	$ 332	$ 197
Property, plant and equipment	619	1,499
Cost of sales and, selling and administrative expenses	1,929	2,828

Government assistance includes research and development tax credits, other credits and grants.

NOTE 7. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows, for fiscal year:

	2018	2017
Raw materials and purchased parts	$ 140,361	$ 144,135
Employee costs	126,292	135,769
Amortization of property, plant and equipment and finite-life intangible assets (notes 14, 15)	26,579	25,568
Others	63,007	65,184
	$ 356,239	$ 370,656

Foreign exchange gains or losses resulting from the translation of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. During the fiscal year ended March 31, 2018, the foreign exchange gain amounted to $148 ($2,874 in 2017).

NOTE 8. NET FINANCIAL EXPENSES (INCOME)

Net financial expenses (income) comprise the following, for fiscal year:

	2018	2017
Interest accretion on governmental authorities loans	$ 2,300	$ 2,253
Net losses on certain derivative financial instruments (note 9)	344	—
Revision of governmental authorities loans repayment estimates (notes 9, 20)	(1,834)	(6,375)
Interest on net defined benefit obligations (note 25)	153	330
Amortization of deferred financing costs	238	319
Other non-cash financial expenses (income)	(443)	132
Non-cash net financial expenses (income)	758	(3,341)
Interest expense	2,299	2,447
Net gains on certain derivative financial instruments (note 9)	(255)	—
Standby fees	315	382
Interest income on cash and cash equivalents	(580)	(34)
	$ 2,537	$ (546)

NOTE 9. NON-RECURRING ITEMS

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

		2018		2017
Non-recurring items in operating income				
Restructuring charges	**$**	**4,990**	$	3,634
Acquisition-related costs		**1,957**		—
Gain on settlement of a litigation		**—**		(5,247)
Legal and other professional fees		**—**		1,941
	$	**6,947**	$	328
Non-recurring items in net financial expenses (income)				
Net losses on certain derivative financial instruments	**$**	**89**	$	—
Revision of governmental authorities loans repayment estimates		**—**		(6,375)
	$	**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 U.S. Air Force contract. These adjustments along with other costs related to the decrease in volume resulted in restructuring charges totaling $4,990 accounted for during the quarter, including termination benefits of $2,729 and other costs related to the reduction in volume totaling $2,261. The unpaid portion of these restructuring charges, which amounted to $2,545 as at March 31, 2018, is included in other liabilities and short-term provisions on the Corporation's consolidated balance sheet. Refer to note 19, under caption *Other*.

In February 2017, following production rate reductions for certain aircraft programs announced by OEMs, the Corporation 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 $3,634, mainly comprised of employee-related costs.

Acquisition-related costs

During fiscal year 2018, the Corporation's incurred acquisition-related costs of $1,957. These costs mainly pertain to professional fees and expenses in connection with the agreements to acquire CESA and Beaver. Refer to note 5 for further details.

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. During fiscal 2017, the Corporation reached an agreement outside of arbitration with the counterparty resulting in a favourable $US 4,000 ($5,247) settlement. Non-recurring legal and other professional fees incurred during fiscal 2017 totaled $1,941.

Net losses on certain derivative financial instruments

These losses are related to certain financial instruments acquired in order to mitigate foreign currency and interest rate risks related to the purchase price and financing of CESA. Refer to note 32 for further details.

Government authorities loans

Refer to note 20 for details regarding the revision of assumptions underlying the valuation of government authorities loans during fiscal 2017.

Other tax impact from non-recurring items

During fiscal year 2018, the Corporation income tax expense included a tax rate adjustment related to the US Tax Reform of $4,912. Refer to note 24 for further details.

NOTE 10. EARNINGS PER SHARE

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

	2018	2017
Weighted-average number of common shares outstanding	**36,154,272**	36,071,025
Effect of dilutive stock options of the Corporation	**177,342**	213,282
Weighted-average number of common diluted shares outstanding	**36,331,614**	36,284,307
Options excluded from diluted earnings per share calculation[1]	**356,500**	113,000

[1] *Excluded from diluted earnings per share calculation due to anti-dilutive impact.*

NOTE 11. INVENTORIES

As at	**March 31, 2018**	March 31, 2017
Raw materials	**$ 62,902**	$ 63,879
Work-in-progress	**69,118**	76,662
Finished goods	**2,307**	3,325
	$ 134,327	$ 143,866

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2018 is $267,753 ($284,689 in 2017).

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

	2018	2017
Reserves recognized as cost of sales	**$ 7,312**	$ 8,502
Reversal of prior-period reserves	**13,639**	12,364

For fiscal year 2018, the reversal of prior-period reserves includes charges of $5,568 ($5,411 in 2017) for products delivered or written-off during the year for which a net realizable value reserve was recorded in prior years with no effect on income. It also includes the results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts and production costs. The revaluation takes into consideration the variations in selling price and number of units to deliver for contracts signed and also the reduction in production costs resulting from improvements in manufacturing processes.

NOTE 12. DERIVATIVE FINANCIAL INSTRUMENTS

As at	March 31, 2018		March 31, 2017	
Current Assets				
Forward foreign exchange contracts	**$**	**1,776**	$	1,766
Equity swap agreement		**—**		1,743
	$	**1,776**	$	3,509
Long-term Assets				
Forward foreign exchange contracts	**$**	**1,172**	$	292
Equity swap agreement		**2,249**		—
	$	**3,421**	$	292
Current Liabilities				
Forward foreign exchange contracts	**$**	**382**	$	1,905
Interest rate swap agreements		**7**		150
	$	**389**	$	2,055
Long-term Liabilities				
Forward foreign exchange contracts	**$**	**76**	$	396
Cross-currency interest-rate swap agreements		**2,313**		112
	$	**2,389**	$	508

NOTE 13. OTHER ASSETS

As at	March 31, 2018		March 31, 2017	
Investment and other tax credits receivable	**$**	**523**	$	1,371
Sales tax receivable		**1,676**		1,028
Prepaid expenses		**3,614**		3,917
Others		**643**		1,049
Other current assets	**$**	**6,456**	$	7,365
Tax credits receivable		**3,165**		3,108
Others		**1,043**		—
Other long-term assets	**$**	**4,208**	$	3,108

NOTE 14. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2017	$ 6,502	$ 90,553	$ 233,182	$ 14,607	$ 4,915	$ 349,759
Additions	—	1,034	10,984	1,299	(2,626)	10,691
Government assistance (note 6)	—	(15)	(557)	(47)	—	(619)
Retirements and disposals	—	(1,018)	(7,078)	(1,244)	—	(9,340)
Effect of changes in exchange rates	(2)	(465)	(1,120)	(41)	19	(1,609)
As at March 31, 2018	$ 6,500	$ 90,089	$ 235,411	$ 14,574	$ 2,308	$ 348,882
Accumulated amortization:						
As at March 31, 2017	$ —	$ 26,769	$ 121,797	$ 8,346	$ —	$ 156,912
Amortization expense	—	3,770	15,234	1,811	—	20,815
Write-down (note 9)	—	—	886	—	—	886
Retirements and disposals	—	(1,005)	(6,979)	(1,169)	—	(9,153)
Effect of changes in exchange rates	—	(102)	43	(22)	—	(81)
As at March 31, 2018	$ —	$ 29,432	$ 130,981	$ 8,966	$ —	$ 169,379
Net book value as at March 31, 2018	**$ 6,500**	**$ 60,657**	**$ 104,430**	**$ 5,608**	**$ 2,308**	**$ 179,503**

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2016	$ 6,530	$ 75,660	$ 231,424	$ 13,184	$ 14,448	$ 341,246
Additions	—	14,921	13,918	1,512	(9,457)	20,894
Government assistance (note 6)	—	(127)	(1,363)	(9)	—	(1,499)
Retirements and disposals	—	(415)	(10,927)	(107)	—	(11,449)
Effect of changes in exchange rates	(28)	514	130	27	(76)	567
As at March 31, 2017	$ 6,502	$ 90,553	$ 233,182	$ 14,607	$ 4,915	$ 349,759
Accumulated amortization:						
As at March 31, 2016	$ —	$ 23,731	$ 117,625	$ 6,747	$ —	$ 148,103
Amortization expense	—	3,472	15,077	1,684	—	20,233
Retirements and disposals	—	(476)	(10,824)	(107)	—	(11,407)
Effect of changes in exchange rates	—	42	(81)	22	—	(17)
As at March 31, 2017	$ —	$ 26,769	$ 121,797	$ 8,346	$ —	$ 156,912
Net book value as at March 31, 2017	**$ 6,502**	**$ 63,784**	**$ 111,385**	**$ 6,261**	**$ 4,915**	**$ 192,847**

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

	2018	2017
Gross additions	**$ 10,691**	$ 20,894
Government assistance (note 6)	**(619)**	(1,499)
Additions to property, plant and equipment	**10,072**	19,395
Variation in unpaid additions included in Accounts payable - other and other liabilities at year-end (note 18)	**(142)**	1,238
Additions, as per statements of cash flows	**$ 9,930**	$ 20,633

As at March 31, 2018, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to $40,151 ($40,184 as at March 31, 2017) with accumulated amortization of $6,847 ($4,038 as at March 31, 2017).

As at March 31, 2018 and 2017, construction in progress included mainly the cost related to machinery and equipment. As at March 31, 2018, the cost of property, plant and equipment still in use and fully depreciated is $87,188 ($84,826 as at March 31, 2017).

NOTE 15. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2017	$ 37,073	$ 17,773	$ 23,918	$ 78,764
Additions	1,053	1,523	—	2,576
Customers funding	(7,005)	—	—	(7,005)
Government assistance (note 6)	—	(332)	—	(332)
Retirements and disposals	—	(520)	—	(520)
Effect of changes in exchange rates	39	197	1,486	1,722
As at March 31, 2018	$ 31,160	$ 18,641	$ 25,404	$ 75,205
Accumulated amortization:				
As at March 31, 2017	$ 10,907	$ 12,902	$ 9,488	$ 33,297
Amortization expense	586	1,683	3,495	5,764
Retirements and disposals	—	(482)	—	(482)
Effect of changes in exchange rates	—	49	721	770
As at March 31, 2018	$ 11,493	$ 14,152	$ 13,704	$ 39,349
Net book value as at March 31, 2018	**$ 19,667**	**$ 4,489**	**$ 11,700**	**$ 35,856**

		Capitalized development costs		Software		Customer relationships and contracts		Total
Cost:								
As at March 31, 2016	$	35,365	$	16,211	$	26,061	$	77,637
Additions		2,026		2,265		—		4,291
Customers funding		(320)		—		—		(320)
Government assistance (note 6)		—		(197)		—		(197)
Retirements and disposals		—		(295)		—		(295)
Effect of changes in exchange rates		2		(211)		(2,143)		(2,352)
As at March 31, 2017	$	37,073	$	17,773	$	23,918	$	78,764
Accumulated amortization:								
As at March 31, 2016	$	10,122	$	11,865	$	6,905	$	28,892
Amortization expense		785		1,339		3,211		5,335
Retirements and disposals		—		(295)		—		(295)
Effect of changes in exchange rates		—		(7)		(628)		(635)
As at March 31, 2017	$	10,907	$	12,902	$	9,488	$	33,297
Net book value as at March 31, 2017	**$**	**26,166**	**$**	**4,871**	**$**	**14,430**	**$**	**45,467**

NOTE 16. GOODWILL

Goodwill varied as follows, during fiscal year:

		2018		2017
Balance at beginning of the year	**$**	**86,049**	$	93,253
Effect of changes in exchange rates		**5,088**		(7,204)
Balance, end of year	**$**	**91,137**	$	86,049

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

		March 31, 2018		March 31, 2017
Aerospace - Landing Gear CGU	**$**	**87,282**	$	82,301
Aerospace - Other CGUs		**3,855**		3,748
Goodwill	**$**	**91,137**	$	86,049

The following key assumptions were used to determine recoverable amounts for the impairment tests performed as at March 31, 2018:

	Pre-tax discount rate	Perpetual growth rate
Aerospace - Landing Gear CGU	15.0%	2.8%
Aerospace - Other CGUs	15.5% and 16.2%	2.8%

Sensitivity of recoverable amounts

The following table presents, for each CGU, the change in the discount rate or in the perpetual growth rate used in the most recently performed tests that would have been required to recover the carrying amount of the CGU as at March 31, 2018:

	Incremental increase in pre-tax discount rate	Incremental decrease in perpetual growth rate
Aerospace - Landing Gear CGU	1.6%	1.5%
Aerospace - Other CGUs	0.1% and 24%	0.1% and -%

NOTE 17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2018	March 31, 2017
Trade payables [1]	**$ 41,645**	$ 40,966
Accrued liabilities [2]	**23,412**	22,425
Accounts payable and accrued liabilities	**$ 65,057**	$ 63,391

[1] *Trade payables are normally settled on 30 to 60 day terms.*

[2] *Accrued liabilities mainly include employees-related liabilities.*

NOTE 18. ACCOUNTS PAYABLE - OTHER AND OTHER LIABILITIES

As at	March 31, 2018	March 31, 2017
Unpaid machinery and equipment	**$ 2,364**	$ 2,222
Deferred revenue	**154**	129
Other payables	**16**	205
Accounts payable - other and other liabilities	**$ 2,534**	$ 2,556

NOTE 19. PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Other (notes 9, 26)	Total
As at March 31, 2017	$ 110	$ 6,056	$ 8,409	$ 11,993	$ 26,568
Arising during the year (note 9)	199	118	1,238	3,122	4,677
Interest accretion expense	—	139	—	—	139
Utilized	(70)	(110)	(892)	(4,214)	(5,286)
Reversed	—	—	(1,679)	(1,627)	(3,306)
Discount rate adjustment	—	(433)	—	—	(433)
Effect of changes in exchange rates	4	—	380	47	431
As at March 31, 2018	**$ 243**	**$ 5,770**	**$ 7,456**	**$ 9,321**	**$ 22,790**
Less: current portion	243	—	7,456	9,170	16,869
Long-term portion	**$ —**	**$ 5,770**	**$ —**	**$ 151**	**$ 5,921**

NOTE 20. LONG-TERM DEBT

As at	March 31, 2018	March 31, 2017
Senior Secured Syndicated Revolving Credit Facility ("Credit Facility")	**$ 54,155**	$ 55,856
Governmental authorities loans	**52,540**	49,133
Obligations under finance leases	**25,269**	29,787
Deferred financing costs, net	**(923)**	(637)
	131,041	134,139
Less: current portion	**5,356**	6,792
Long-term debt	**$ 125,685**	$ 127,347

Credit Facility

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

As at	March 31, 2018	March 31, 2017
Limit, in Canadian, US$, Euro or British Pound equivalent (1)	**$ 200,000**	$ 200,000
US$ Drawings		
Amount	**US$ 42,000**	US$ 42,000
Rate	**Libor + 1.125%**	Libor + 1.4%
Effective rate	**3.0%**	2.4%

(1) Includes an accordion feature to increase the Credit Facility up to $300 million during the term of the credit agreement, subject to lenders' approval.

During fiscal 2018, the Corporation reached an agreement with its syndicate of banks to extend the term of the Credit Facility through May 24, 2022. The authorized amount remains $200,000 and most other key terms remain unchanged, though the amount of the accordion feature, which is subject to lenders approval, has increased from $75,000 to $100,000. Financing costs totaling $524 were deferred and are amortized over the term of the related loans using the effective interest rate method. The Credit Facility is secured by all assets of the Corporation and its subsidiaries.

Governmental authorities loans

Governmental authorities loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under certain federal and provincial industrial programs to promote industry development.

These loans have 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 and 2017, the following adjustments were made to these assumptions:

As at March 31, 2018, the Corporation updated the estimated repayment schedule for certain of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts. This resulted in a non-cash gain of $1,834, which was included in Net financial expenses (income) (see note 8).

As at March 31, 2017, the Corporation updated the estimated repayment schedule for one of its government authorities loans, mainly taking into account an agreement with the related government authority extending the duration of the investment period of the loan by three years. These adjustments resulted in a non-cash gain of $6,375 which were included in Net financial expenses (income) (see note 8) and classified by management as a Non-recurring item (see note 9).

Governmental authorities loans usually bear no or below-market interest. They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as a financial expense.

The effective interest rates for these loans were in the range of 2.2% to 7.2% as at March 31, 2018 (2.5% to 7.2% as at March 31, 2017).

Finance leases

Obligations under finance leases bear fixed interest rates between 2.4% and 3.7% as at March 31, 2018 and March 31, 2017, maturing from July 2019 to December 2023, with amortization periods of approximately seven years, secured by the related property, plant and equipment, net of interest of $1,928 ($2,178 as at March 31, 2017).

Covenants

Long-term debt is subject to certain general and financial covenants related, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with all covenants during the fiscal year ended March 31, 2018.

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Fiscal years	Finance leases	Governmental authorities loans	Credit Facility	Total
2019	$ 5,839	$ 208	$ 1,625	$ 7,672
2020	5,732	2,256	1,625	9,613
2021	5,648	2,752	1,625	10,025
2022	5,420	5,458	1,625	12,503
2023	3,339	5,915	54,391	63,645
Beyond 5 years	1,219	56,266	—	57,485
Sub-Total	27,197	72,855	60,891	160,943
Less: Interest	1,928	20,315	6,736	28,979
Debt balance [(1)]	$ 25,269	$ 52,540	$ 54,155	$ 131,964

(1) *Before net deferred financing costs.*

The following table presents reconciliation between the opening and closing balances for the Long-term debt.

	March 31, 2018	March 31, 2017
Long-term debt, at beginning of the fiscal year	**$ 134,139**	$ 146,284
Increase in long-term debt	**3,821**	23,021
Repayment of long-term debt	**(4,634)**	(32,797)
Amortization of financing costs (note 8)	**238**	319
Fees incurred to renew the Credit Facility	**(524)**	—
Interest accretion and adjustments on governmental authorities loans (note 8)	**466**	(4,122)
Effects of fluctuations in exchange rates	**(2,465)**	1,434
Long-term debt, at end of the fiscal year	**$ 131,041**	$ 134,139

NOTE 21. OTHER LIABILITIES

As at	**March 31, 2018**	**March 31, 2017**
Deferred revenue	**$ 2,639**	$ 3,099
Net defined benefit obligations (note 25)	**3,958**	3,610
Progress billings	**19**	78
Other Liabilities	**$ 6,616**	$ 6,787

NOTE 22. ISSUED CAPITAL

Authorized	
Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

No preferred shares are outstanding.

Variations in common shares issued and fully paid were as follows, for fiscal year:

	2018			2017		
	Number		Issued capital	Number		Issued capital
Balance, beginning of year	**36,122,050**	**$**	**77,217**	36,006,935	$	75,916
Issued for cash on exercise of stock options	**48,750**		**298**	70,750		730
Issued for cash under the stock purchase and ownership incentive plan	**47,772**		**590**	44,365		571
Balance, end of year	**36,218,572**	**$**	**78,105**	36,122,050	$	77,217

Stock-based compensation

A. Stock option plan

The Corporation grants stock options at a subscription price representing the average closing price of the Corporation's common shares on the Toronto Stock Exchange for the five trading days preceding the grant date. Options granted under the plan mainly vest over a period of four years. The options are exercisable over a period not exceeding seven years after the grant date.

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

	2018			2017		
	Number of stock options		Weighted-average exercise price	Number of stock options		Weighted-average exercise price
Balance, beginning of year	**914,295**	**$**	**10.88**	879,545	$	10.02
Granted	**243,500**		**14.93**	113,000		15.01
Exercised	**(48,750)**		**3.71**	(70,750)		6.63
Cancelled / forfeited	**(3,750)**		**11.71**	(7,500)		11.71
Balance, end of year	**1,105,295**	**$**	**12.09**	914,295	$	10.88
Stock-based compensation expense		**$**	**608**		$	713

The weighted-average share price at the date of exercise of stock options in fiscal 2018 was $14.44 ($14.70 in 2017).

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

		2018		2017
Number of stock options granted		**243,500**		113,000
Weighted average fair value per stock option	**$**	**3.84**	$	4.76
Total fair value	**$**	**935**	$	538
Expected life		**4.9 years**		3.9 years
Expected volatility		**25%**		38%
Expected forfeiture		**4.5%**		—%
Expected dividend distribution		**None**		None
Compounded risk-free interest rate		**1.6%**		0.6%

As at March 31, 2018, 2,808,257 common shares are reserved for issuance of stock options, of which 1,514,481 remained to be issued, compared to 1,563,231 as at March 31, 2017.

As at March 31, 2018, 1,105,295 stock options were issued and outstanding and can be detailed as follows:

	Outstanding options			Vested options	
Exercisable price	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$3.01 to $4.09	65,200	0.36	$3.08	65,200	$3.08
$10.71 to $11.71	683,595	3.24	11.45	592,571	11.53
$14.93 to $15.01	356,500	6.41	14.95	92,625	14.96
	1,105,295	4.09	$12.09	750,396	$11.22

B. Stock purchase and ownership incentive plan

Movements in common shares and related expenses related to the stock purchase and ownership incentive plan were as follows, for fiscal year:

	2018	**2017**
In number of common shares		
Issued	**47,772**	44,365
Attributed to participating employees	**18,800**	16,755
Expense related to common shares attributed	**$ 260**	$ 239

As at March 31, 2018, 340,000 shares are reserved for issuance under the stock purchase and ownership incentive plan, of which 58,866 remained to be issued, compared to 106,638 as at March 31, 2017.

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

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

	2018	2017
In number of DSUs		
Balance, beginning of year	**135,815**	124,333
Issued	**32,588**	33,740
Settled	**(32,233)**	(22,258)
Closing balance of DSUs outstanding	**136,170**	135,815
DSU expense	**$ 910**	$ 273
Fair value of outstanding DSUs, end of year	**$ 1,962**	$ 1,517

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

	2018	2017
In number of PSUs		
Balance, beginning of year	**114,434**	151,392
Issued	**100,650**	58,500
Cancelled/forfeited	**(3,802)**	(1,941)
Settled	**(23,334)**	(93,517)
Closing balance of PSUs outstanding	**187,948**	114,434
PSU expense	**$ 163**	$ 635
Fair value of vested outstanding PSUs, end of year	**$ 842**	$ 1,004

NOTE 23. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2017	$ 14,256	$ (521)	$ (7,437)	$ 6,298
Other comprehensive income	5,860	545	1,514	7,919
Balance as at March 31, 2018	**$ 20,116**	**$ 24**	**$ (5,923)**	**$ 14,217**

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2016	$ 25,691	$ (643)	$ (6,260)	$ 18,788
Other comprehensive income (loss)	(11,435)	122	(1,177)	(12,490)
Balance as at March 31, 2017	**$ 14,256**	**$ (521)**	**$ (7,437)**	**$ 6,298**

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2018	2017
Consolidated statements of income		
Current income tax expense	**$ 7,100**	$ 5,934
Deferred income tax expense (recovery)	**67**	(1,604)
Income tax expense reported in the consolidated statements of income	**$ 7,167**	$ 4,330
Consolidated statements of changes in shareholders' equity		
Expense related to items charged or credited directly to retained earnings	**$ 68**	$ 1,355
Expense (recovery) related to items charged or credited directly to other comprehensive income	**826**	(166)
Income tax expense reported directly in shareholders' equity	**$ 894**	$ 1,189

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

	2018	2017
Income taxes at combined Federal and Provincial statutory tax rates of 26.6% (26.7% in 2017)	**$ 5,554**	$ 9,651
Income tax rate differential – foreign subsidiaries	**(4,251)**	(4,672)
Permanent differences	**827**	(505)
Impact of US Tax Reform (note 9)	**4,912**	—
Other items	**125**	(144)
Income tax expense	**$ 7,167**	$ 4,330

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 existing tax law impacting businesses including, among other things, a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The reduction in the corporate tax rate required a revaluation of the Corporation net deferred tax assets, resulting in a one-time tax expense of $4,912 during the fiscal year 2018.

Income tax expense includes an unfavourable amount of $125 ($144 favourable in 2017) with respect to the resolution of income tax matters and a reduction in deferred income tax liabilities in light of changes in tax audit matters.

Significant deferred income tax assets and liabilities arising from the effect of temporary differences are as follows:

As at	March 31, 2018	March 31, 2017
Deferred income tax assets		
Non-deductible reserves	**$ 4,126**	$ 2,948
Inventories	**3,872**	7,120
Receivables	**10**	36
Derivative financial instruments	**—**	189
Governmental authorities loans	**—**	61
Deferred tax benefits from tax losses and deductible expenses carried forward	**14,012**	21,076
Total deferred income tax assets	**$ 22,020**	$ 31,430
Deferred income tax liabilities		
Investment and other tax credits	**(557)**	(566)
Property, plant and equipment	**(14,863)**	(22,929)
Customer relationships and contracts	**(2,891)**	(3,913)
Governmental authorities loans	**(64)**	—
Derivative financial instruments	**(24)**	—
Total deferred income tax liabilities	**$ (18,399)**	$ (27,408)
Net deferred income tax assets	**$ 3,621**	$ 4,022

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

As at	March 31, 2018	March 31, 2017
Deferred income tax assets	**$ 7,388**	$ 9,964
Deferred income tax liabilities	**(3,767)**	(5,942)
Net deferred income tax assets	**$ 3,621**	$ 4,022

As at March 31, 2018, net deferred income tax assets of $8,790 were recognized ($10,961 as at March 31, 2017) in jurisdictions that incurred losses in current and prior fiscal years. Based upon the level of historical taxable income and projections for future taxable income, the Corporation's management believes it is probable that the Corporation will realize the benefits of these deductible temporary differences and non-capital losses carried forward.

As at March 31, 2018 and 2017, there were no operating losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements.

The Corporation had the following non-capital losses available for carry-forward:

As at	March 31, 2018	March 31, 2017
Canada	**$ 19,943**	$ 12,797
United States	**53,506**	55,688
United Kingdom	**—**	3,219
	$ 73,449	$ 71,704

As of March 31, 2018, the Corporation had non-capital losses in Canada and United States which expire in the years 2036 to 2038.

Deferred income tax is not recognized on the unremitted earnings of subsidiaries where the Corporation is able to control the timing of the remittance and it is probable that there will be no remittance in the foreseeable future. As at March 31, 2018, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $25,151 ($14,808 in 2017).

NOTE 25. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of benefit plans

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in the figures below.

Total cash payments

For fiscal year 2018, total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans amounted to $1,489 ($2,078 in 2017) while the cash contributed to its defined contribution plans amounted to $3,200 ($3,401 in 2017).

Defined benefit plans

The Corporation measures the fair value of plan assets for accounting purposes as at March 31 of each year while its defined benefit obligations are valued as at December 31 of each year and projected to March 31 for all plans, except one plan for which the valuation is made as at March 31.

The defined benefit plans expose the Corporation to actuarial risks such as:

- Life expectancy risk
  - The present value of defined benefit obligations is calculated in part by reference to the estimated life expectancy of plan members. An increase in life expectancy increases the Corporation's obligations.
- Currency risk
  - As a significant portion of plan assets are invested in foreign equities, an increase in the value of the Canadian dollar in comparison to the denomination of these foreign equities would result in an increase in the Corporation's obligations.
- Interest rate risk
  - A decrease in market rates of interest would decrease the discount rate used to calculate the present value of defined benefit obligations, thus increasing it. This would be partially offset by the resulting increase in the value of the plans' bond holdings.
- Investment risk
  - Investment risk is the risk that the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate. Currently, the plans have an investment mix of 63% in equity funds, 29% in debt securities and 8% in other funds. Due to the long-term nature of the plans' defined benefit obligations, the Corporation considers it appropriate that a reasonable portion of the plans' assets is invested in equity securities and other funds in order to generate additional long-term return on plan assets.

The reconciliation of the present value of the defined benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets is as follows:

As at		March 31, 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
Funded status of the plans – deficit	$	(2,242)	$	(1,568)
Present value of defined benefit obligations of unfunded plan		(1,716)		(2,042)
Amount recognized in other long-term liabilities	$	(3,958)	$	(3,610)

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

		2018		2017
Current service cost	$	1,459	$	1,500
Interest on net defined benefit obligations (note 8)		153		330
Termination benefits (note 9)		325		143
Administrative costs		161		123
Defined benefit pension expense recognized in the consolidated statements of income	$	2,098	$	2,096

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

		2018		2017
Remeasurements				
Gain (losses) from changes in demographic assumptions	$	(2)	$	2,109
Losses from changes in financial assumptions		(915)		(1,588)
Experience gains		1,257		505
Return on plan assets, excluding interest income on plan assets		(79)		4,052
Other comprehensive income	$	261	$	5,078

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

		2018		2017
Actual return on the fair value of plan assets	$	2,038	$	6,057

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

		2018		2017
Defined benefit obligations, beginning of year	$	61,106	$	60,055
Current service cost		1,459		1,500
Interest expense		2,270		2,335
Contributions by plans' participants		731		629
Loss (gain) from change in demographic assumptions		2		(2,109)
Losses from changes in financial assumptions		915		1,588
Experience gains		(1,257)		(505)
Benefits paid		(2,619)		(2,530)
Termination benefits		—		143
Past service benefits		325		—
Defined benefit obligations, end of year	$	62,932	$	61,106

The fair value of plan assets is as follows:

As at		March 31, 2018		March 31, 2017
Fair value of plans' assets, beginning of year	$	57,496	$	51,385
Interest income on plans' assets		2,117		2,005
Return on plans' assets, excluding interest income on plans' assets		(79)		4,052
Contributions by the employer		1,489		2,078
Contributions by plans' participants		731		629
Benefits paid		(2,619)		(2,530)
Administrative costs		(161)		(123)
Fair value of plans' assets, end of year	$	58,974	$	57,496

The plans' assets consist of:

As at	March 31, 2018	March 31, 2017
Equity securities	63%	62%
Debt securities	29%	31%
Other	8%	7%
Total	100%	100%

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

	2018	2017
Defined benefit obligations as at March 31:		
Discount rate	**3.60%**	3.70%
Rate of compensation increase	**3.50%**	3.50%
Average life expectancies based on a pension at 65 years of age:		
Male, 45 years of age at reporting date	**86**	87
Female, 45 years of age at reporting date	**89**	89
Male, 65 years of age at reporting date	**87**	86
Female, 65 years of age at reporting date	**90**	89

The following table summarizes the effects of the changes in these actuarial assumptions on the pension expense and the defined benefit obligations for the fiscal year ended and as at March 31, 2018:

Increase (Decrease)	**Pension expense**	**Defined benefit obligations**
	%	%
Discount rate		
Increase of 0.5%	(17.7)	(7.0)
Decrease of 0.5%	18.9	7.8
Rate of compensation		
Increase of 0.5%	0.1	—
Decrease of 0.5%	(0.1)	—
Average life expectancies		
Increase of 1 year	5.6	2.6
Decrease of 1 year	(5.6)	(2.6)

Corporation's pension benefits future cash flows
The cash contributions expected to be made to these plans in fiscal year 2019 amount to $1,453.

The duration of the defined benefit obligations at March 31, 2018 is 14.8 years (13.3 years in 2017). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	**March 31, 2018**	**March 31, 2017**
Less than a year	**$ 1,689**	$ 1,656
Between 1-2 years	**1,747**	1,668
Between 2-5 years	**5,753**	5,369
Over 5 years	**100,542**	98,870
Total	**$ 109,731**	$ 107,563

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

	2018	2017
Defined contribution pension plan costs	**$ 3,200**	$ 3,401

NOTE 26. COMMITMENTS

The Corporation has commitments under operating leases for buildings and facilities and outstanding purchases orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. The minimum payments over the next five years are as follows:

	2019	2020	2021	2022	2023	Thereafter	**Total 2018**	Total 2017
Operating leases - Buildings and facilities[1]	1,502	1,214	1,194	1,197	1,200	5,430	**$11,737**	$ 11,630
Building, machinery and equipment acquisition commitments	2,952	—	—	—	—	—	**$ 2,952**	$ 2,157

[1] *Excluding escalation clauses.*

Guarantees

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property, environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislations), valuation differences or as a result of litigations that may be suffered by the counterparties.

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may have to indemnify against claims related to past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not occurred yet. As at March 31, 2018, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2018, an amount of $5,012 ($5,153 in 2017) was provided for in the Corporation's provisions in respect to these items and is classified as short-term provision (note 19) given the undetermined date of settlement.

Letters of credit

As at March 31, 2018, the Corporation has outstanding letters of credit amounting to $3,302 ($5,027 in 2017).

NOTE 27. CONTINGENCIES

The Corporation is involved in litigations and claims in the normal course of business. Management is of the opinion that any resulting settlements would not materially affect the financial position and operating results of the Corporation.

NOTE 28. NET CHANGE IN NON-CASH ITEMS

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

	2018	2017
Accounts receivable	**$ (2,335)**	$ 4,106
Income tax receivable	**(184)**	2,325
Inventories	**9,539**	2,855
Other current and long-term assets	**(869)**	2,605
Accounts payable and accrued liabilities, Accounts payable – other and other liabilities	**719**	(5,115)
Provisions	**(3,335)**	(471)
Progress billings	**961**	(2,969)
Customer advances	**6,136**	2,587
Income tax payable	**1,916**	(178)
Effect of changes in exchange rates[1]	**950**	(2,439)
	$ 13,498	$ 3,306

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

NOTE 29. GEOGRAPHIC INFORMATION

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

As at	March 31, 2018				March 31, 2017			
	Canada	**U.S.**	**U.K.**	**Total**	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	**$ 95,492**	**$ 71,183**	**$ 12,828**	**$ 179,503**	$ 104,201	$ 77,111	$ 11,535	$ 192,847
Finite-life intangible assets, net	**21,166**	**1,973**	**12,717**	**35,856**	28,536	3,010	13,921	45,467
Goodwill	**13,838**	**9,691**	**67,608**	**91,137**	13,838	9,995	62,216	86,049

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

	2018	2017
Canada	**$ 39,244**	$ 77,537
United States	**240,377**	234,592
United Kingdom	**43,713**	39,528
Other countries	**63,230**	54,879
	$ 386,564	$ 406,536

NOTE 30. EXECUTIVE COMPENSATION

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

	2018	2017
Short-term employee benefits and other benefits	**$ 3,458**	$ 3,342
Pension and other post-retirement benefits	**156**	167
Share-based payments	**1,655**	1,378
Total compensation to key management personnel	**$ 5,269**	$ 4,887

NOTE 31. FINANCIAL INSTRUMENTS

Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated balance sheets are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
Level 3: unobservable inputs for the asset or liability.

The classifications of financial instruments as well as their carrying amounts and fair values are summarized as follows:

As at	March 31, 2018					March 31, 2017				
	Fair value hierarchy		Carrying amount		Fair Value	Fair value hierarchy		Carrying amount		Fair Value
Financial assets										
Cash and cash equivalents	**Level 1**	**$**	**93,209**	**$**	**93,209**	Level 1	$	42,456	$	42,456
Derivative financial instruments[(1)]	**Level 2**		**2,948**		**2,948**	Level 2		2,058		2,058
Equity swap instrument	**Level 1**		**2,249**		**2,249**	Level 1		1,743		1,743
		$	**98,406**	**$**	**98,406**		$	46,257	$	46,257
Financial Liabilities										
Derivative financial instruments	**Level 2**	**$**	**2,778**	**$**	**2,778**	Level 2	$	2,563	$	2,563
Long-term debt, including current portion	**Level 2**		**131,964**		**137,493**	Level 2		134,776		142,396
		$	**134,742**	**$**	**140,271**		$	137,339	$	144,959

[(1)] *Excluding equity swap instrument*

Derivative financial instruments - The fair value of derivative financial instruments recognized in the consolidated balance sheets has been determined using Corporation's valuation models. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external markets data, such as period-end interest‑rate swap and foreign exchange rates.

Long-term debt – The fair value of long-term debt has been determined by calculating the present value of long term debt using the rate that would be negotiated under the economic conditions at year-end.

NOTE 32. FINANCIAL RISK MANAGEMENT

The Corporation is exposed primarily to market risk, credit and credit concentration risks, and liquidity risk as a result of holding financial instruments.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments following changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks:

Foreign exchange risk

The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States of America and the United Kingdom.

In an effort to mitigate the foreign currency fluctuation exposures, the Corporation makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian and United Kingdom operations.

The Corporation's foreign exchange policy requires the hedging of 50% to 100% of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecasted cash inflows generated by sales in U.S. currency made by its Canadian and United Kingdom operations and related to sales contracts, net of the forecasted cash outflows in U.S. currency made by its Canadian and United Kingdom operations and related essentially to raw materials and certain other material costs.

As at March 31, 2018, in accordance with this policy, the Corporation held forward foreign exchange contracts to sell US$110.1 million at a weighted-average rate of 1.3046 (Canadian dollar over U.S. dollar, "cad/usd"). As at March 31, 2017, these contracts totalled US$152.4 million at a weighted-average rate of 1.3178 cad/usd. As at March 31, 2018, these contracts mature at various dates between April 2018 and March 2021, with the majority maturing over the next fiscal year.

As at March 31, 2018, a 1% strengthening of the Canadian dollar over foreign currencies, while all other variables would remain fixed, would have impacted the consolidated net income and the other comprehensive income as follows:

	U.S. dollar impact	British pound impact
Decrease in net income	(204)	(2)
Increase (decrease) in other comprehensive income	638	(1,250)

The foreign exchange rate sensitivity analysis shown above is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the forward foreign exchange contracts as at the consolidated balance sheet date.

Interest-rate risk

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

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

The following interest-rate swaps were used to this end during fiscal 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). 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 business acquisition

The agreement to acquire CESA (see note 5) exposes the Corporation to new foreign currency and interest rate risks related to the purchase price and 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 net financial expenses (income).

In order to mitigate these risks, as at March 31, 2018, the Corporation had also entered into the following cross-currency interest rate swap agreements in order to manage 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

A 100 basis point variation in interest rates would have affected the Corporation's financial results for fiscal 2018 as follows:

	100 bps increase	100 bps decrease
Impact on net income related to floating rate long-term debt	(255)	255
Impact on comprehensive income related to interest-rate and cross-currency interest-rate swap agreements	4,024	(4,542)

The interest rate sensitivity analysis shown above is calculated on the floating-rate liability at the end of the fiscal year and assumes all other variables remain fixed.

Other price risk

The Corporation's net income is exposed to fluctuations of its share price through its DSUs and PSUs (see note 22). In order to mitigate this exposure, the Corporation has entered into an equity swap agreement with a financial institution.

Pursuant to this agreement, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impacts the expense of 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 instrument that is not part of a designated hedging relationship and matures in June 2019.

Credit and credit concentration risks

The credit and credit concentration risks represent counterparty risks where the parties with which the Corporation enters into agreements or contracts could be unable to fulfill their commitments.

Credit risks are primarily related to the potential inability of customers to discharge their obligations with regards to the Corporation's accounts receivable and of financial institutions with regards to the Corporation's cash and cash equivalents and derivative financial instruments.

Credit concentration risks are related to the fact that approximately 60% of the Corporation's fiscal 2018 sales are made to only six customers (58% in 2017). More specifically, in fiscal 2018, the Corporation had two customers representing 26% and 11% of its consolidated sales (18% and 13% in 2017).

Accounts receivable

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses which represent together approximately 5.3% in fiscal 2018 (5.8% in 2017) of the Corporation's consolidated sales.

As at March 31, 2018, the Corporation has historically not made any significant write-off of accounts receivable and the number of days in accounts receivable was at acceptable levels in the industry in which the Corporation operates.

The credit quality of accounts receivable is monitored on a regular basis.

Changes in the allowance for doubtful accounts were as follows for the fiscal year ended March 31, 2018:

		2018
Balance, beginning of year	**$**	**69**
Reversed		**(30)**
Balance, end of year	**$**	**39**

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

As at		**March 31, 2018**		March 31, 2017
Not past due	**$**	**66,613**	$	62,590
Past due less than 90 days		**5,777**		8,262
Past due more than 90 days		**1,079**		283
Impaired		**39**		69
		73,508		71,204
Allowance for doubtful accounts		**(39)**		(69)
Balance, end of year	**$**	**73,469**	$	71,135

Cash and cash equivalents and derivative financial instruments

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals exclusively with high-grade financial institutions such as Canadian chartered banks and their U.S. subsidiaries or branches or with a Canadian branch of a U.S. bank, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreements by counterparties.

As at March 31, 2018, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 31):

	FVTPL	Hedging items [1]	Loans and receivables
Cash and cash equivalents	$ 93,209	$ —	$ —
Accounts receivable	—	—	73,469
Derivative financial instruments	2,249	2,948	—

[1] *Represents the fair value of derivative financial instruments designated in a hedging relationship.*

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set, under the terms of such commitments and at a reasonable price. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

As at March 31, 2018, the maturity analysis of financial liabilities represented the following:

	< 1 year	1 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 65,057	$ —	$ —	$ —	$ 65,057
Accounts payable – other and other liabilities	2,534	—	—	—	2,534
Customer advances	12,577	—	—	—	12,577
Long-term debt, including current portion (note 20)	7,672	19,638	76,148	57,485	160,943
Derivative financial instruments	389	1,215	644	530	2,778

NOTE 33. CAPITAL RISK MANAGEMENT

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

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

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

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

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

During fiscal year ended March 31, 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 Corporation is not subject to any regulatory capital requirements.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Brian A. Robbins
Chairman of the Board
Toronto, Ontario

Gilles Labbé
President and
Chief Executive Officer
Montreal, Québec

Louis Morin
Corporate Director
Montreal, Québec

Paule Doré
Corporate Director
Montreal, Québec

James J. Morris
Corporate Director
Palm Desert, California

Andrew John Stevens
Corporate Director
Cheltenham, U.K.

Nathalie Bourque
Corporate Director
Montreal, Québec

Pierre Fitzgibbon
Corporate Director
Montreal, Québec

CORPORATE MANAGEMENT

Gilles Labbé
President and Chief
Executive Officer

Réal Bélanger
Executive Vice President,
Business Development and
Special Projects

Martin Brassard
Executive Vice President and
Chief Operating Officer

Stéphane Arsenault
Chief Financial Officer

Annie Goudreault
Vice President, Corporate Controller

Stéphane Rainville
Vice President, Human Resources

Jean Gravel
Vice President, Sales and
Program Management

Rémy Langelier
Director, Business Development

Patrick Gagnon
Director, Internal Audit and
Corporate Governance

Jean-Philippe Sanche
Director, Legal Affairs

Eric Sauvageau
Director, Financial Reporting

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NOTES

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Friday, August 10, 2018 at 10:00 A.M.
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Hôtel Omni Mont-Royal
1050 Sherbrooke Street West
Montreal, Québec
Canada

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Computershare Trust
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Montreal, Québec
Canada H3A 3S8
514 982-7555 /
1-800-564-6253

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SHARE LISTING

Shares are traded on the Toronto
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Ticker Symbol: HRX

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