

2019  ANNUAL REPORT

HÉROUX DEVTEK 

**EXCELLENCE
IN EXECUTION**



BOEING MQ-25
Unmanned Aerial Refueling Program
Selected in April 2019 to Supply the Complete
Landing Gear Systems

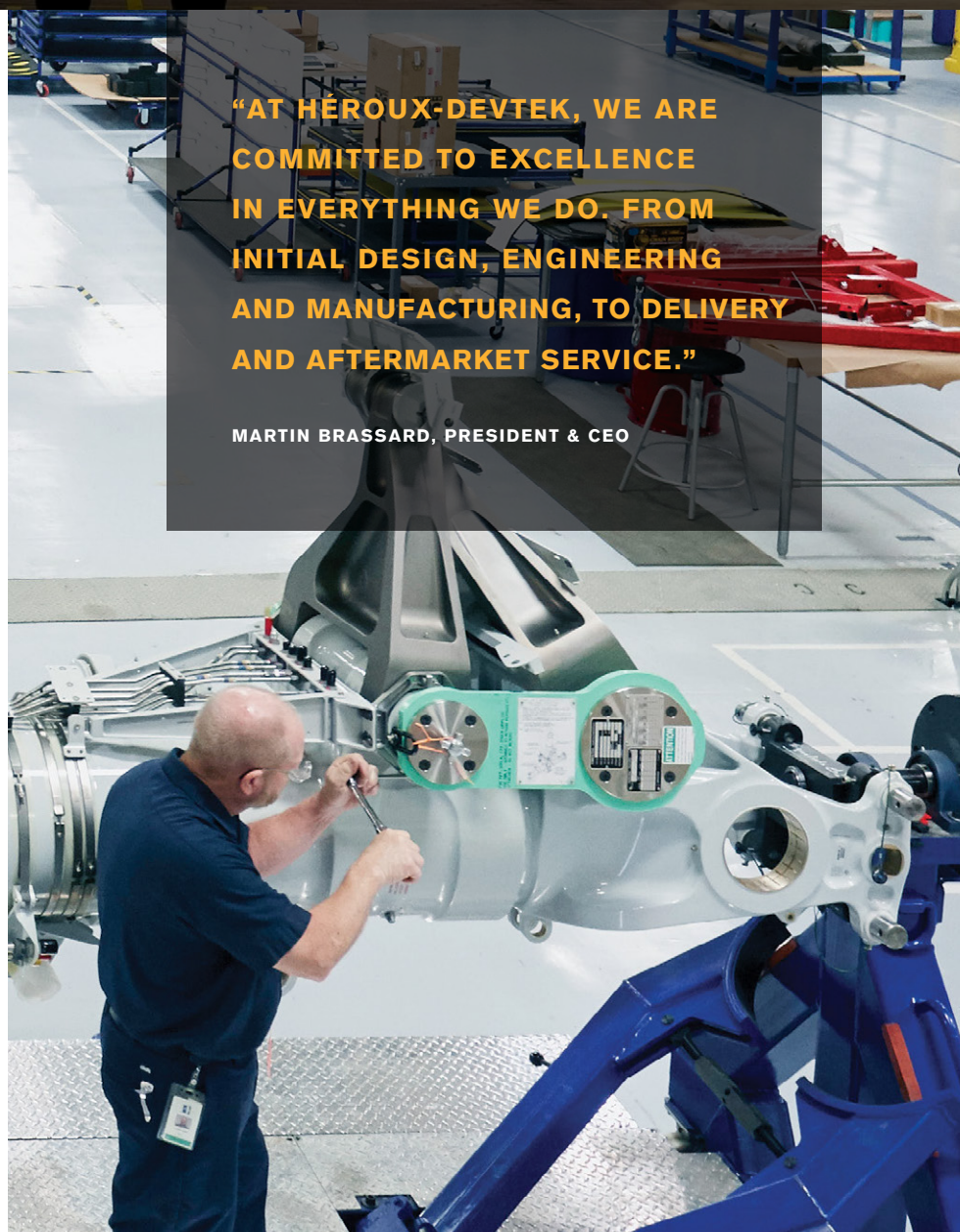


HÉROUX-DEVTEK AT A GLANCE

- Héroux-Devtek Inc. (traded on the Toronto Stock Exchange under the symbol "HRX") is an international company specializing in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components for the global aerospace market.
- With headquarters in Quebec, Canada, Héroux-Devtek is the **third-largest** landing gear company in the world, supplying leading aerospace customers operating in both the commercial and defence sectors.
- Founded in 1942, Héroux-Devtek now employs approximately 1,960 dedicated people at its 18 facilities located in Canada, the United States, the United Kingdom and in Spain.
- Héroux-Devtek is recognized for its forward thinking, engineering, world class service and above all, its excellence in execution.

"AT HÉROUX-DEVTEK, WE ARE COMMITTED TO EXCELLENCE IN EVERYTHING WE DO. FROM INITIAL DESIGN, ENGINEERING AND MANUFACTURING, TO DELIVERY AND AFTERMARKET SERVICE."

MARTIN BRASSARD, PRESIDENT & CEO





BOEING 777/777X

FEATURED SUPPLY CONTRACTS

Héroux-Devtek supplies the complete landing gear systems and aftermarket parts for **The Boeing Company's 777/777x** commercial jet. The contract was awarded in 2013 and first deliveries occurred in 2016.

Héroux-Devtek supplies the complete landing gear systems for **Saab AB's Gripen E** fighter aircraft as part of a design, manufacturing and life cycle contract.

Héroux-Devtek supplies the landing gear systems for the **Sikorsky CH-53K King Stallion** heavy lift helicopter as part of design, manufacturing and life cycle contract

Héroux-Devtek will supply the landing gear systems for **Dassault Aviation's Falcon 6X** as part of a design, manufacturing and life cycle contract.



SAAB AB GRIPEN E



SIKORSKY CH53-K KING STALLION



DASSAULT AVIATION FALCON 6X



FINANCIAL HIGHLIGHTS

FISCAL YEARS ENDED MARCH 31

2019

2018

2017

2016

2015

(in millions of dollars, except per share data and ratios)

OPERATING RESULTS

Sales	483.9	386.6	406.5	406.8	364.9
Operating income	37.2	23.4	35.6	37.8	6.6
Adjusted operating income ⁽¹⁾	41.6	30.3	35.9	39.3	29.4
Adjusted EBITDA ⁽¹⁾	74.2	56.9	61.4	64.1	47.8
Net income	26.2	13.7	31.8	26.6	3.2
Adjusted net income ⁽¹⁾	30.4	24.2	26.4	27.7	19.4
Cash flows related to operating activities	70.0	56.1	56.1	6.8	46.2
Free cash flow ⁽¹⁾	58.1	50.8	33.0	(66.3)	(15.0)
Funded backlog	624.0	466.0	405.0	460.0	459.0

FINANCIAL POSITION

Cash and cash equivalents	35.1	93.2	42.5	19.3	35.1
Working capital	177.6	201.9	165.1	150.5	109.7
Total assets	874.7	632.2	607.3	609.4	575.5
Long-term debt ⁽²⁾	263.3	132.0	134.8	147.2	114.2
Shareholders' equity	402.0	379.0	355.9	331.1	293.5

PER SHARE DATA

EPS – basic and diluted	0.73	0.38	0.88	0.74	0.09
Adjusted EPS ⁽¹⁾	0.84	0.67	0.73	0.77	0.55
Average number of shares outstanding (diluted, in 000's)	36,437	36,332	36,284	36,119	35,016

FINANCIAL RATIOS

Adjusted EBITDA ⁽¹⁾ margin	15.3%	14.7%	15.1%	15.7%	13.1%
Working capital ratio	1.95	2.86	2.58	2.34	1.75
Net debt-to-equity ⁽²⁾⁽³⁾	0.56	0.10	0.26	0.39	0.27

⁽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.



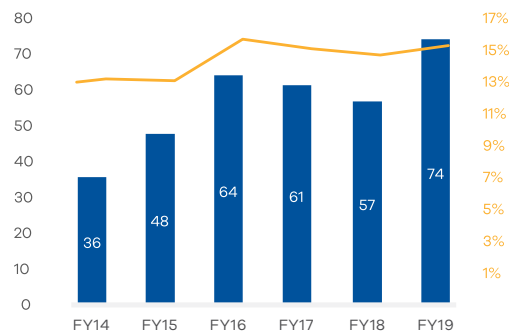
INVESTMENT HIGHLIGHTS

BUILDING LONG-TERM VALUE FOR SHAREHOLDERS

HÉROUX-DEVTEK HAS DELIVERED A COMPOUND ANNUAL GROWTH RATE OF 11% FOR OPERATING INCOME AND 14% FOR ADJUSTED EBITDA⁽¹⁾ OVER THE LAST 6 YEARS

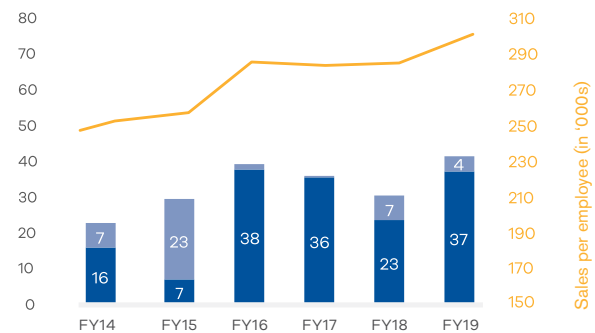
GROWING ADJUSTED PROFITABILITY

● Adjusted EBITDA⁽¹⁾ \$M ● Adjusted EBITDA⁽¹⁾ %



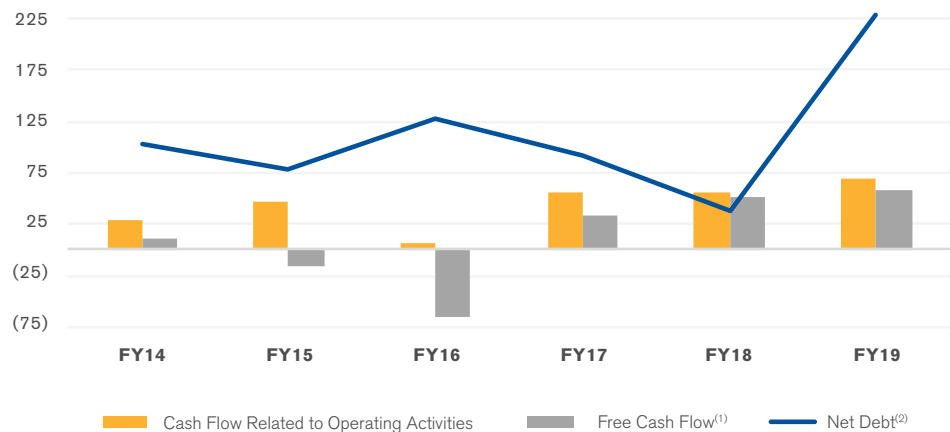
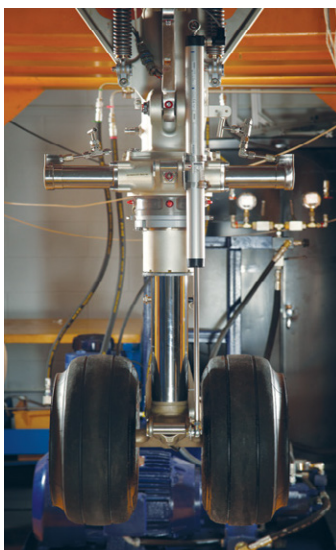
GROWING OPERATING PROFITABILITY AND PRODUCTIVITY (\$M)

● Non Recurring items ● Total Operating Income ● Sales per Employee ('000s)



MAINTAINING STRONG CASH FLOW AND CONSISTENTLY REIMBURSING DEBT

(In millions of dollars)



⁽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.

EMBRAER LEGACY 450/500

Héroux-Devtek designed, developed and supplies the landing gear systems for Embraer's Legacy 450/500 business jets as part of a life-cycle contract obtained in July 2008



STRATEGIC PILLARS

FINANCIAL

DELIVERING VALUE TO SHAREHOLDERS

- Nurture acquisitions
- Grow revenues
- Extract operational leverage
- Deleverage

OPERATIONAL

FOCUSED ON EXCELLENCE

- Maintain the best operational track record
- Deliver excellence
- Implement best-in-class processes and technology
- Leverage position as global supplier

EMPLOYEES

FOSTER OUR ENTREPRENEURIAL CULTURE

- Respect
- Responsibility
- Recognition
- Resilience

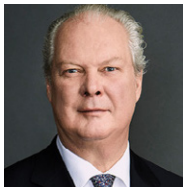
CUSTOMERS

EXCEED EXPECTATIONS

- Reliability
- Quality
- Commitment
- Agility



STRONG GOVERNANCE AND INDUSTRY FOCUSED BOARD



GILLES LABBÉ
Executive Chairman of the Board
Non-Independent Board Member Since 1985



BRIAN A. ROBBINS
Executive Chairman, Exco Technologies Limited Lead Director
Independent Board Member Since 2000
Member of the Human Resources and Corporate Governance Committee



MARTIN BRASSARD
President and Chief Executive Officer
Non-Independent Board Member Since 2019



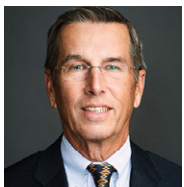
NATHALIE BOURQUE
Corporate Director
Independent Board Member Since 2015
Member of the Audit Committee



PAULE DORÉ
Corporate Director
Independent Board Member Since 2010
Chair of the Human Resources and Corporate Governance Committee



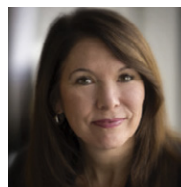
LOUIS MORIN
President, Busrel Inc.
Independent Director Since 2008
Chair of the audit committee



JAMES J. MORRIS
Corporate Director and Consultant
Independent Director Since 2013
Member of the Human Resources and Corporate Governance Committee



ANDREW JOHN STEVENS
Corporate Director
Independent Director Since 2014
Member of the Audit Committee



BEVERLY WYSE
Corporate Director
Independent Director Since 2019
Member of the audit committee



GOVERNANCE

Héroux-Devtek has always believed in strong governance. Our Board is mainly composed of independent directors and veterans of the global aerospace industry. Héroux-Devtek's success is based on consistent and actionable interactions between our Board of directors and our management team. In this spirit, in fiscal 2019 we welcomed Beverly Wyse to our Board, a long-time Boeing executive with an impeccable track record and deep industry relations. She is also the third woman director to join Héroux-Devtek. I am especially proud of our directors' combined expertise, diversified backgrounds and complementary mindsets. As Executive Chairman of the Board, I look forward to further contributing to our success and assisting Martin Brassard in his new role as President and CEO. I also wish to thank Brian A. Robbins for his exceptional contribution as Chairman of the Board, a position he recently left to become lead director, as well as Andrew Stevens, who will be retiring from the Board of Directors.

EXECUTIVE CHAIRMAN'S MESSAGE

DEAR SHAREHOLDERS,

It is with immense pride that I took on the role of Executive Chairman on June 1, 2019. After more than 30 years at the helm of Héroux-Devtek, I am now ready to dedicate more time to our strategic direction and leave our operations in the highly capable hands of Martin Brassard.

Today, Héroux-Devtek is the world's third-largest manufacturer of landing gears and a growing provider of complementary actuation systems, dedicated to serving the world's largest aerospace companies. It is our team's focus on excellence, uncompromising quality and entrepreneurial culture that has brought us to where we are today.

Strong Financial and Operational Performance in Fiscal 2019

Over the past year, we laid the foundations of our next phase of growth. We completed four strategic acquisitions that broaden our geographical reach and customer portfolio and bring new capabilities in the growing actuation and hydraulic market.

We achieved strong financial results on all fronts from the contribution of the acquisitions of Beaver and CESA in Fiscal 2019 and from the ramp-up of our systems deliveries for Boeing's 777/777X program, from higher sales in the business jet market and of spare parts.

We ended the year with \$483.9 million in revenues, up more than 25% from last year and exceeding our revenue guidance. Operating income and adjusted EBITDA⁽¹⁾ margins stood respectively at 7.7% of sales and 15.3% of sales, up from 6.0% of sales and 14.7% of sales last year.

Strong Fundamentals and Diversification

Our industry continues to benefit from strong tailwinds. Passenger travel demand remains strong and global defence spending is reaching record levels. Deliveries and orders for new aircrafts are reaching all-time highs, driving sustained growth and multi-year manufacturing ramp-ups in the industry. As a key systems manufacturer for most of the world's leading aircraft OEMs, we are well positioned to benefit from these solid fundamentals. We have an enviable and diversified portfolio of customers within both the commercial and defence industries, a healthy combination

⁽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.

of build-to-print business and proprietary designs and increasing revenue from spare parts and aftermarket services.

As always, we remain dedicated to value creation for all our stakeholders. We strive to create a passionate work environment for all our employees and are unwaveringly committed to offering excellence in our products, irreproachable execution and world-class service for our customers.

Sincerely,



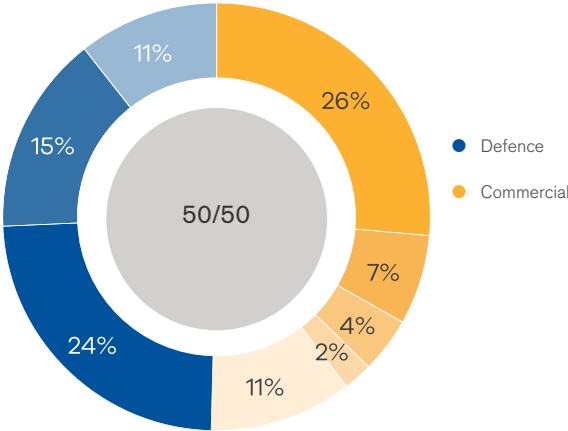
GILLES LABBÉ
EXECUTIVE CHAIRMAN OF THE BOARD



AIRBUS A400M
Héroux-Devtek (via CESA) supplies systems and components for Airbus's A400M military transportation aircraft.

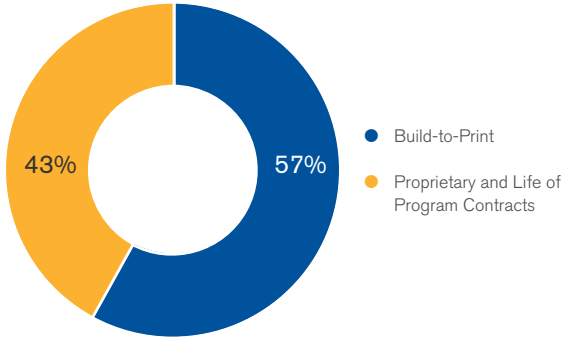
DIVERSIFIED AND BALANCED REVENUE MIX

DEFENCE / COMMERCIAL

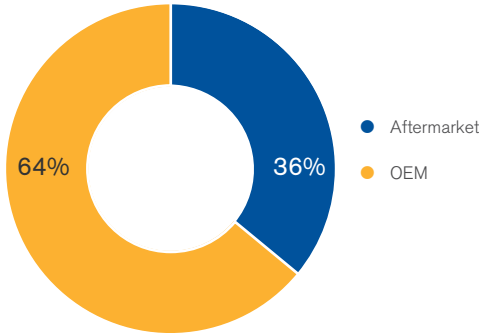


- Large Jets
- Business Jets
- Regional Jets
- Helicopters
- Other
- Transport
- Fighters
- Helicopters

PROPRIETARY / BUILD-TO-PRINT



OEM / AFTERMARKET





PRESIDENT & CEO'S MESSAGE

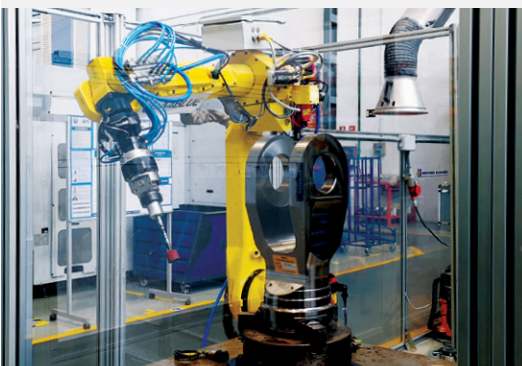
DEAR STAKEHOLDERS,

I would like to thank Gilles and our Board members for their confidence and support during my 25 years at Héroux-Devtek. Over time, I have had different roles, responsibilities and experiences that prepared me well to take on the role of President and CEO. We have built a strong company with an enviable reputation in a very competitive aerospace market, an accomplishment of which I am proud. With a well-diversified, record firm order backlog and the competent team of executives I am fortunate to count on, the Company is well positioned for long-term success.

I am also proud of the excellent work executed by both our operational and corporate teams last year. Their dedication and hard work allowed us to complete four acquisitions while continuing to deliver on our existing business with the high level of execution our customers have come to expect.

KEEPING AHEAD OF THE CURVE

While the aerospace sector continues to be a growing and resilient industry, we remain focused on implementing new technology and hiring the best talent to maintain our leading position in the market. We are continuously looking for ways to further automate our manufacturing processes in order to improve our efficiency. We do this, among other ways, by promoting, sharing and implementing best practices throughout all of our facilities. Looking ahead, the digitalization of our business processes and data analytics will push our technology further, allowing us to manufacture first-class products at a lower cost.



Four Acquisitions to Accelerate Growth

The companies we have acquired are all well-respected suppliers to the global aerospace industry. They are providing us with additional exposure to both the defence and commercial markets and have grown our customer and supplier base internationally.

In October 2018, we completed the acquisition of Compañía Española de Sistemas Aeronáuticos S.A. ("CESA"), a subsidiary of Airbus SE, which added to our customer relationships and marked our entry into the complementary actuation systems market. CESA's strong technical and engineering expertise as well as their proven commitment to delivering quality products on time to customers are pillars that we are excited to build on. We are working closely with the team in Spain to grow that business segment by introducing their capabilities to our existing North American customers' base. We are very proud to see this newly acquired organization embrace the Héroux-Devtek entrepreneurial culture and many best practices are being exchanged between our teams in a very collaborative and transparent manner.

In July 2018, we completed the acquisition of Beaver Aerospace & Defense Inc. ("Beaver"), a leading supplier of ball screws and actuation systems. Since joining Héroux-Devtek, Beaver has performed very well operationally and financially, as evidenced by their firm order backlog increasing significantly. We have plans to invest in new technology that will add to their competitive edge. We also see Beaver as a key partner partner for CESA in developing electromechanical actuators, a product line that will see increasing demand as new aircraft programs will feature more electrical components and systems than those flying today.

In January 2019, we completed the acquisition of a majority equity stake in Tekalia Aeronautik (2010) Inc. ("Tekalia"). This plating operation has very unique capabilities in the North American surface treatment supply chain that are necessary to produce landing gear components. It is a one-stop-shop that has all necessary customer approvals which gives us flexibility in

our production systems, allows our suppliers to count on a reliable plating facility and will generate additional revenue for the corporation.

And finally, in June 2019, we completed the acquisition of Alta Precision Inc., a Québec-based manufacturer of high-precision landing gear components. This acquisition adds two new growing programs in the commercial jet market to our portfolio: the Embraer E-jet E2 family and Airbus A-220. It also expands our scope of work on Boeing's 787 and Airbus' A-350 programs.

These acquisitions bring strong growth opportunities in terms of products and customers and expand our global operations with an incredible group of highly motivated and talented employees.

Positioned for Long-Term Success

We are entering Fiscal 2020 with a record firm order backlog that is set to grow further with the entry into service of several programs for which we supply landing gear systems.

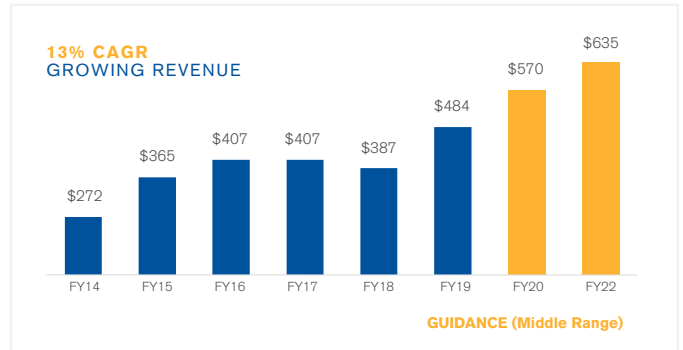
Leading the organic growth, the Boeing 777 production rate is expected to increase in the coming years as the 777X is scheduled to enter in service in 2020. Currently, Boeing has a backlog of 436 airplanes for the 777 program, including 344 orders for the 777X. We have all capabilities necessary to properly execute this new program as we have already manufactured all landing gears sets necessary for the flight test vehicles in Fiscal 2019.

Four other programs for which we designed the complete landing gear system are scheduled to enter into service in the coming years. The design and manufacture of these systems, namely the Sikorsky CH-53K King Stallion, Saab Gripen E, Dassault Falcon 6X and Boeing MQ-25 Stingray provides a clear path to sustained growth and profitability while expanding our portfolio of proprietary products.

Transparency and Collaborative Approach

We believe that our solid relationships with the world's largest aerospace companies are a testament to our collaborative approach, transparency and dedication to excellence in everything we do. We are proud to have been selected once more by Boeing to provide the main landing gear system for the F/A-18 E/F program, an agreement that was recently expanded to include the Advanced F-15 program. We are currently working hand-in-hand

with this important customer to set up the required capabilities and capacity to execute properly on this major program. We believe this approach sets the foundations for mutual trust and a long-lasting beneficial relationship with our customers and supply chain.



Reiterating Long-Term Guidance

Our recent performance and strong industry fundamentals in both the commercial and defence sectors are allowing us to reiterate our longer-term growth prospects. We are confident in our ability to reach our revenue guidance of \$620 million to \$650 million in fiscal 2022. We are starting fiscal 2020 in a strong position, with a funded backlog of firm orders that now stands at a record \$624 million, up from \$466 million as at March 31, 2018.

Our solid financial results and the positive outlook created by our expanded business are the result of the hard work and dedication of a strong team of employees and suppliers combined with the collaboration of our clients. I would like to thank them all for contributing to Héroux-Devtek's success.

With our larger manufacturing footprint, new customers and additional product offerings, we have everything in hand to meet our growth and profitability objectives. We are motivated to continue creating shareholder value, and I want to thank our investors for their continued trust.

MARTIN BRASSARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER



BOEING F/A-18 E/F SUPER HORNET

Héroux-Devtek was selected in 2018 and 2019 to supply the main landing gear systems for Boeing's F/A-18 E/F Super Hornet and EA-18G Growler and for Boeing's Advanced F-15 program.



GLOBAL CENTERS OF EXCELLENCE



Héroux-Devtek facilities



Héroux-Devtek's recently acquired facilities

- 1. St-Hubert, Québec, Canada**
Design, engineering and product support. Technical expertise and state-of-the-art testing facility
- 2. Longueuil, Québec, Canada**
R&O, finishing and assembly
- 3. Laval, Québec, Canada**
Manufacturing and assembly of actuators. Manufacturing of small to medium landing gear components
- 4. Alta Précision, Montreal, Québec, Canada**
Manufacturer of high precision landing gear components
- 5. Tekalia Aeronautik, Montreal, Québec, Canada**
Surface treatment services
- 6. Kitchener, Ontario, Canada**
Manufacturing of medium to large complex landing gear components
- 7. Cambridge, Ontario, Canada**
Manufacturing of ultra large-scale complex landing gear components
- 8. Magtron Precision, Toronto, Ontario**
Precision components and assembly



9. Beaver Aerospace and Defense, Livonia, Michigan, U.S.

Design and manufacturing of ball screws and actuation systems

10. Springfield, Ohio, U.S.

Manufacturing of medium to large complex landing gear and titanium components

11. Strongsville, (Greater Cleveland) Ohio, U.S.

Finishing and assembly of landing gear

12. Wichita, Kansas, U.S.

R&O activities and manufacturing of hydraulic systems and components

13. Everett, Washington, U.S.

Final assembly of Boeing 777/777X landing gear systems

14. Runcorn, Cheshire, U.K.

R&O activities, finishing and assembly of landing gear, product support, testing and design engineering

15. Nottingham, Nottinghamshire, U.K.

Manufacturing of small to medium landing gear components

16. Bolton, Westhoughton, U.K.

Design, manufacturing, assembly and testing of fluid filtration applications

17. Compañía Española de Sistemas Aeronauticos, S.A. Getafe, Spain

Design, engineering, assembly and support for landing gear and actuation systems

18. Compañía Española de Sistemas Aeronáuticos, S.A. Seville, Spain

Assembly and installation of aircraft components at customer assembly lines

MANAGEMENT TEAM



Photo credits: Jimmy Hamelin



▲ **STÉPHANE RAINVILLE**, Vice-President, Human Resources • **PATRICK GAGNON**, Director, Internal Audit and Corporate Governance • **STÉPHANE ARSENAULT**, Vice-President and Chief Financial Officer • **MARTIN BRASSARD**, President and Chief Executive Officer • **JEAN GRAVEL**, Vice-President, Sales & Programs • **ANNIE GOUDREAU**, Vice-President Corporate Controller • **GILLES LABBÉ**, Executive Chairman of the Board • **OLIVIER PERRON**, Tax Director • **JEAN-PHILIPPE SANCHE**, Director, Legal Affairs • **MICHEL PAQUIN**, Corporate Director of Human Resources

▲ **DOMINIQUE DALLAIRE**, Eastern Region Vice-President • **MIKE MESHAY**, General Manager - Beaver • **GAËTAN ROY**, Managing Director UK • **JACK CURLEY**, Central Region Vice-President • **DANIEL NORMANDIN**, Vice-President Engineering, QA & Environment • **MARC-OLIVIER GAGNON**, Vice-President Product Support



MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEAR ENDED MARCH 31, 2019

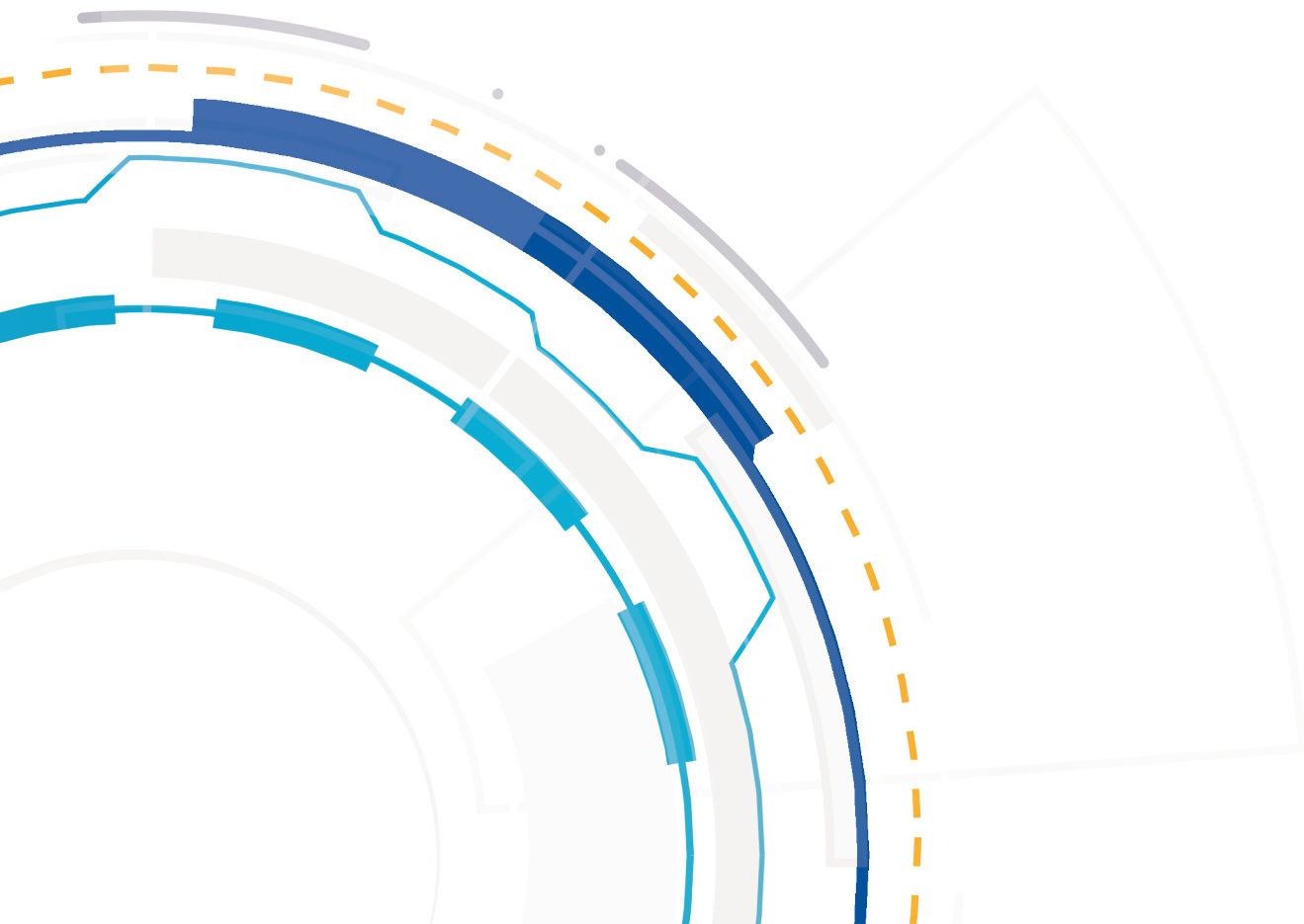


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OVERVIEW

The purpose of this management discussion and analysis (“MD&A”) is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (“Héroux-Devtek”, the “Corporation” or “Management”) evolved between March 31, 2018 and March 31, 2019. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2019 to those of the same periods of the prior fiscal year.

This MD&A is based on the audited consolidated financial statements for fiscal year ended March 31, 2019, which are prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with them. All amounts in this MD&A are in thousands of Canadian dollars, the Corporation’s functional and presentation currency for all periods referred to herein, unless otherwise indicated. Financial data for the quarters ended March 31, 2019 and 2018 has not been audited.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements which are mainly about, but may not be limited to, Héroux-Devtek’s future financial performance, expectations, objectives or possible events. These statements are mainly, but may not be exclusively, contained in the *Guidance* and *Economic Outlook* sections and are usually identifiable by the use of such terms as: “aim”, “anticipate”, “assumption”, “believe”, “continue”, “expect”, “foresee”, “forecast”, “guidance”, “intend”, “may”, “plan”, “predict”, “should” or “will”. The predictive nature of such statements makes them subject to risks, uncertainties and other important factors that could cause the actual performance or events to differ materially from those expressed in or implied by such statements.

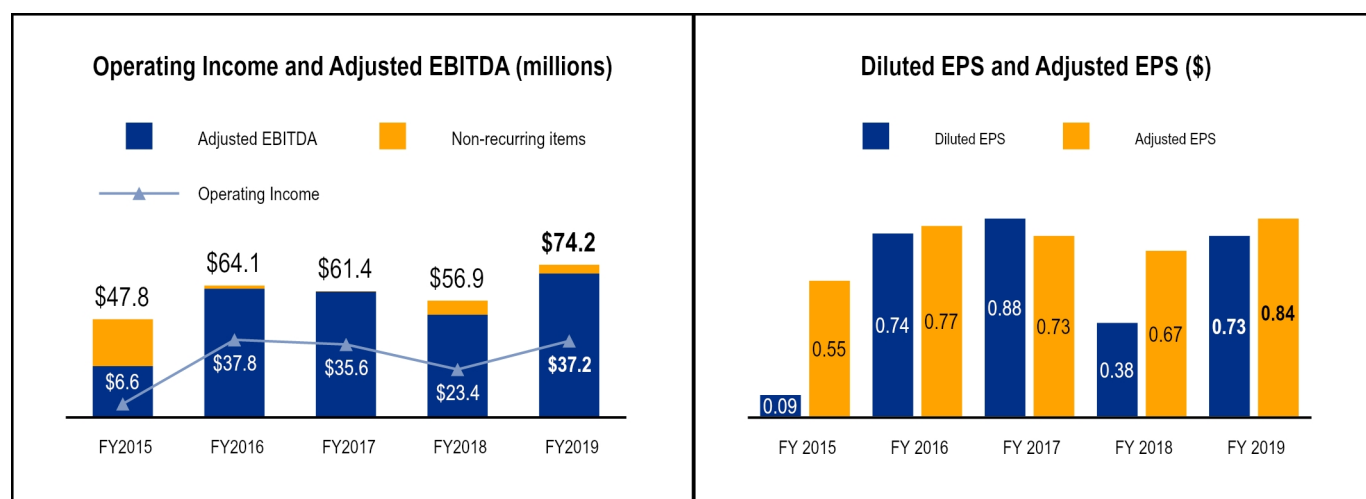
Such factors include, but are not limited to: the impact of worldwide general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity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

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

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

HIGHLIGHTS OF THE YEAR

Fiscal year	2019	2018
Sales	\$ 483,877	\$ 386,564
Operating income	37,240	23,378
Adjusted operating income ⁽¹⁾	41,563	30,325
Adjusted EBITDA ⁽¹⁾	74,213	56,904
Net income	26,194	13,674
Adjusted net income ⁽¹⁾	30,352	24,213
Cash flows related to operating activities	69,969	56,122
Free cash flow ⁽¹⁾	58,121	50,811
<i>In dollars per share</i>		
EPS - basic and diluted	\$ 0.73	\$ 0.38
Adjusted EPS ⁽¹⁾	0.84	0.67
<i>In millions of dollars, as at</i>		
Funded backlog ⁽²⁾	\$ 624	\$ 466



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

⁽²⁾ Represents firm orders.

Key Events

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

OVERVIEW OF THE BUSINESS

Profile

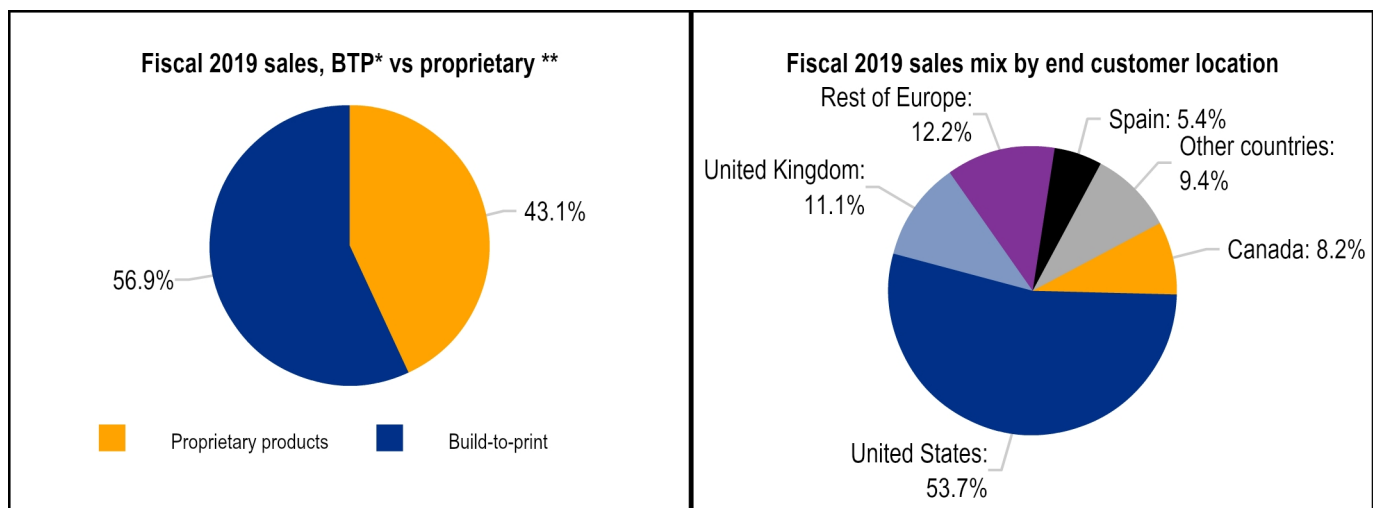
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul (R&O) of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a strong, well-recognized design engineering team. Héroux-Devtek is the third largest landing gear company in the world based on sales, supplying both the commercial and defence sectors.

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

The Corporation's head office is located in Longueuil, Québec while operating facilities are located in the Greater Montreal area (Longueuil, Laval, St-Hubert and Montreal); Kitchener, Cambridge and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; Everett, Washington; Livonia, Michigan; Seville and Madrid, Spain; as well as Bolton, Runcorn and Nottingham in the United Kingdom.

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

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



* BTP: Build to Print

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

BUSINESS ACQUISITIONS

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all the shares of CESA, a subsidiary of Airbus SE, for €130.4 million (\$195.8 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition allows the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

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

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23.7 million (\$35.6 million) upon closing.

For the period between October 1, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included €42.1 million (\$63.5 million) and €2.7 million (\$4.0 million), generated by CESA, respectively. Management is satisfied with the first six-month of performance by the newly-acquired company as they delivered high throughput combined with a favourable product mix when compared to the previous six months. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of CESA would have amounted to \$117.3 million and \$2.8 million, respectively, for the fiscal year ended March 31, 2019.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. («Beaver») for a purchase price of US\$21.6 million (\$28.5 million). This price includes a working capital adjustment received in April 2019 of US\$0.3 million (\$0.4 million) and a US\$3.5 million (\$4.6 million) balance of sale payable over the next two years which bears interest at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition allows the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included US\$18.9 million (\$24.8 million) and US \$1.4 million (\$1.8 million), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of Beaver would have amounted to \$33.2 million and \$2.2 million, respectively, for the fiscal year ended March 31, 2019.

Acquisition of Tekalia

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

Purchase Prices

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

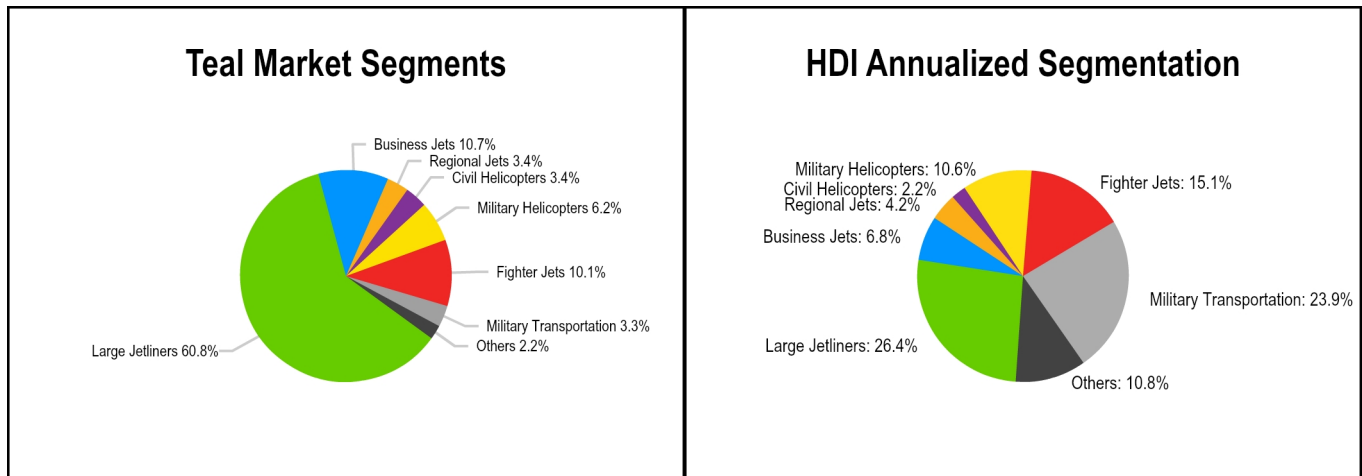
	CESA	Beaver	Tekalia	Total
Cash payment	\$ 170,930	\$ 23,671	\$ 3,548	\$ 198,149
Long-term debt assumed	35,594	574	2,981	39,149
Working capital adjustment receivable	(10,708)	(388)	—	(11,096)
Balance of purchase price payable	—	4,609	—	4,609
Total purchase price for the Corporation's interest	\$ 195,816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

Purchase Price Allocations

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

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

ECONOMIC OUTLOOK⁽¹⁾



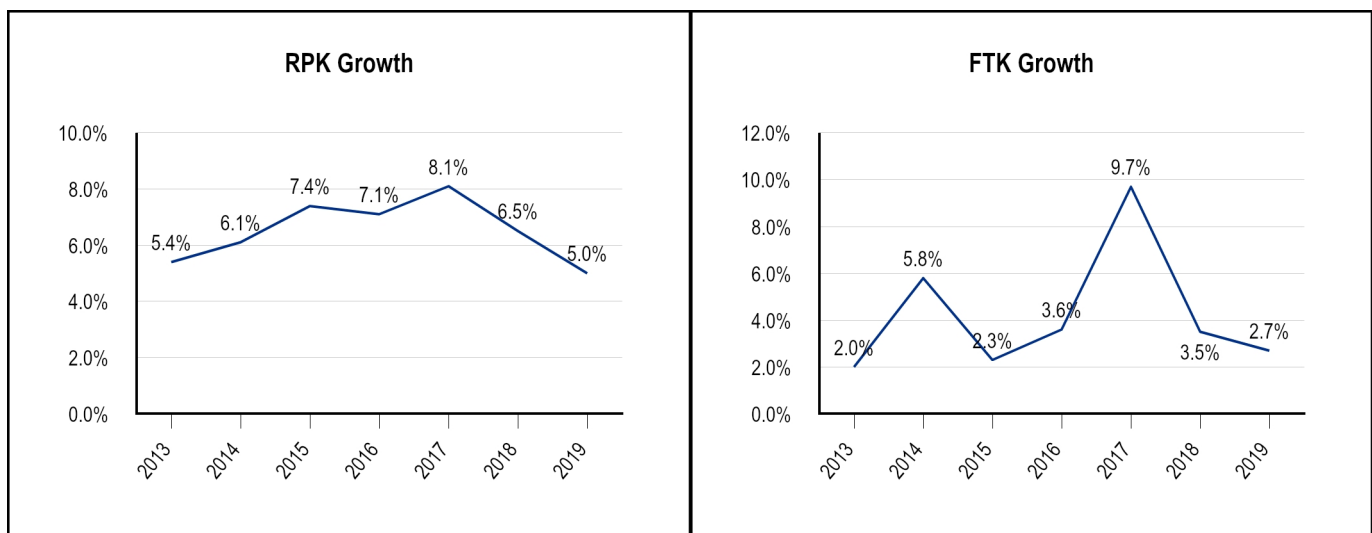
Commercial Aerospace Growth Forecasts Remain Positive in Light of Recent Signs of a Slowdown in Global Expansion

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

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

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

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



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

Customers' Commercial and Defence Order Backlogs Remain Strong

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

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

Both Boeing and Airbus are adjusting their production rates as they introduce certain more fuel-efficient aircraft variants on several leading programs. These adjustments are scheduled through calendar 2020. Order backlogs have increased year-over-year and remain strong for both manufacturers driven by a higher combined total of new orders and commitments at the end of 2018.⁽⁴⁾ Their combined backlogs represent a total of 13,477 aircraft representing over 8 years of production based on calendar 2018 production rates.

Defence Remains a Solid Growth Market with Spending on the Rise

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

On March 11, 2019, the U.S. administration sent Congress a Proposed Fiscal Year 2020 Budget request to increase funding for the Department of Defense (DOD) to US\$718 billion from US\$668 billion in 2018 representing 7.5% of year over year growth. In Canada, the new defence policy calls for a rise in spending, from \$18.9 billion in the 2017 fiscal year to \$32.7 billion in the 2027 fiscal year, an increase of over 70%. Europe is also committing more funds to defence, as evidenced by a 7.2% projected overall spending increase by members of NATO for 2019 (expressed in US dollars, assuming constant prices and exchange rates).⁽⁶⁾

New Certifications and Demand in North America Drive Business Jet Deliveries

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

In the business jet market, aircraft shipments increased by 3.8% in calendar 2018, to 703 aircrafts, according to data published by the General Aviation Manufacturers Association ("GAMA"). Looking ahead, the business jet industry is expected to experience growth in the short to medium term, supported by several new airplane models coming to market and an improved used aircraft environment. The North American market took delivery of 65.1% of all business jets delivered in 2018.⁽⁷⁾

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

⁽²⁾ Source: Airbus Global Market Forecast, 2018-2037

⁽³⁾ Sources: Air Passenger Market Analysis, IATA, February 2019; Air Freight Market Analysis, IATA, May 2019; IMF Downgrades GDP Forecast, But Growth Still Looks OK, April 2019; World Economic Outlook, International Monetary Fund, April 2019.

⁽⁴⁾ Sources: Airbus press release February 14, 2019 and April 30, 2019; Boeing press releases January 30, 2019 and April 9, 2019; Speech from Boeing CEO Dennis Muilenburg: 2019 Address to Shareholders, April 29, 2019. Statement from Boeing CEO Dennis Muilenburg: We Own Safety - 737 MAX Software, Production and Process Update, April 5, 2019.

⁽⁵⁾ Source: World Military and Civil Aircraft Briefing, Teal Group Corporation, March 2019.

⁽⁶⁾ Sources: DOD press release March 12, 2019; NATO press release, December 19, 2018; The Standing Senate Committee on National Finance Evidence, February 19, 2019.

⁽⁷⁾ Sources: GAMA press release February 20, 2019, GAMA annual report 2018; Business Aviation Market Forecast, Jetcraft, October 2018.

GUIDANCE

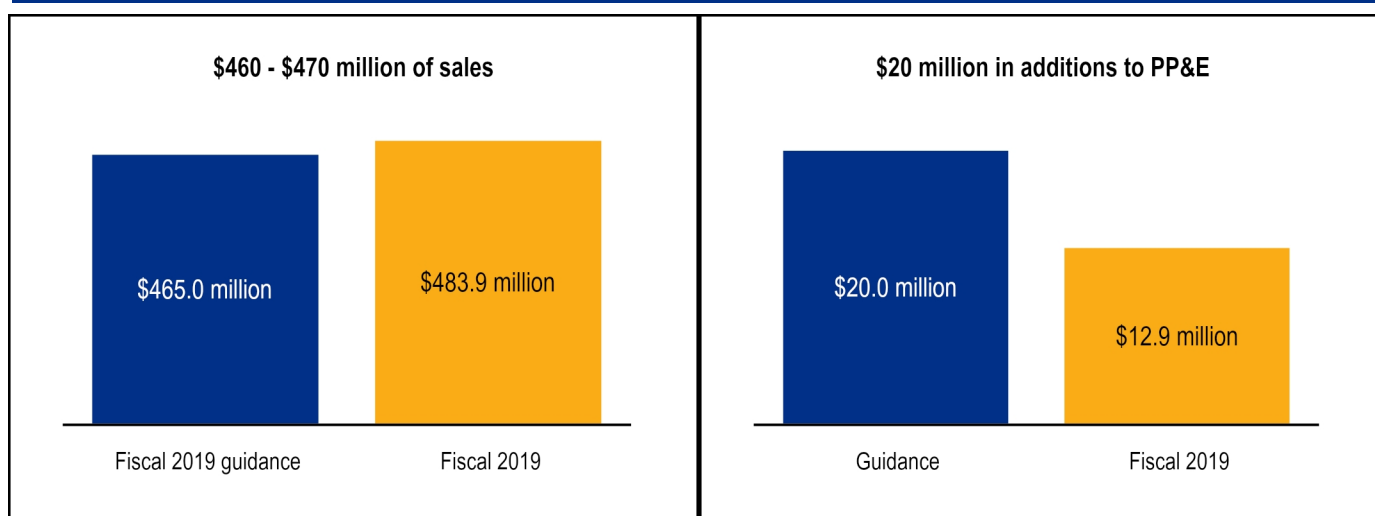
See *Forward-Looking Statements* for cautionary notice regarding Guidance and *Risk Management* for discussion of certain factors which may cause future results to differ from guidance included in this section.

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

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

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

FISCAL 2019 OPERATING RESULTS COMPARED TO REVISED GUIDANCE



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

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

FISCAL 2020 GUIDANCE

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

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

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

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

FOREIGN EXCHANGE

As a Corporation with operations in various countries which deals with customers from across the world, Héroux-Devtek's financial position and results of operations are partly influenced by movements in foreign exchange ("FX") rates. More specifically, the Corporation has operations in Canada, the United States, Spain and the United Kingdom, and thus incurs costs denominated in the respective currencies of these four countries, the Canadian dollar ("CAD"), United States dollar ("USD") Euros ("EUR") and British pound ("GBP"). In addition to costs denominated in their local currencies, a large portion of materials costs of the Canadian, Spanish and British operations are denominated in USD, as is a large portion of their sales.

The Corporation must convert foreign-denominated revenues, expenses, assets and liabilities into CAD for financial reporting purposes. Gains and losses occur as a result of the fluctuations of these foreign currencies against the CAD between balance sheet periods, or between the date of a transaction and the reporting date.

Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions, excluding the impact of forward foreign exchange contracts ("FFEC"), while the statement of income of foreign operations is translated at the average exchange rate for the period. Balance sheet items are translated at the spot rate on the reporting date.

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

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

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	2019	2018
USD (Canadian equivalent of US\$1.0)	1.3292	1.2648	1.3122	1.2834
EUR (Canadian equivalent of €1.0)	1.5094	N/A	1.5192	N/A
GBP (Canadian equivalent of £1.0)	1.7315	1.7607	1.7228	1.7022

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

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

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

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

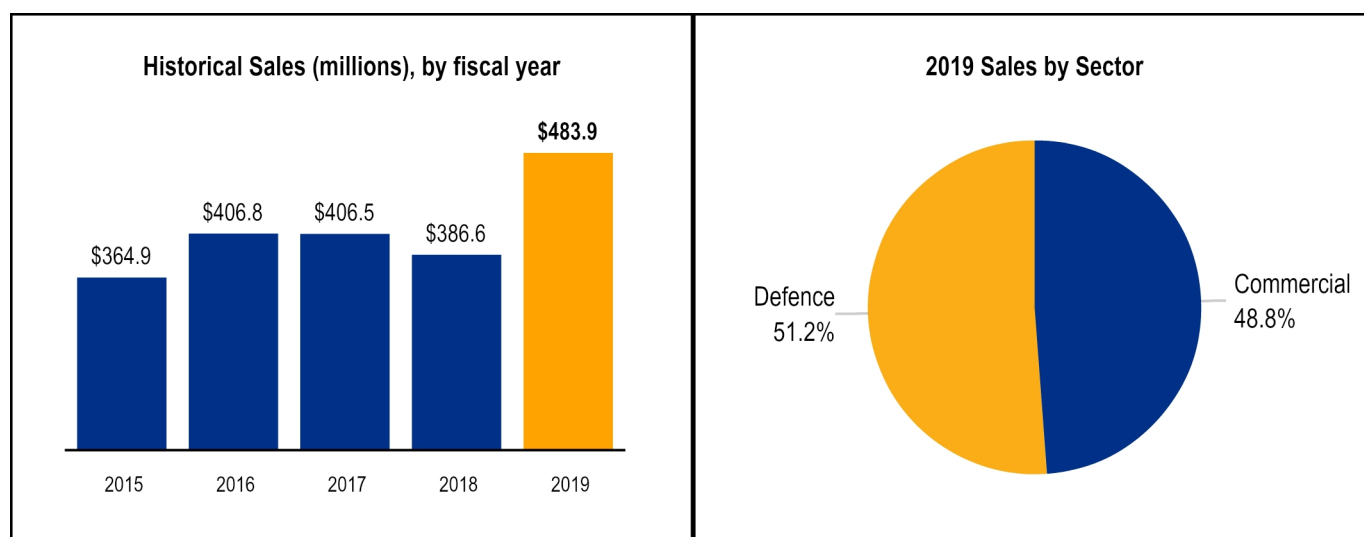
OPERATING RESULTS

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

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

⁽²⁾ Refer to the Non-Recurring Items section for more details

Sales



Sales can be broken down by sector as follows:

Quarters ended March 31,						
	2019	2018	Acquisitions	FX impact	Net variance	
Commercial	\$ 78,004	\$ 57,509	\$ 19,278	\$ 1,685	\$ (468)	(0.8)%
Defence ⁽¹⁾	79,910	55,515	24,172	1,760	(1,537)	(2.8)%
Total	\$ 157,914	\$ 113,024	\$ 43,450	\$ 3,445	\$ (2,005)	(1.8)%

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

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

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

Commercial

The \$7.6 million net increase in commercial sales for the fiscal year was mainly driven by:

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

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

Defence

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

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

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

Gross Profit

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

Selling and Administrative Expenses

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

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

Non-Recurring Items

Non-recurring items comprise the following:

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

Acquisition-related costs

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

Restructuring charges

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

Net losses on certain derivative financial instruments

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

Impact of US Tax Reform

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

Operating Income

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

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

Net financial Expenses

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

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

Income Tax Expense

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

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

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

On December 22, 2017, the United States Government passed into law the Tax Cuts and Jobs Act (the "US Tax Reform"). The US Tax Reform includes a number of changes in tax law impacting businesses including a permanent reduction in the federal corporate income tax rate from 35% to 21% effective January 1, 2018. This reduction caused a revaluation of the Corporation's net deferred tax assets, resulting in a one-time income tax expense of \$4.9 million during fiscal 2018.

Net Income

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITY AND CASH AND CASH EQUIVALENTS

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

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

The Revolving Facility was amended during the fiscal year ended March 31, 2019, increasing the credit limit from \$200.0 million to \$250.0 million in connection with the acquisition of CESA.

As at March 31, 2019, the Corporation had \$94.9 million drawn against the Revolving Facility, compared to \$54.2 million as at March 31, 2018. This increase is mainly related to a US\$50.0 million (\$65.2 million) drawing made in order to finance the CESA acquisition, net of US\$21.0 million (\$27.9 million) repayments made during the last six months of the fiscal year.

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

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

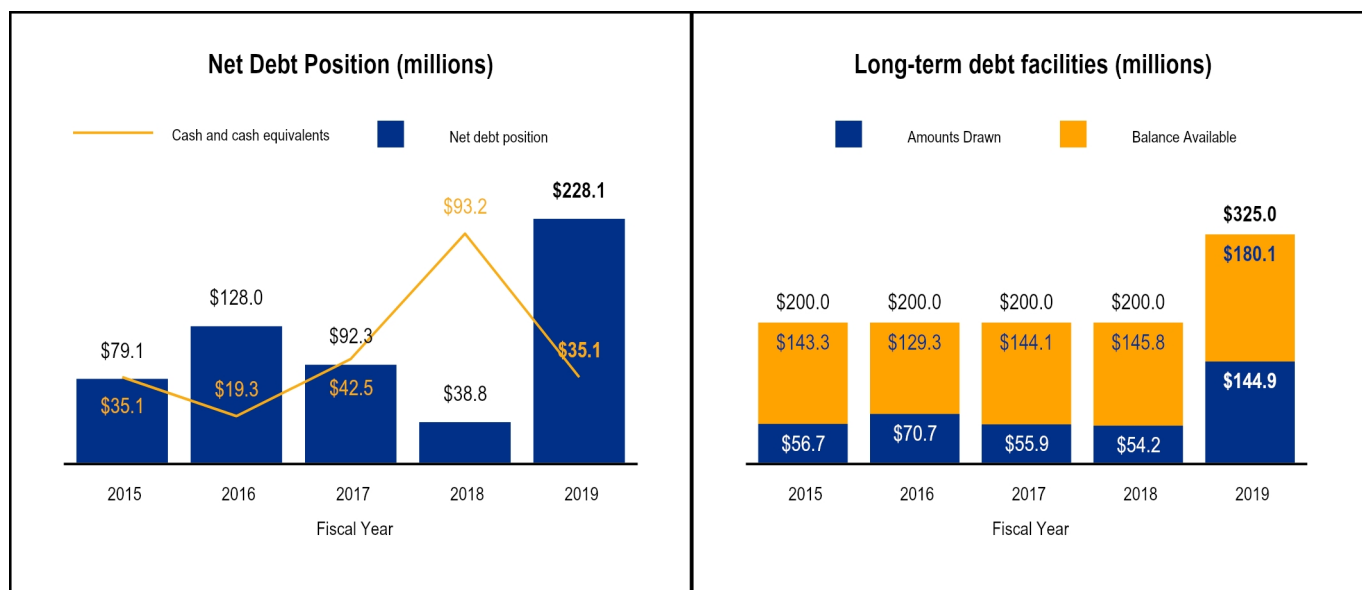
The initial \$50.0 million loan, drawn on September 25, 2018, bears interest at 5.7% and is repayable at maturity on September 30, 2025. Starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

Net Debt Position

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

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

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



Long-term debt is subject to certain general and financial covenants related to, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with all covenants during the fiscal year ended March 31, 2019 and expects to continue to comply with these restrictive financial covenants through the current fiscal year. In general terms, the Corporation has a healthy financial situation and is well positioned to face its financial needs.

GOVERNMENT AUTHORITIES LOANS

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

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

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as financial expense.

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

As at March 31, 2019, the Corporation had a present value of \$89.7 million outstanding under these agreements (\$52.5 million as at March 31, 2018), bearing effective interest rates of 0.0% to 6.6% as at March 31, 2019 (2.5% to 7.2% as at March 31, 2018). These loans have repayment terms extending to fiscal 2033 at the latest.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	2019	2018
Cash and cash equivalents at beginning of periods	\$ 28,639	\$ 70,642	\$ 93,209	\$ 42,456
Cash flows related to operating activities	37,181	18,521	69,969	56,122
Cash flows related to investing activities	(7,926)	3,121	(208,619)	(4,996)
Cash flows related to financing activities	(22,096)	20	80,320	(565)
Effect of changes in exchange rates on cash and cash equivalents	(670)	905	249	192
Cash and cash equivalents at end of periods	\$ 35,128	\$ 93,209	\$ 35,128	\$ 93,209

Operating Activities

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2019	2018	2019	2018
Cash flows from operations	\$ 19,116	\$ 11,961	\$ 60,396	\$ 42,624
Net change in non-cash items	18,065	6,560	9,573	13,498
Cash flows related to operating activities	\$ 37,181	\$ 18,521	\$ 69,969	\$ 56,122

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Investing Activities

The Corporation's investing activities were as follows:

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

The increase in cash payments related to investing activities for the quarter and compared to the same period last fiscal year mainly relates to the \$3.5 million payment made for the acquisition of Tekalia. For the fiscal year ended March 31, 2019, the cash payments related to investing activities also include a \$170.9 million payment for the acquisition of CESA and a \$23.7 million payment made for the acquisition of Beaver.

The net decrease in finite-life intangible assets during the quarter and the fiscal year ended March 31, 2019 is due to the timing of certain customer funding for capitalized development costs received during the current period.

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

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

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

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

Financing Activities

The Corporation's financing activities were as follows:

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

The increase in long-term debt during the fiscal year ended March 31, 2019 is mainly related to a US\$50.0 million (\$65.2 million) drawing on the Revolving facility and a \$50.0 million drawing on the Term Loan Facility, both in order to finance the CESA acquisition.

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

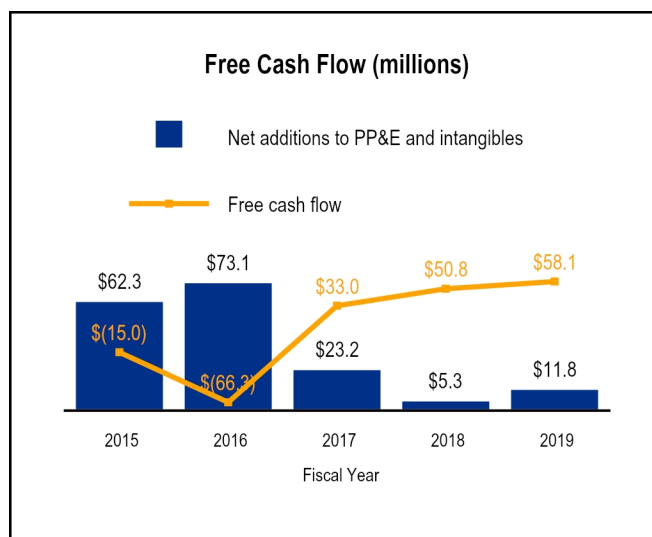
FREE CASH FLOW⁽¹⁾

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

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

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

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



LIQUIDITY REQUIREMENTS

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, as at March 31, 2019:

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

⁽¹⁾ Excluding defined benefit pension plan obligations presented in the Pension Plans section.

FINANCIAL POSITION

CAPITAL STRUCTURE

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

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

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

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

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

During fiscal year ended March 31, 2019, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows, as at:

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

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

ISSUED CAPITAL

Capital stock varied as follows:

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

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

Stock options varied as follows:

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

During fiscal 2019, following the approval by the shareholders of the Corporation at the last Annual General Meeting of shareholders, the aggregate number of shares available for future issuance under the stock option plan was replenished due to the limited number of common shares remaining under this plan.

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

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

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

CONSOLIDATED BALANCE SHEETS

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

Working Capital

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

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

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

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

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

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

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

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

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

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

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

PENSION PLANS

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

The net defined benefit obligations varied as follows, during fiscal year:

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

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

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

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

ADDITIONAL INFORMATION

KEY PERFORMANCE INDICATORS

Héroux-Devtek measures its performance on a corporate-wide basis through the following elements:

- Profitability
- Liquidity
- Growth and competitive positioning
- Financial position

To do so, the Corporation developed key performance indicators ("KPI"). The following is a list of these indicators as well as the elements which they help measure:

PERFORMANCE ELEMENT	KPI	MEASURES
Profitability	Gross profit	Manufacturing performance
	Adjusted operating income ⁽¹⁾	Operating performance
	Adjusted net income ⁽¹⁾	Global profitability
	Adjusted EPS ⁽¹⁾	Global profitability and shareholder return
	Return on net assets ("RONA")	Return on investment
Liquidity	Adjusted EBITDA ⁽¹⁾	Overall liquidity generation
	Cash flow from operations	Operating liquidity generation
	Free cash flow ⁽¹⁾	Net liquidity generation
Growth and competitive positioning	Sales	Growth
	Funded backlog	Outstanding firm orders
Financial position	Working capital	Available liquidity
	Net debt to EBITDA ratio	Indebtedness
	Net debt to equity ratio	Overall capital structure

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

In addition to the above measures, on an internal basis, the Corporation uses such measures as manufacturing capacity utilization, as well as on-time deliveries and non-quality costs to measure customer satisfaction.

Héroux-Devtek's incentive-based pay for management varies partially based on reaching established global or divisional targets of certain of the metrics listed above, including operating income, RONA, adjusted EBITDA and adjusted net income. Incentive pay also relies on individual objectives and, in the case of stock-based compensation, share price performance.

RISK MANAGEMENT

Héroux-Devtek operates in an industry which exposes it to a variety of risk factors and uncertainties that may have a material adverse effect on the business, financial condition and results. The Corporation is also subject to more general economic or natural risks which could have widespread, cross-industry impacts.

Héroux-Devtek's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any risk associated with business activities. Taking any risk unrelated to normal business activities is considered inappropriate.

It is ultimately the responsibility of the Board of Directors and its committees to identify material risks to the business and ensure management performs adequate risk management duties. Their role in this regard is largely one of high level decisions, oversight and review. In order to succeed, the Board of Directors entrusts the bulk of risk prevention, detection and mitigation to management.

It is Corporate management's responsibility to ensure that systems and procedures are in place to identify and assess risk exposures and manage them within tolerable limits. In order to do so, management has set out the following objectives:

- identify and evaluate risk exposures and, when practicable, reduce exposures to a tolerable level;
- use the most effective and efficient methods to eliminate, reduce or transfer risk exposures; and,
- consider risks associated with operating decisions and structure transactions in such a fashion as to avoid risks whenever possible.

The most significant risk management methods used by management have entity-wide impacts. Such entity-wide efforts include, but are not limited to:

- the establishment of a corporate culture which fosters responsible management and integrity by adhering to strict hiring policies and emitting strong tone from the top;
- the application of a code of ethical conduct and a whistleblower policy in order to assure the quality of the Corporation's corporate governance, and the integrity of the Corporation's functioning;
- the establishment and ongoing alignment of company-wide quality organizations and systems, including supply chain, quality assurance and continuous improvement; and,
- the company-wide establishment of a strong internal control environment in order to manage risks associated with financial reporting, fraud, treasury and operations.

The tables below include a selection of key risks identified by management as well as the related risk management approach. This list is not, nor is it intended to be, exhaustive. Other risks which may not yet have been identified by management could have an adverse effect on the Corporation's business, financial condition or results.

Strategic Risks

Strategic risks have company-wide impacts and are typically related to the Corporation's overall direction.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Boeing 777 and 777X programs	<p>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:</p> <ul style="list-style-type: none"> - 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 	<p>The Boeing 777 and 777X programs are subject to constant oversight by senior management and represent a company-wide effort. Furthermore:</p> <ul style="list-style-type: none"> - 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	<p>The top 9 of Héroux-Devtek's customers represent approximately 63% of consolidated sales, including one customer representing 22% of its consolidated sales. The loss of one of these customers would have a material adverse impact on current and forecasted financial results.</p>	<p>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.</p> <p>In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.</p>
Acquisitions and integrations	<p>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.</p> <p>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.</p>	<p>Héroux-Devtek carefully selects acquisition targets within restrictive criteria and only goes forward when satisfactory fit is identified.</p> <p>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.</p> <p>The Corporation further manages risks associated with acquisitions and integrations via thorough due diligence work, internal experience and external assistance, as needed.</p> <p>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.</p>

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 <i>Foreign exchange</i> section under <i>Overview</i> for details of Héroux-Devtek's exposure to foreign exchange rate fluctuations and related risk management practices.	
Liquidity, capital resources and related covenants	<p>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.</p> <p>Héroux-Devtek has access to such financing from its banking syndicate, unsecured subordinated term loan facility as well as from loans from government authorities and capital lease facilities. These agreements subject the Corporation to the financial covenants as described in the <i>Liquidity and capital resources</i> 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.</p> <p>These restrictions and covenants could impede access to capital or prevent the Corporation from engaging in business activities that may be in its interest.</p>	<p>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.</p> <p>In order to ensure stability and long-term financial viability, the Corporation also:</p> <ul style="list-style-type: none"> - 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. <p>Management also monitors covenants on an ongoing basis in order to ensure they are met and identifies trends which could indicate future risks.</p>
Changing interest rates	<p>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.</p> <p>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.</p>	<p>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.</p> <p>Outstanding derivatives are detailed in the <i>Derivative Financial Instruments</i> section under <i>Additional Information</i>.</p> <p>Risks associated with pensions are managed through investment policies put in place by the Corporation and pension committees.</p>

Operational Risks

Operational risks are more specific to or result from Héroux-Devtek's operations than strategic risks.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Litigation	<p>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.</p> <p>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.</p>	<p>The Corporation employs legal professionals who advise senior management on the subject of ongoing legal and regulatory compliance and related risk management.</p> <p>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.</p>
Collective bargaining agreements	<p>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.</p>	<p>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.</p>
Availability of skilled labour	<p>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.</p>	<p>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.</p>
Information technology	<p>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.</p> <p>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.</p>	<p>In order to reduce technology-related risks, Héroux-Devtek has implemented a variety of measures, including:</p> <ul style="list-style-type: none"> - 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 governance process and policies regarding information technology; - A cybersecurity awareness program and phishing campaigns; and, - Disaster recovery planning.
Warranty casualty claim losses	<p>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.</p>	<p>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.</p> <p>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.</p>
Supplier performance	<p>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.</p>	<p>Héroux-Devtek manages supplier-related risks through frequent supplier audits and maintaining high standards, such as requiring AS9100 and Nadcap certification.</p> <p>The Corporation also tracks and monitors supplier performance and mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management.</p>

External Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Competition and innovation	<p>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.</p> <p>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.</p>	<p>Héroux-Devtek manages risk from competition by maximizing customer satisfaction, on-time delivery, bidding competitively and maintaining high quality products.</p> <p>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.</p>
Availability and cost of raw materials	<p>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.</p>	<p>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.</p>
General economic conditions	<p>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.</p>	<p>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.</p> <p>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.</p>
Defence spending	<p>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.</p>	<p>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.</p>
Environmental matters	<p>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.</p>	<p>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.</p> <p>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.</p>

DERIVATIVE FINANCIAL INSTRUMENTS

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

As at March 31, 2019, these derivative financial instruments are as follows:

Forward foreign exchange contracts

See *Foreign Exchange* under *Overview* for information about the Corporation's exposure to foreign exchange risks as well as the derivative financial instruments used to mitigate it. See also note 32 to the Consolidated financial statements.

Cross-currency interest rate swaps

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

As at March 31, 2019, the Corporation had entered into the following cross-currency interest rate swap agreements in order to mitigate foreign exchange and interest rate risks:

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

Equity swap agreement

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

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

As at March 31, 2019, the equity swap agreement covered 245,000 common shares of the Corporation (150,000 at March 31, 2018) at a price of \$12.68 (\$11.45 at March 31, 2018). This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2020.

CRITICAL ACCOUNTING ESTIMATES

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

Key estimates and assumptions are as follows:

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit (“CGU”) exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm’s length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation’s five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that may enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation. The key assumptions used to determine the recoverable amount of the CGUs, including sensitivity analysis, are further explained in note 17 to the Consolidated financial statements.

Deferred income tax assets

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

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

Pensions and other retirement benefits

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

Capitalized development costs

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

Provisions

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

Government Authorities Loans

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

Customer Relationships

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

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

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

INTERNAL CONTROLS AND PROCEDURES

In compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings* ("Regulation 52-109"), the Corporation has filed certifications signed by the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") that, among other things, report on disclosure controls and procedures and the design of internal controls over financial reporting.

Disclosure controls and procedures

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

As at March 31, 2019, an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

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

As at March 31, 2019, an evaluation of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

As permitted by the Canadian Securities Administrators' Regulation 52-109, management's assessment and conclusion on the design of disclosure controls and procedures and internal controls over financial reporting exclude the controls, policies and procedures of Beaver and CESA, which were acquired respectively on July 2, 2018 and October 1, 2018. Those results are included in the March 31, 2019 consolidated annual financial statements of Héroux-Devtek and constituted approximately 34.6% of total assets as at March 31, 2019 and 18.3% of total revenues for the year ended March 31, 2019. Management expects that Beaver and CESA business acquisitions will be included in management's assessment and certification on the design of DCP and effectiveness ICFR by the second and third of fiscal 2020, respectively.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

NEW ACCOUNTING STANDARDS

IFRS 9, Financial Instruments

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

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

Initial recognition

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

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

FVTPL

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

AC

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

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

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

FVTOCI

These include cross-currency interest rate swap agreements that are used to hedge the net investments in certain foreign subsidiaries and forward foreign exchange contracts. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income, if any.

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

IFRS 15, Revenue from Contracts with Customers

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

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

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation, which is generally achieved upon the delivery of the products.

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 16 - Leases

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

The Corporation is required to apply this standard based on the full retrospective or modified retrospective (without restating comparative figures) approaches for its fiscal year beginning April 1, 2019. Many of the Corporation’s leases are already accounted for as finance leases on the Corporation’s consolidated balance sheet. Certain operating leases will be required to be brought on balance sheet while others do not as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

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

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

SELECTED FINANCIAL INFORMATION

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

Fiscal year	2019				2018			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	\$157,914	\$144,528	\$ 95,665	\$ 85,770	\$113,024	\$ 97,006	\$ 89,677	\$ 86,857
Operating income	15,190	11,904	5,289	4,857	6,697	6,629	4,644	5,408
Adjusted operating income ⁽¹⁾	16,208	13,973	6,165	5,217	12,089	7,238	5,590	5,408
Adjusted EBITDA ⁽¹⁾	25,910	22,883	13,176	12,244	19,369	13,563	12,032	11,940
Net Income	11,958	7,390	3,294	3,552	5,858	626	3,163	4,027
Adjusted Net Income ⁽¹⁾	12,794	9,367	4,405	3,786	10,439	5,690	4,057	4,027
<i>In dollars per share</i>								
Earnings per share - Basic & Diluted	\$ 0.34	\$ 0.20	\$ 0.09	\$ 0.10	\$ 0.16	\$ 0.02	\$ 0.09	\$ 0.11
Adjusted Earnings per share ⁽¹⁾	0.36	0.26	0.12	0.10	0.29	0.16	0.11	0.11
<i>In millions of shares</i>								
Weighted average number of common diluted shares outstanding	36.5	36.4	36.5	36.4	36.4	36.4	36.3	36.3

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

Seasonal trends

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

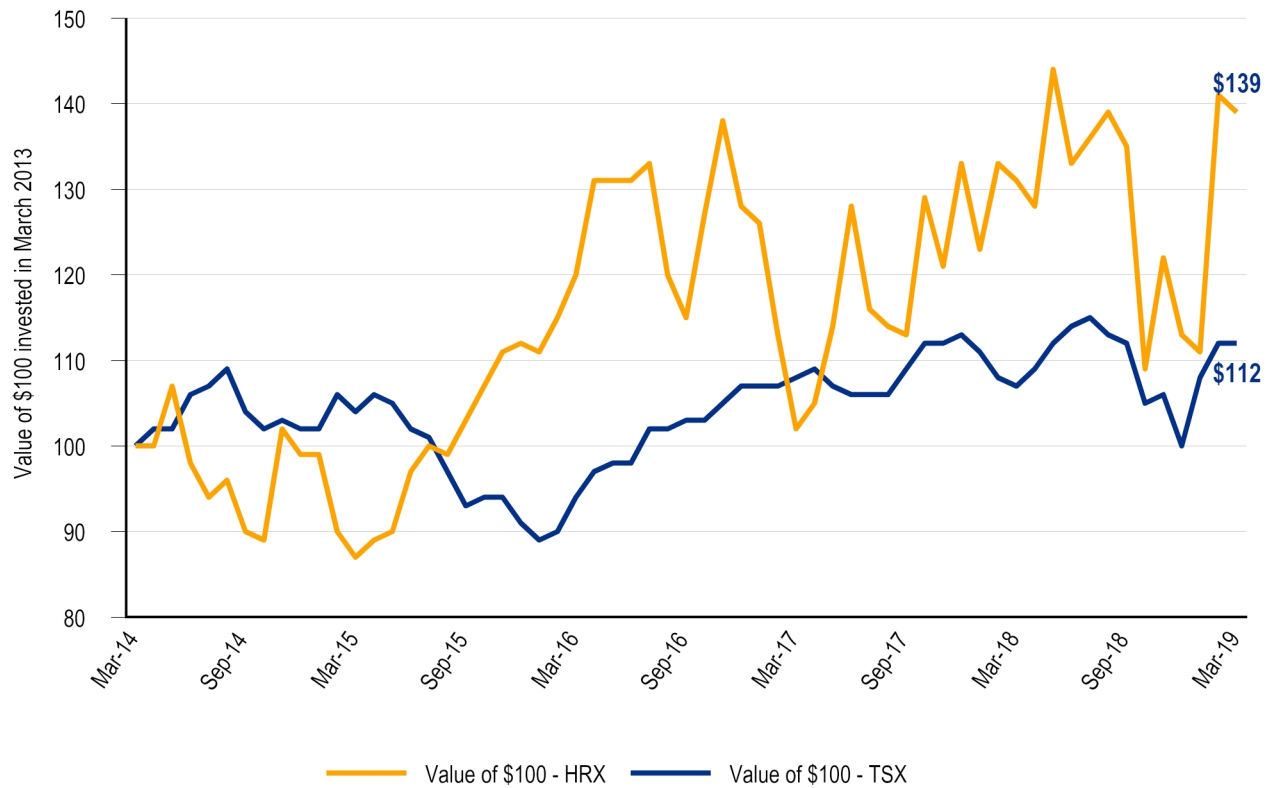
Selected financial information is as follows, for fiscal years:

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

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

⁽²⁾ Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.

HRX return on investment - 5 years



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 22, 2019. Additional information about the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED MARCH 31, 2019

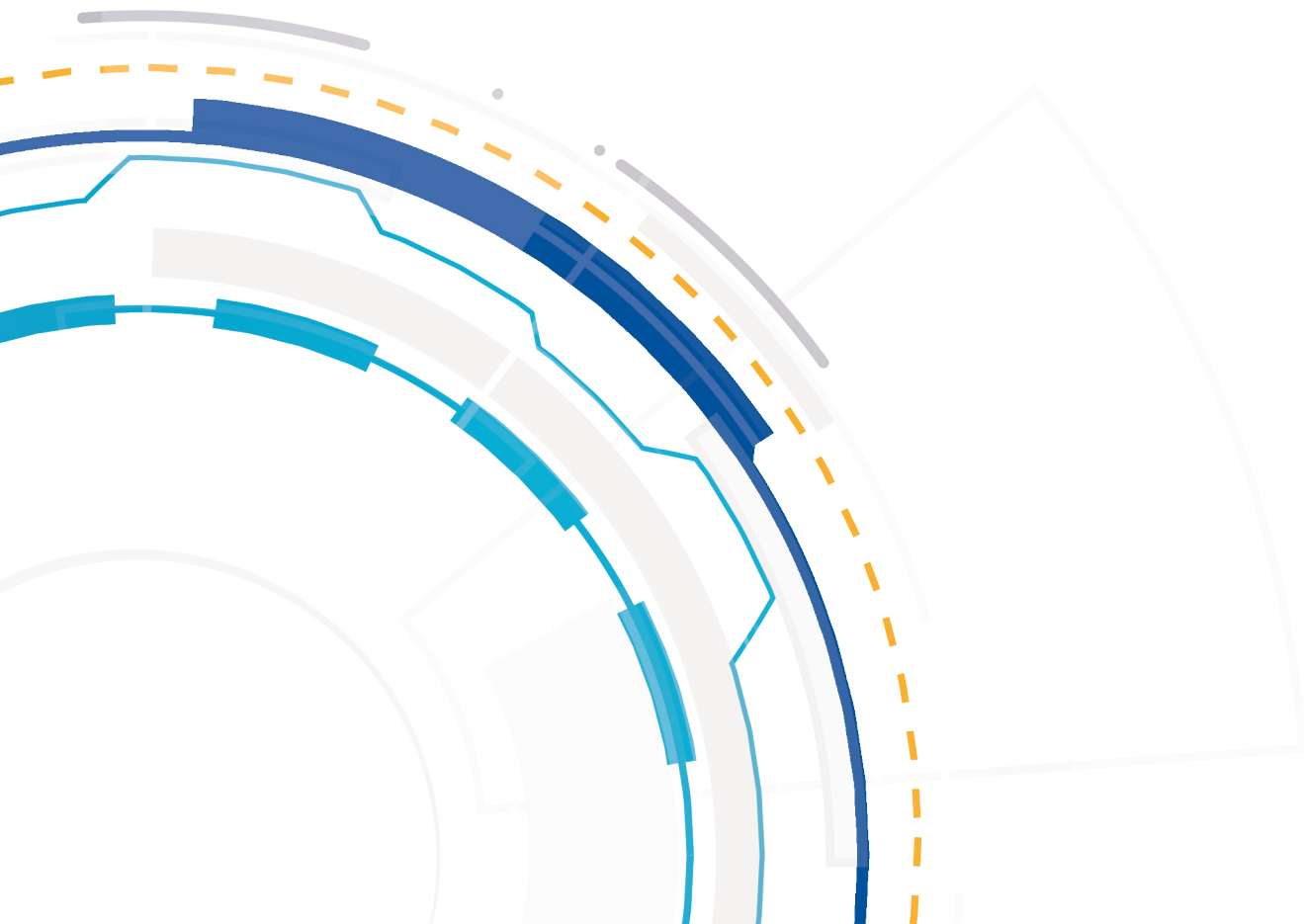


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MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis ("MD&A") of Héroux-Devtek Inc. (the "Corporation") 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. 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 2019. As of March 31, 2019, 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.

Management's assessment and conclusion on the design of ICFR and DC&P excludes the controls, policies and procedures of Beaver and CESA which were acquired respectively 9 months and 6 months prior to the Corporation's fiscal year-end. Their results since their respective acquisition dates are included in the March 31, 2019, consolidated financial statements of Héroux-Devtek and constituted approximately 34.6% of total assets as of March 31, 2019, and approximately 18.3% of revenue for the year then ended. See Note 5 to the consolidated financial statements for a description of these acquisitions.

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 22, 2019

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

Opinion

We have audited the consolidated financial statements of Héroux-Devtek Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2019 and 2018, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Wajih Chemali.

*Ernst & Young LLP*¹

Ernst & Young, LLP
Montréal, Québec
May 22, 2019

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

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2019	March 31, 2018
Assets	20		
Current assets			
Cash and cash equivalents		\$ 35,128	\$ 93,209
Accounts receivable		115,431	73,469
Income tax receivable		2,393	1,412
Inventories	12	184,035	134,327
Derivative financial instruments	13	783	1,776
Other current assets	14	26,697	6,456
		364,467	310,649
Property, plant and equipment, net	7, 15	227,954	179,503
Finite-life intangible assets, net	7, 16	69,377	35,856
Derivative financial instruments	13	5,816	3,421
Deferred income tax assets	24	14,575	7,388
Goodwill	17	185,637	91,137
Other long-term assets	14	6,914	4,208
Total assets		\$ 874,740	\$ 632,162
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	18	\$ 117,990	\$ 67,591
Provisions	19	27,820	16,869
Customers advances and progress billings		21,919	15,522
Income tax payable		1,911	3,023
Derivative financial instruments	13	2,134	389
Current portion of long-term debt	20	15,066	5,356
		186,840	108,750
Long-term debt	20	245,240	125,685
Provisions	19	16,789	5,921
Derivative financial instruments	13	1,317	2,389
Deferred income tax liabilities	24	7,479	3,767
Other liabilities	21	12,977	6,616
		470,642	253,128
Shareholders' equity			
Issued capital	22	79,676	78,105
Contributed surplus		4,707	4,227
Accumulated other comprehensive income	23	10,502	14,217
Retained earnings		307,101	282,485
Total equity attributable to the equity holders of the parent		401,986	379,034
Non-controlling interests		2,112	—
		404,098	379,034
Total liability and shareholder's equity		\$ 874,740	\$ 632,162

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	2019	2018
Sales	5, 6, 29	\$ 483,877	\$ 386,564
Cost of sales	7, 8, 12	400,681	325,288
Gross profit		83,196	61,276
Selling and administrative expenses	7, 8	41,633	30,951
Non-recurring items	10	4,323	6,947
Operating income		37,240	23,378
Net financial expenses	9, 10	6,811	2,537
Income before income tax expense		30,429	20,841
Income tax expense	10, 24	4,235	7,167
Net income		\$ 26,194	\$ 13,674
Attributable to:			
Equity holders of the parent		26,447	13,674
Non-controlling interests		(253)	—
		\$ 26,194	\$ 13,674
Earnings per share – basic and diluted	11	\$ 0.73	\$ 0.38

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	2019	2018
Other comprehensive income (loss):			
Items that may be reclassified to net income			
Gains (losses) arising from translating the financial statements of foreign operations	23	\$ (850)	\$ 5,860
Cash flow hedges:	23		
Net gains (losses) on valuation of derivative financial instruments		(3,362)	4,450
Net losses (gains) on derivative financial instruments transferred to net income		906	(3,704)
Deferred income taxes		660	(201)
		(1,796)	545
Gains (losses) on hedges of net investments in foreign operations	23	(1,221)	1,701
Deferred income taxes		152	(187)
		(1,069)	1,514
Items that are never reclassified to net income			
Defined benefit pension plans:	25		
Gains (losses) from remeasurement		(2,487)	261
Deferred income taxes		656	(68)
		(1,831)	193
Other comprehensive income (loss)		\$ (5,546)	\$ 8,112
Comprehensive income			
Net income		\$ 26,194	\$ 13,674
Other comprehensive income (loss)		(5,546)	8,112
Comprehensive income		\$ 20,648	\$ 21,786
Attributable to:			
Equity holders of the parent		20,901	21,786
Non-controlling interests		(253)	—
		\$ 20,648	\$ 21,786

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	Total equity attributable to the equity holders of the parent	Non-Controlling interests	Total Shareholders' equity
Balance as at March 31, 2018	23	\$ 78,105	\$ 4,227	\$ 14,217	\$ 282,485	\$ 379,034	\$ —	\$ 379,034
Common shares:	22							
Issued under the stock purchase and ownership incentive plan		470	—	—	—	470	—	470
Issued under the stock option plan		1,101	(402)	—	—	699	—	699
Business acquisition	5	—	—	—	—	—	2,365	2,365
Stock-based compensation expense	22	—	882	—	—	882	—	882
Net income (loss)		—	—	—	26,447	26,447	(253)	26,194
Other comprehensive loss		—	—	(3,715)	(1,831)	(5,546)	—	(5,546)
Balance as at March 31, 2019		\$ 79,676	\$ 4,707	\$ 10,502	\$ 307,101	\$ 401,986	\$ 2,112	\$ 404,098

	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

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	2019	2018
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income		\$ 26,194	\$ 13,674
Items not requiring an outlay of cash:			
Amortization expense	15, 16	32,650	26,579
Deferred income taxes	24	(2,019)	67
Loss (gain) on sale of property, plant and equipment and software		(8)	52
Write-down of property, plant and equipment	10, 15	—	886
Non-cash net financial expenses	9	2,697	758
Stock-based compensation expense	22	882	608
Cash flows from operations		60,396	42,624
Net change in non-cash items	28	9,573	13,498
Cash flows related to operating activities		69,969	56,122
Investing activities			
Cash payment for business acquisitions	5	(198,149)	—
Net additions to property, plant and equipment	15	(12,858)	(9,930)
Net decrease in finite-life intangible assets	16	2,353	4,761
Proceeds on disposal of property, plant and equipment		35	173
Cash flows related to investing activities		(208,619)	(4,996)
Financing activities			
Increase of long-term debt	5	117,883	3,821
Repayment of long-term debt		(36,198)	(4,634)
Issuance of common shares	20	1,169	772
Increase in deferred financing cost	22	(2,534)	(524)
Cash flows related to financing activities		80,320	(565)
Effect of changes in exchange rates on cash and cash equivalents		249	192
Change in cash and cash equivalents during the year		(58,081)	50,753
Cash and cash equivalents, beginning of year		93,209	42,456
Cash and cash equivalents, end of year		\$ 35,128	\$ 93,209
Interest and income taxes reflected in operating activities:			
Interest paid		\$ 4,914	\$ 2,359
Interest received		\$ 800	\$ 580
Income taxes paid		\$ 5,965	\$ 5,282

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, 2019 and 2018

(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 600, West 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 and electromechanical flight control actuators, custom ball screws and fracture-critical components.

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

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "HRX".

NOTE 2. BASIS OF PREPARATION

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the pension benefit obligations, which are measured at the present value of the defined benefit obligations and reduced by the fair value of plan assets.

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 22, 2019.

Reclassification of prior year presentation

Certain comparative figures have been reclassified to conform to the March 31, 2019 presentation. These relate to the combination of Customer advances and Progress billings under the same caption on the consolidated balance sheet.

Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned, except for Tekalia Inc. where the Corporation holds a 60% controlling interest. 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
Beaver Aerospace & Defense Inc.	United States
Compañía Española de Sistemas Aeronauticos S.A.	Spain

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. Control is achieved when the Corporation has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and ability to use its power to affect its returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control. Changes in the Corporation's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The cost of an acquisition is measured as the aggregate of the consideration paid, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Corporation measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets.

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 and of the Canadian operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar, the functional currency of the U.K operations is the British pound and the functional currency of Spain operations is the Euro. 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 on a straight-line basis over the related lease term.

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 15 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

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

The Corporation adopted IFRS 9 retrospectively on April 1, 2018 and this adoption did not have a significant impact on the Corporation's consolidated financial statements and no restatement of comparative figures were made.

Initial recognition

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

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

FVTPL

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

AC

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

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

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

FVTOCI

These include cross-currency interest rate swap agreements that are used to hedge the net investments in certain foreign subsidiaries and forward foreign exchange contracts. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income, if any.

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

J. Financial liabilities

Liabilities at fair value

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

Amortized costs

All debts, accounts payable, accrued liabilities, provisions and certain other 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, 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 the period that 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 purchase, by payroll deductions of a maximum of 10% of their annual base salary, to a number of common shares of the Corporation on the TSE. The Corporation matches a portion 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 5.25% 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

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

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

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation, which is generally achieved upon the delivery of the products.

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

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 Corporation's 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. 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

Basic and diluted earnings per share is computed based on net income attributable to equity holders of the Corporation. It is also 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 16 - Leases

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

The Corporation is required to apply this standard based on the full retrospective or modified retrospective (without restating comparative figures) approaches for its fiscal year beginning April 1, 2019. Many of the Corporation's leases are already accounted for as finance leases on the Corporation's consolidated balance sheet. Certain operating leases will be required to be brought on balance sheet while others do not as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

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

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

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 17.

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.

G. Customer relationships

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

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

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

NOTE 5. BUSINESS ACQUISITIONS

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all the shares of Compañía Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE, for €130,370 (\$195,816). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition allows the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

- A \$50,000, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- A US\$50,000 (\$65,205) drawing on the Corporation's credit facility; and,
- The Corporation's available cash balance.

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23,697 (\$35,594) upon closing.

For the period between October 1, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included €42,086 (\$63,519) and €2,674 (\$4,047), respectively, generated by CESA. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of CESA would have amounted to \$117,277 and \$2,806, respectively for the fiscal year ended March 31, 2019.

This transaction exposes 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.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver") from Phillips Service Industries Inc. for a purchase price of US\$21,617 (\$28,466). This price includes a working capital adjustment received in April 2019 of US\$295 (\$388) and a US\$3,500 (\$4,609) balance of sale payable over the next two years which bears interests at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition allows the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included US\$18,871 (\$24,839) and US\$1,395 (\$1,828), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of Beaver would have amounted to \$33,223 and \$2,243, respectively.

Acquisition of Tekalia

On January 23, 2019, the Corporation completed the acquisition of 60% of the shares of Tekalia Aeronautik (2010) Inc. ("Tekalia"), a supplier of surface treatment services to the aerospace sector, with annual sales of approximately \$12,000, for a purchase price of \$6,529. The transaction was financed through the Corporation's cash and was treated as a business combination. The acquisition of Tekalia allows the Corporation to further secure surface treatment capacity to support its North American customers' growth.

In connection with these acquisitions, the Corporation incurred acquisition-related costs which are presented in note 10.

Purchase Prices

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

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

Purchase Price Allocations

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

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

NOTE 6. SALES AND BACKLOG

The amount of sales recognized in the following sectors was as follow for fiscal year:

	2019	2018
Commercial	\$ 236,283	\$ 195,101
Defense	247,594	191,463
Total sales	\$ 483,877	\$ 386,564

The Corporation's backlog represents the aggregate amount of the revenues expected to be realized within a period of 24 months, from partially or fully unsatisfied performance obligations as at March 31, 2019 as we perform under contracts at delivery. The amounts in backlog include only the value of firm orders. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. At March 31, 2019, the Corporation had a backlog of \$623,925.

NOTE 7. 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:

	2019	2018
Finite-life intangible assets	\$ 1,125	\$ 332
Property, plant and equipment	497	619
Cost of sales and, selling and administrative expenses	3,903	1,929

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

NOTE 8. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

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

	2019	2018
Raw materials and purchased parts	\$ 179,395	\$ 140,361
Employee costs	154,406	126,292
Amortization of property, plant and equipment and finite-life intangible assets (notes 15, 16)	32,650	26,579
Others	75,863	63,007
	\$ 442,314	\$ 356,239

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, 2019, the foreign exchange gain amounted to \$718 (\$148 in 2018).

NOTE 9. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2019	2018
Interest accretion on governmental authorities loans	\$ 2,361	\$ 2,300
Net losses on certain derivative financial instruments (note 10)	391	344
Revision of governmental authorities loans repayment estimates (note 20)	(1,036)	(1,834)
Interest on net defined benefit obligations (note 25)	150	153
Amortization of deferred financing costs	505	238
Other non-cash financial expenses (income)	326	(443)
Non-cash net financial expenses	2,697	758
Interest expense	4,461	2,299
Net gains on certain derivative financial instruments (note 10)	—	(255)
Standby fees	453	315
Interest income on cash and cash equivalents	(800)	(580)
	\$ 6,811	\$ 2,537

NOTE 10. NON-RECURRING ITEMS

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

	2019	2018
Non-recurring items in operating income		
Acquisition-related costs	\$ 4,323	\$ 1,957
Restructuring charges	\$ —	\$ 4,990
	\$ 4,323	\$ 6,947
Non-recurring items in net financial expenses (income)		
Net losses on certain derivative financial instruments	\$ 391	\$ 89
	\$ 391	\$ 89
Non-recurring items in income tax expense		
Impact of US Tax Reform	\$ —	\$ 4,912
	\$ —	\$ 4,912

Acquisition-related costs

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

Restructuring charges

In March 2018, the Corporation announced workforce adjustments of about 60 employees at its Longueuil facility following the non-renewal of the USAF contract. These adjustments along with other costs related to the decrease in volume resulted in restructuring charges totaling \$4,990 accounted for during fiscal 2018 fourth 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 amounted to \$304 as at March 31, 2019 (\$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*.

Net losses on certain derivative financial instruments

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

Impact of US Tax Reform

This one-time tax expense of \$4,912 recorded during fiscal 2018 is related to the US Tax Reform enacted on December 22, 2017.

NOTE 11. EARNINGS PER SHARE

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

	2019	2018
Weighted-average number of common shares outstanding	36,307,708	36,154,272
Effect of dilutive stock options of the Corporation	129,344	177,342
Weighted-average number of common diluted shares outstanding	36,437,052	36,331,614
Options excluded from diluted earnings per share calculation ⁽¹⁾	526,500	356,500

⁽¹⁾ Excluded from diluted earnings per share calculation due to anti-dilutive impact.

NOTE 12. INVENTORIES

As at	March 31, 2019	March 31, 2018
Raw materials	\$ 97,976	\$ 62,902
Work-in-progress	84,752	69,118
Finished goods	1,307	2,307
	\$ 184,035	\$ 134,327

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2019 is \$333,917 (\$267,753 in 2018).

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

	2019	2018
Reserves recognized as cost of sales	\$ 8,118	\$ 7,312
Reversal of prior-period reserves	9,116	13,639

For fiscal year 2019, the reversal of prior-period reserves includes charges of \$1,705 (\$5,568 in 2018) 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 13. DERIVATIVE FINANCIAL INSTRUMENTS

As at	March 31, 2019	March 31, 2018
Current Assets		
Forward foreign exchange contracts	\$ 399	\$ 1,776
Cross-currency interest rate swap agreements	384	—
	\$ 783	\$ 1,776
Long-term Assets		
Forward foreign exchange contracts	\$ 190	\$ 1,172
Cross-currency interest rate swap agreements	1,735	—
Equity swap agreements	3,891	2,249
	\$ 5,816	\$ 3,421
Current Liabilities		
Forward foreign exchange contracts	\$ 2,134	\$ 382
Interest rate swap agreements	—	7
	\$ 2,134	\$ 389
Long-term Liabilities		
Forward foreign exchange contracts	\$ 1,317	\$ 76
Cross-currency interest-rate swap agreements	—	2,313
	\$ 1,317	\$ 2,389

NOTE 14. OTHER ASSETS

As at	March 31, 2019	March 31, 2018
Working capital adjustment receivable (note 5)	\$ 10,695	\$ —
Investment and other tax credits receivable	6,366	523
Prepaid expenses	5,171	3,614
Sales tax receivable	3,415	1,676
Others	1,050	643
Other current assets	\$ 26,697	\$ 6,456
Tax credits receivable	6,914	3,165
Others	—	1,043
Other long-term assets	\$ 6,914	\$ 4,208

NOTE 15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2018	\$ 6,500	\$ 90,089	\$ 235,411	\$ 14,574	\$ 2,308	\$ 348,882
Additions	124	1,981	10,845	2,127	(1,201)	13,876
Business acquisitions	12,487	22,622	19,380	1,568	1,067	57,124
Government assistance (note 7)	—	(23)	(420)	(54)	—	(497)
Retirements and disposals	—	(10)	(1,157)	(94)	7	(1,254)
Effect of changes in exchange rates	(82)	1,097	4,626	100	(48)	5,693
As at March 31, 2019	\$ 19,029	\$ 115,756	\$ 268,685	\$ 18,221	\$ 2,133	\$ 423,824
Accumulated amortization:						
As at March 31, 2018	\$ —	\$ 29,432	\$ 130,981	\$ 8,966	\$ —	\$ 169,379
Amortization expense	—	4,638	17,636	2,079	—	24,353
Retirements and disposals	—	(6)	(1,128)	(93)	—	(1,227)
Effect of changes in exchange rates	—	285	3,022	58	—	3,365
As at March 31, 2019	\$ —	\$ 34,349	\$ 150,511	\$ 11,010	\$ —	\$ 195,870
Net book value as at March 31, 2019	\$ 19,029	\$ 81,407	\$ 118,174	\$ 7,211	\$ 2,133	\$ 227,954

	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 7)	—	(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 10)	—	—	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

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

	2019	2018
Gross additions	\$ 13,876	\$ 10,691
Government assistance (note 7)	(497)	(619)
Additions to property, plant and equipment	13,379	10,072
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	(521)	(142)
Additions, as per statements of cash flows	\$ 12,858	\$ 9,930

As at March 31, 2019, cost of machinery, equipment and tooling includes assets acquired through finance leases amounting to \$40,716 (\$40,151 as at March 31, 2018) with accumulated amortization of \$10,006 (\$6,847 as at March 31, 2018).

As at March 31, 2019 and 2018, construction in progress included mainly the cost related to machinery and equipment. As at March 31, 2019, the cost of property, plant and equipment still in use and fully depreciated is \$91,109 (\$87,188 as at March 31, 2018).

NOTE 16. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs		Software		Customer relationships and contracts		Total
Cost:							
As at March 31, 2018	\$	31,160	\$	18,641	\$	25,404	\$ 75,205
Additions		3,165		2,749		—	5,914
Business acquisitions		—		1,693		42,940	44,633
Customers funding		(7,142)		—		—	(7,142)
Government assistance (note 7)		(1,046)		(79)		—	(1,125)
Retirements and disposals		—		(480)		—	(480)
Effect of changes in exchange rates		219		(612)		(258)	(651)
As at March 31, 2019	\$	26,356	\$	21,912	\$	68,086	\$ 116,354
Accumulated amortization:							
As at March 31, 2018	\$	11,493	\$	14,152	\$	13,704	\$ 39,349
Amortization expense		948		2,226		5,124	8,298
Retirements and disposals		—		(480)		—	(480)
Effect of changes in exchange rates		25		(120)		(95)	(190)
As at March 31, 2019	\$	12,466	\$	15,778	\$	18,733	\$ 46,977
Net book value as at March 31, 2019	\$	13,890	\$	6,134	\$	49,353	\$ 69,377

	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 7)	—	(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

NOTE 17. GOODWILL

Goodwill varied as follows, during fiscal year:

	2019	2018
Balance at beginning of the year	\$ 91,137	\$ 86,049
Business acquisitions	97,555	—
Effect of changes in exchange rates	(3,055)	5,088
Balance, end of year	\$ 185,637	\$ 91,137

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

	March 31, 2019
North America	\$ 67,561
U.K.	65,041
Spain	53,035
Goodwill	\$ 185,637

The following key assumptions were used to determine recoverable amounts for the impairment tests performed as at March 31, 2019:

	Pre-tax discount rate	Perpetual growth rate
North America	13.1%	2.8%
U.K.	13.6%	2.8%
Spain	14.1%	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, 2019:

	Incremental increase in pre-tax discount rate	Incremental decrease in perpetual growth rate
North America	3.1%	4.8%
U.K.	6.7%	12.9%
Spain	0.8%	2.4%

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2019	March 31, 2018
Trade payables ⁽¹⁾	\$ 76,749	\$ 41,645
Accrued liabilities ⁽²⁾	37,403	23,412
Other	3,838	2,534
Accounts payable and accrued liabilities	\$ 117,990	\$ 67,591

⁽¹⁾ Trade payables are normally settled on 30 to 60 day terms.

⁽²⁾ Accrued liabilities mainly include employees-related liabilities.

NOTE 19. PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Other (note 26)	Total
As at March 31, 2018	\$ 243	\$ 5,770	\$ 7,456	\$ 9,321	\$ 22,790
Arising during the year	355	—	1,052	1,869	3,276
Business acquisitions (note 5)	14,088	—	6,925	5,859	26,872
Interest accretion expense	—	174	—	—	174
Utilized	(2,300)	—	(1,567)	(2,642)	(6,509)
Reversed	(2)	—	(1,029)	(821)	(1,852)
Discount rate adjustment	—	152	—	—	152
Effect of changes in exchange rates	54	—	(187)	(161)	(294)
As at March 31, 2019	\$ 12,438	\$ 6,096	\$ 12,650	\$ 13,425	\$ 44,609
Less: current portion	5,644	—	9,113	13,063	27,820
Long-term portion	\$ 6,794	\$ 6,096	\$ 3,537	\$ 362	\$ 16,789

NOTE 20. LONG-TERM DEBT

As at	March 31, 2019	March 31, 2018
Senior Secured Syndicated Revolving Credit Facility	\$ 94,877	\$ 54,155
Governmental authorities loans	89,701	52,540
Unsecured Subordinated Term Loan Facility	50,000	—
Obligations under finance leases	20,411	25,269
Balance of sale related to a business acquisition (note 5)	4,677	—
Other ⁽¹⁾	3,592	—
Deferred financing costs, net	(2,952)	(923)
	260,306	131,041
Less: current portion	15,066	5,356
Long-term debt	\$ 245,240	\$ 125,685

⁽¹⁾ Other relates to secured loans contracted by a subsidiary

Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility”)

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

As at	March 31, 2019	March 31, 2018
Limit, in Canadian, US\$, Euro or British Pound equivalent ⁽¹⁾	\$ 250,000	\$ 200,000
US\$ Drawings		
Amount	US\$ 71,000	US\$ 42,000
Rate	Libor + 2.0%	Libor + 1.125%
Effective rate	4.5%	3.0%

⁽¹⁾ Includes an accordion feature to increase the Credit Facility up to \$350 million during the term of the credit agreement, subject to lenders' approval.

On September 24, 2018, the Corporation reached an agreement with its syndicate of banks to increase the Revolving Facility's limit from \$200,000 to \$250,000. Most of the other terms remained unchanged. Financing costs totaling \$1,699 were deferred and are amortized over the term of the related loans using the effective interest rate method. The Credit Facility is secured by essentially all assets of the Corporation and its subsidiaries and matures on May 24, 2022.

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

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

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as financial expense.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2019, the Corporation updated the estimated repayment schedule of its government authorities loans, taking into account revised assumptions mainly related to sales forecasts. This resulted in a non-cash gain of \$1,036 (\$1,834 in fiscal 2018), which was included in Net financial expenses (income) (see note 9).

The effective interest rates for these loans were in the range of 0.0% to 6.6% as at March 31, 2019 (2.5% to 7.2% as at March 31, 2018).

Unsecured Subordinated Term Loan Facility ("Term Loan")

On September 24, 2018, the Corporation signed an unsecured subordinated term loan facility with *Fonds de Solidarité FTQ* for an amount of up to \$75,000. The facility consists of a \$50,000 term loan related to the acquisition of CESA (see Note 5) and additional financing available until September 30, 2020, of up to \$25,000 subject to certain conditions. The initial \$50,000 loan was drawn on September 25, 2018, bears interest at 5.7% and is repayable at maturity on September 30, 2025. Starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees. Financing costs totaling \$835 were deferred and are amortized over the term of the related loans using the effective interest rate method.

Obligations under finance leases ("Finance Leases")

Obligations under finance leases bear fixed interest rates between 2.4% and 5.0% as at March 31, 2019 and March 31, 2018, 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 \$1,351 (\$1,928 as at March 31, 2018).

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 as at March 31, 2019.

Minimum repayments

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

Fiscal years	Revolving Facility	Governmental authorities loans	Term Loan	Finance Leases	Other ⁽²⁾	Total
2020	\$ 4,269	\$ 6,780	\$ 2,850	\$ 6,007	\$ 3,306	\$ 23,212
2021	4,269	7,820	2,850	5,746	3,203	23,888
2022	4,269	9,345	2,850	5,439	694	22,597
2023	95,589	11,014	2,850	3,350	590	113,393
2024	—	10,924	2,850	1,220	208	15,202
Beyond 5 years	—	64,783	54,975	—	1,622	121,380
Sub-Total	108,396	110,666	69,225	21,762	9,623	319,672
Less: Interest	13,519	20,965	19,225	1,351	1,354	56,414
Debt balance ⁽¹⁾	\$ 94,877	\$ 89,701	\$ 50,000	\$ 20,411	\$ 8,269	\$ 263,258

⁽¹⁾ Before net deferred financing costs.

⁽²⁾ Includes the balance of sales related to a business acquisition.

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

	March 31, 2019	March 31, 2018
Long-term debt, at beginning of the fiscal year	\$ 131,041	\$ 134,139
Increase in long-term debt	117,883	3,821
Repayment of long-term debt	(36,198)	(4,634)
Debt acquired through business acquisitions (note 5)	43,758	—
Amortization of deferred financing costs (note 9)	505	238
Fees incurred to amend or renew the Credit Facility	(2,534)	(524)
Interest accretion and adjustments on governmental authorities loans (note 9)	1,325	466
Effects of fluctuations in exchange rates	4,526	(2,465)
Long-term debt, at end of the fiscal year	\$ 260,306	\$ 131,041

NOTE 21. OTHER LIABILITIES

As at	March 31, 2019	March 31, 2018
Net defined benefit obligations (note 25)	\$ 6,650	\$ 3,958
Customer advances	2,050	—
Deferred revenue	1,468	2,639
Progress billings	863	19
Other	1,946	—
Other Liabilities	\$ 12,977	\$ 6,616

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:

	2019		2018	
	Number	Issued capital	Number	Issued capital
Balance, beginning of year	36,218,572	\$ 78,105	36,122,050	\$ 77,217
Issued for cash on exercise of stock options	107,450	1,101	48,750	298
Issued for cash under the stock purchase and ownership incentive plan	36,188	470	47,772	590
Balance, end of year	36,362,210	\$ 79,676	36,218,572	\$ 78,105

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:

	2019		2018	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance, beginning of year	1,105,295	\$ 12.09	914,295	\$ 10.88
Granted	207,500	16.21	243,500	14.93
Exercised	(107,450)	6.50	(48,750)	3.71
Cancelled / forfeited	(38,250)	15.24	(3,750)	11.71
Balance, end of year	1,167,095	\$ 13.23	1,105,295	\$ 12.09
Stock-based compensation expense		\$ 882		\$ 608

The weighted-average share price at the date of exercise of stock options in fiscal 2019 was \$15.86 (\$14.44 in 2018).

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

	2019	2018
Number of stock options granted	207,500	243,500
Weighted average fair value per stock option	\$ 4.25	\$ 3.84
Total fair value	\$ 882	\$ 935
Expected life (years)	4.8 years	4.9 years
Expected volatility	24%	25%
Expected forfeiture	4.2%	4.5%
Expected dividend distribution	None	None
Compounded risk-free interest rate	2.3%	1.6%

During fiscal 2019, following the approval by the shareholders of the Corporation at the last Annual General Meeting of shareholders, the aggregate number of shares available for future issuance under the stock option plan was replenished due to the limited number of common shares remaining under this plan. As at March 31, 2019, 2,808,257 common shares are reserved for issuance of stock options, of which 2,762,507 remained to be issued, compared to 1,514,481 as at March 31, 2018.

As at March 31, 2019, 1,167,095 stock options were issued and outstanding and can be detailed as follows:

Exercisable price	Outstanding options			Vested options	
	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
\$10.71 to \$11.71	640,595	2.26	\$12.15	602,845	\$11.47
\$14.93 to \$16.22	526,500	5.72	15.42	166,000	14.95
	1,167,095	3.97	\$13.23	768,845	\$12.33

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:

	2019	2018
<i>In number of common shares</i>		
Issued	36,188	47,772
Attributed to participating employees	24,622	18,800
Expense related to common shares attributed	\$ 227	\$ 260

As at March 31, 2019, 340,000 shares are reserved for issuance under the stock purchase and ownership incentive plan, of which 22,678 remained to be issued, compared to 58,866 as at March 31, 2018.

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

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

	2019	2018
<i>In number of DSUs</i>		
Balance, beginning of year	136,170	135,815
Issued	36,008	32,588
Settled	(4,512)	(32,233)
Cancelled/Forfeited	(1,332)	—
Closing balance of DSUs outstanding	166,334	136,170
DSU expense	\$ 640	\$ 910
Fair value of outstanding DSUs, end of year	\$ 2,534	\$ 1,962

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

	2019	2018
<i>In number of PSUs</i>		
Balance, beginning of year	187,948	114,434
Issued	81,350	100,650
Settled	(38,392)	(23,334)
Cancelled/forfeited	(18,456)	(3,802)
Closing balance of PSUs outstanding	212,450	187,948
PSU expense	\$ 1,505	\$ 163
Fair value of vested outstanding PSUs, end of year	\$ 1,850	\$ 842

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, 2018	\$ 20,116	\$ 24	\$ (5,923)	\$ 14,217
Other comprehensive loss	(850)	(1,796)	(1,069)	(3,715)
Balance as at March 31, 2019	\$ 19,266	\$ (1,772)	\$ (6,992)	\$ 10,502

	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

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2019	2018
Consolidated statements of income		
Current income tax expense	\$ 6,254	\$ 7,100
Deferred income tax expense (recovery)	(2,019)	67
Income tax expense reported in the consolidated statements of income	\$ 4,235	\$ 7,167
Consolidated statements of changes in shareholders' equity		
Expense (recovery) related to items charged or credited directly to retained earnings	\$ (656)	\$ 68
Expense (recovery) related to items charged or credited directly to other comprehensive income	(557)	826
Income tax expense reported directly in shareholders' equity	\$ (1,213)	\$ 894

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

	2019	2018
Income taxes at combined Federal and Provincial statutory tax rates of 26.6%	\$ 8,124	\$ 5,554
Income tax rate differential – foreign subsidiaries	(4,788)	(4,251)
Permanent differences	1,018	827
Impact of US Tax Reform (note 10)	—	4,912
Other items	(119)	125
Income tax expense	\$ 4,235	\$ 7,167

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.

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

As at	March 31, 2019	March 31, 2018
Deferred income tax assets		
Non-deductible reserves	\$ 9,850	\$ 4,126
Inventories	5,345	3,872
Receivables	20	10
Derivative financial instruments	113	—
Governmental authorities loans	10	—
Deferred tax benefits from tax losses and deductible expenses carried forward	22,185	14,012
Total deferred income tax assets	\$ 37,523	\$ 22,020
Deferred income tax liabilities		
Investment and other tax credits	(729)	(557)
Property, plant and equipment	(16,903)	(14,863)
Customer relationships and contracts	(12,795)	(2,891)
Governmental authorities loans	—	(64)
Derivative financial instruments	—	(24)
Total deferred income tax liabilities	\$ (30,427)	\$ (18,399)
Net deferred income tax assets	\$ 7,096	\$ 3,621

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

As at	March 31, 2019	March 31, 2018
Deferred income tax assets	\$ 14,575	\$ 7,388
Deferred income tax liabilities	(7,479)	(3,767)
Net deferred income tax assets	\$ 7,096	\$ 3,621

As at March 31, 2019, net deferred income tax assets of \$4,540 were recognized (\$8,790 as at March 31, 2018) 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 full benefits of these deductible temporary differences and non-capital losses carried forward.

As at March 31, 2019, operating losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements amounted to \$3,329 (none as at March 31, 2018).

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

As at	March 31, 2019	March 31, 2018
Canada	\$ 19,520	\$ 19,943
United States	64,219	53,506
Spain	18,874	—
	\$ 102,613	\$ 73,449

As at March 31, 2019, deferred income tax assets of \$12,526 and deferred income tax liabilities of \$930 are expected to be recovered or settled in less than one year.

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, 2019, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to \$21,614 (\$25,151 in 2018).

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 2019, 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 \$1,335 (\$1,489 in 2018) while the cash contributed to its defined contribution plans amounted to \$3,492 (\$3,200 in 2018).

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 61% in equity funds, 31% 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, 2019	March 31, 2018
Present value of defined benefit obligations of funded plans	\$ 65,962	\$ 61,216
Fair value of plan assets	60,710	58,974
Funded status of the plans – deficit	\$ (5,252)	\$ (2,242)
Present value of defined benefit obligations of unfunded plan	(1,398)	(1,716)
Amount recognized in other long-term liabilities	\$ (6,650)	\$ (3,958)

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

	2019	2018
Current service cost	\$ 1,192	\$ 1,459
Interest on net defined benefit obligations (note 9)	150	153
Past service cost	—	325
Administrative cost	198	161
Defined benefit pension expense recognized in the consolidated statements of income	\$ 1,540	\$ 2,098

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

	2019	2018
Remeasurements		
Losses from changes in demographic assumptions	\$ (326)	\$ (2)
Losses from changes in financial assumptions	(2,855)	(915)
Experience gains	255	1,257
Return on plan assets, excluding interest income on plan assets	439	(79)
Other comprehensive income	\$ (2,487)	\$ 261

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

	2019	2018
Actual return on the fair value of plan assets	\$ 2,547	\$ 2,038

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

	2019	2018
Defined benefit obligations, beginning of year	\$ 62,932	\$ 61,106
Current service cost	1,192	1,459
Interest expense	2,258	2,270
Contributions by plans' participants	675	731
Losses from change in demographic assumptions	326	2
Losses from changes in financial assumptions	2,855	915
Experience gains	(255)	(1,257)
Benefits paid	(2,623)	(2,619)
Past service benefits	—	325
Defined benefit obligations, end of year	\$ 67,360	\$ 62,932

The fair value of plan assets is as follows:

As at	March 31, 2019	March 31, 2018
Fair value of plans' assets, beginning of year	\$ 58,974	\$ 57,496
Interest income on plans' assets	2,108	2,117
Return on plans' assets, excluding interest income on plans' assets	439	(79)
Contributions by the employer	1,335	1,489
Contributions by plans' participants	675	731
Benefits paid	(2,623)	(2,619)
Administrative costs	(198)	(161)
Fair value of plans' assets, end of year	\$ 60,710	\$ 58,974

The plans' assets consist of:

As at	March 31, 2019	March 31, 2018
Equity securities	61%	63%
Debt securities	31%	29%
Other	8%	8%
Total	100%	100%

Significant assumptions

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

	2019	2018
Defined benefit obligations as at March 31:		
Discount rate	3.30%	3.60%
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	86
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	87	87
Female, 65 years of age at reporting date	90	90

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, 2019:

Increase (Decrease)	Pension expense	Defined benefit obligations
	%	%
Discount rate		
Increase of 0.5%	(25.1)	(7.0)
Decrease of 0.5%	24.9	7.8
Rate of compensation		
Increase of 0.5%	0.1	—
Decrease of 0.5%	(0.1)	—
Average life expectancies		
Increase of 1 year	7.6	2.7
Decrease of 1 year	(7.7)	(2.7)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2020 amount to \$1,653.

The duration of the defined benefit obligations at March 31, 2019 is 14.8 years (14.8 years in 2018). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2019	March 31, 2018
Less than a year	\$ 1,783	\$ 1,689
Between 1-2 years	1,834	1,747
Between 2-5 years	6,125	5,753
Over 5 years	99,741	100,542
Total	\$ 109,483	\$ 109,731

Defined contribution pension plans

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

	2019	2018
Defined contribution pension plan costs	\$ 3,492	\$ 3,200

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:

	2020	2021	2022	2023	2024	Thereafter	Total 2019	Total 2018
Operating leases - Buildings and facilities ⁽¹⁾	\$ 2,517	2,424	2,261	2,014	1,623	5,984	\$ 16,823	\$ 11,737
Building, machinery and equipment acquisition commitments	\$ 6,624	126	46	—	—	—	\$ 6,796	\$ 2,952

⁽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, 2019, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2019, an amount of \$5,012 (\$5,012 in 2018) 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, 2019, the Corporation has outstanding letters of credit amounting to \$26,153 (\$3,302 in 2018).

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:

	2019	2018
Accounts receivable	\$ (5,624)	\$ (2,335)
Income tax receivable	(385)	(184)
Inventories	(1,746)	9,539
Other current and long-term assets	(2,245)	(869)
Accounts payable and accrued liabilities and other liabilities	20,013	719
Provisions	(5,377)	(3,335)
Customers advances and progress billings	4,655	7,097
Income tax payable	(2,404)	1,916
Effect of changes in exchange rates ⁽¹⁾	2,686	950
	\$ 9,573	\$ 13,498

⁽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, 2019					March 31, 2018			
	Canada	U.S.	U.K.	Spain	Total	Canada	U.S.	U.K.	Total
Property, plant and equipment, net	\$ 97,210	\$ 72,872	\$ 13,987	\$ 43,885	\$227,954	\$ 95,492	\$ 71,183	\$ 12,828	\$179,503
Finite-life intangible assets, net	14,785	6,433	9,254	38,905	69,377	21,166	1,973	12,717	35,856
Goodwill	14,344	25,296	65,041	81,671	186,352	13,838	9,691	67,608	91,137

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

	2019	2018
United States	\$ 260,397	\$ 240,377
United Kingdom	53,589	43,713
Spain	26,036	—
Rest of Europe	58,837	39,009
Canada	39,668	39,244
Other countries	45,350	24,221
	\$ 483,877	\$ 386,564

NOTE 30. EXECUTIVE COMPENSATION

Key management includes directors (executive and non-executive) and members of the Executive Committee. The executive compensation expense to key management is as follows, for fiscal year:

	2019	2018
Short-term employee benefits and other benefits	\$ 3,622	\$ 3,458
Pension and other post-retirement benefits	84	156
Share-based payments	1,421	1,655
Total compensation to key management personnel	\$ 5,127	\$ 5,269

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, 2019			March 31, 2018		
	Fair value hierarchy	Carrying amount	Fair Value	Fair value hierarchy	Carrying amount	Fair Value
Financial assets						
Cash and cash equivalents	Level 1	\$ 35,128	\$ 35,128	Level 1	\$ 93,209	\$ 93,209
Derivative financial instruments	Level 2	6,599	6,599	Level 2	5,197	5,197
		\$ 41,727	\$ 41,727		\$ 98,406	\$ 98,406
Financial Liabilities						
Derivative financial instruments	Level 2	\$ 3,451	\$ 3,451	Level 2	\$ 2,778	\$ 2,778
Long-term debt, including current portion	Level 2	263,258	270,716	Level 2	131,964	137,493
		\$ 266,709	\$ 274,167		\$ 134,742	\$ 140,271

Derivative financial instruments - The fair value of derivative financial instruments recognized in the consolidated balance sheets has been determined using the Corporation's valuation models and compared to the fair value information provided by the financial institutions using exchange rates or interest rates quoted in the active market and adjusted for the credit risk added by the financial institution. 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, Spain 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, Spanish 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, Spanish and United Kingdom operations and related to sales contracts, net of the forecasted cash outflows in U.S. currency made by its Canadian, Spanish and United Kingdom operations and related essentially to raw materials and certain other material costs.

As at March 31, 2019, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$228,374 denominated in USD, EUR and GBP. This amount includes mainly contracts with nominal value of US\$146,885 convertible into Canadian dollars at an average rate of 1.3060. These contracts mature at various dates between April 2019 and March 2023, with the majority maturing this fiscal year and the next.

As at March 31, 2019, 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	Euro impact
Decrease in net income	(428)	(110)	(42)
Increase (decrease) in other comprehensive income	508	(1,678)	(734)

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.

Cross-currency interest rate swaps

The acquisition of CESA (see note 5) exposed the Corporation to new foreign currency and interest rate risks related to the investment in Euros. A decrease in value of the Euro compared to the Canadian dollar would decrease the value of the foreign investment, and an increase in interest rates underlying debt would increase related net financial expenses.

In order to mitigate these risks, as at March 31, 2019, the Corporation had entered into the following cross-currency interest rate swap agreements in order to manage foreign exchange and interest rate risks:

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

A 100 basis point variation in interest rates would have affected the Corporation's financial results for fiscal 2019 as follows:

	100 bps increase	100 bps decrease
Impact on net income related to floating rate long-term debt	(69)	69
Impact on comprehensive income related to cross-currency interest-rate swap agreements	209	(209)

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, 2019, the equity swap agreement covered 245,000 common shares of the Corporation at a price of \$12.68. This agreement is a derivative instrument that is not part of a designated hedging relationship and matures in June 2020.

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 61% of the Corporation's fiscal 2019 sales are made to only nine customers (60% to six customers in 2018). More specifically, in fiscal 2019, the Corporation had one customer representing 22% of its consolidated sales (two customers representing 26% and 11% in 2018).

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 4.2% in fiscal 2019 (5.3% in 2018) of the Corporation's consolidated sales.

As at March 31, 2019, 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, 2019:

	2019
Balance, beginning of year	\$ 39
Arising during the year	153
Balance, end of year	\$ 192

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

As at	March 31, 2019	March 31, 2018
Not past due	\$ 105,402	\$ 66,613
Past due less than 90 days	8,866	5,777
Past due more than 90 days	1,163	1,079
Impaired	192	39
	115,623	73,508
Allowance for doubtful accounts	(192)	(39)
Balance, end of year	\$ 115,431	\$ 73,469

Estimated credit losses based on expected loss rates were insignificant as at March 31, 2019 and 2018.

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 mainly 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, 2019, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 31):

	FVTPL	FVTOCI ⁽¹⁾	A.C.
Cash and cash equivalents	\$ —	\$ —	\$ 35,128
Accounts receivable	—	—	115,431
Derivative financial instruments	3,891	2,708	—

⁽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, 2019, 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	\$ 117,990	\$ —	\$ —	\$ —	\$ 117,990
Customer advances	14,502	2,050	—	—	16,552
Long-term debt, including current portion (note 20)	23,212	46,485	128,595	121,380	319,672
Derivative financial instruments	2,134	1,171	146	—	3,451

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, 2019, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows:

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

The Corporation is not subject to any regulatory capital requirements.

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

August 9, 2019 at 10:00 A.M.
Westin Montreal
Salon les Fortifications, 9th Floor
270 Saint-Antoine Street West
Montreal (Québec) Canada H2Y 0A3

REGISTRAR AND TRANSFER AGENT

Computershare Trust
1500 University Street, 7th Floor
Montreal (Québec) Canada H3A 3S8
514 982-7555 / 1 800 564-6253

AUDITORS

Ernst & Young LLP
900 de Maisonneuve Boulevard West, Suite 2300
Montreal (Québec) H3A 0A8
514 875-6060

SHARE LISTING

Shares are traded on the Toronto Stock Exchange
Ticker Symbol: HRX

INVESTOR RELATIONS

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POUR OBTENIR LA VERSION FRANÇAISE DE CE RAPPORT, VEUILLEZ CONTACTER LES RELATIONS AVEC LES INVESTISSEURS.



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