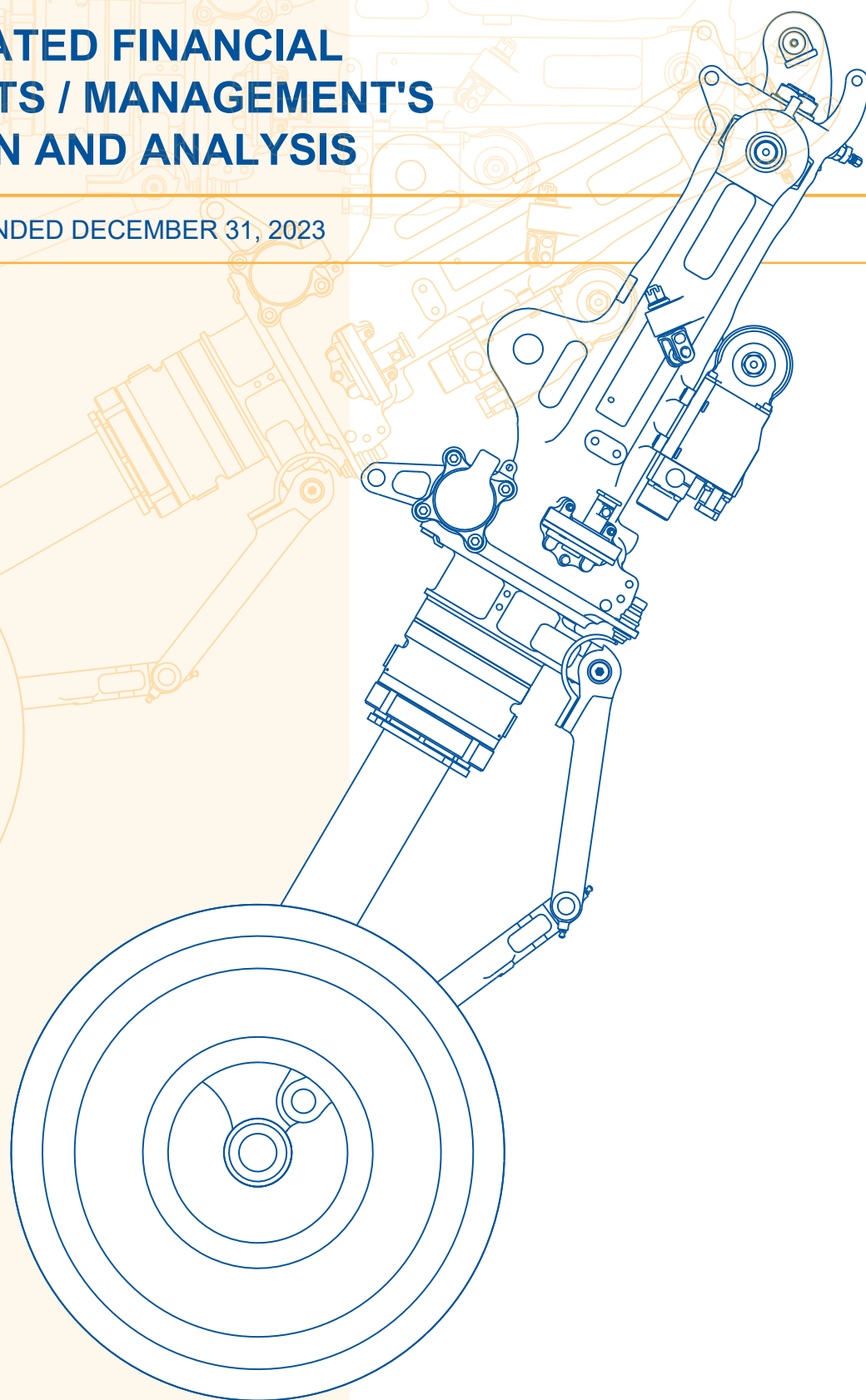


CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

THIRD QUARTER ENDED DECEMBER 31, 2023





INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Third quarter ended December 31, 2023

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED DECEMBER 31, 2023 AND 2022

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended December 31, 2023 and 2022 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of financial statements by the external auditors of an entity.

February 6, 2024

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	December 31, 2023	March 31, 2023
ASSETS	9		
Current assets			
Cash		\$ 6,411	\$ 15,020
Accounts receivable		135,015	126,721
Income tax receivable		1,594	2,176
Inventories		313,118	262,995
Derivative financial instruments		3,199	386
Other current assets		22,412	22,215
		481,749	429,513
Property, plant and equipment, net		199,062	205,490
Finite-life intangible assets, net		57,995	53,654
Derivative financial instruments		4,373	468
Deferred income tax assets		7,856	9,308
Goodwill		112,203	112,384
Other long-term assets		11,366	10,520
Total assets		\$ 874,604	\$ 821,337
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		125,398	131,019
Provisions		16,333	16,632
Customer advances and progress billings		61,372	58,904
Income tax payable		83	466
Derivative financial instruments		2,262	5,493
Current portion of long-term debt	9	14,610	11,425
		220,058	223,939
Long-term debt	9	207,955	166,483
Provisions		14,667	15,576
Derivative financial instruments		2,385	4,895
Deferred income tax liabilities		15,152	11,377
Other liabilities		6,732	8,148
		466,949	430,418
Shareholders' equity			
Issued capital	10	81,363	82,459
Contributed surplus		7,817	6,739
Accumulated other comprehensive income	11	16,018	12,072
Retained earnings		302,457	289,649
		407,655	390,919
Total liabilities and shareholders' equity		\$ 874,604	\$ 821,337

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

CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2023	2022	2023	2022
Sales	3	\$ 163,518	\$ 140,875	\$ 445,714	\$ 387,644
Cost of sales	4, 5	134,433	120,959	374,031	336,850
Gross profit		29,085	19,916	71,683	50,794
Selling and administrative expenses	4, 5	13,531	14,805	39,532	35,694
Other gain	6	—	—	—	(1,219)
Operating income		15,554	5,111	32,151	16,319
Net financial expenses	7	4,497	2,796	9,549	6,400
Income before income tax expense		11,057	2,315	22,602	9,919
Income tax expense		2,077	542	5,024	2,382
Net income		\$ 8,980	\$ 1,773	\$ 17,578	\$ 7,537
Earnings per share – basic and diluted	8	\$ 0.27	\$ 0.05	\$ 0.52	\$ 0.22

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands of Canadian dollars) (Unaudited)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	2023	2022	2023	2022
	11				
Other comprehensive income (loss) :					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		\$ 941	\$ 14,654	\$ (4,557)	\$ 14,659
Cash flow hedges:					
Net gains (losses) on valuation of derivative financial instruments		9,964	7,551	7,765	(21,702)
Net losses on derivative financial instruments transferred to net income		753	3,888	2,661	5,354
Deferred income taxes		(2,830)	(3,020)	(2,753)	4,317
		7,887	8,419	7,673	(12,031)
Hedge of net investment in foreign operations:					
Gains (losses) on conversion		1,135	766	957	(4,463)
Deferred income taxes		(151)	(105)	(127)	584
		984	661	830	(3,879)
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains (losses) from remeasurement		(1,918)	1,144	1,267	(109)
Deferred income taxes		507	(302)	(334)	28
		(1,411)	842	933	(81)
Other comprehensive income (loss)		\$ 8,401	\$ 24,576	\$ 4,879	\$ (1,332)
Comprehensive income					
Net income		8,980	1,773	17,578	7,537
Other comprehensive income (loss)		8,401	24,576	4,879	(1,332)
Comprehensive income		\$ 17,381	\$ 26,349	\$ 22,457	\$ 6,205

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars) (Unaudited)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity
Balance as at March 31, 2023		\$ 82,459	\$ 6,739	\$ 12,072	\$ 289,649	\$ 390,919
Repurchase and cancellation of common shares	10	(1,096)	—	—	(5,703)	(6,799)
Stock option expense	10	—	1,078	—	—	1,078
Net income		—	—	—	17,578	17,578
Other comprehensive income	11	—	—	3,946	933	4,879
Balance as at December 31, 2023		\$ 81,363	\$ 7,817	\$ 16,018	\$ 302,457	\$ 407,655

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Shareholders' equity
Balance as at March 31, 2022		\$ 82,189	\$ 5,767	\$ 6,865	\$ 282,461	\$ 377,282
Common shares issued under the stock option plan	10	1,437	(334)	—	—	1,103
Repurchase and cancellation of common shares	10	(772)	—	—	(3,634)	(4,406)
Stock option expense	10	—	977	—	—	977
Net income		—	—	—	7,537	7,537
Other comprehensive loss	11	—	—	(1,251)	(81)	(1,332)
Balance as at December 31, 2022		\$ 82,854	\$ 6,410	\$ 5,614	\$ 286,283	\$ 381,161

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	2023	2022	2023	2022
Cash provided by (used for):					
Operating activities					
Net income		\$ 8,980	\$ 1,773	\$ 17,578	\$ 7,537
Items not requiring an outlay of cash:					
Amortization expense	5	8,983	9,018	26,964	26,671
Deferred income taxes		(729)	169	1,868	3,241
Net non-cash financial expenses	7	1,587	1,596	3,456	3,010
Stock option expense	10	370	324	1,078	977
		19,191	12,880	50,944	41,436
Net change in non-cash items	12	(8,223)	(7,643)	(67,754)	(15,894)
Cash flows related to operating activities		\$ 10,968	\$ 5,237	\$ (16,810)	\$ 25,542
Investing activities					
Net additions to property, plant and equipment		(5,614)	(2,354)	(14,945)	(11,665)
Net change in finite-life intangible assets		(5,155)	(1,090)	(10,013)	(6,855)
Proceeds from a business divestiture	6	—	3,116	—	3,116
Cash flows related to investing activities		\$ (10,769)	\$ (328)	\$ (24,958)	\$ (15,404)
Financing activities					
Proceeds from long-term debt		11,722	—	51,133	6,239
Repayment of long-term debt		(4,027)	(4,538)	(10,987)	(9,634)
Increase in deferred financing costs		—	—	—	(245)
Repurchase and cancellation of shares	10	(3,010)	(1,568)	(6,799)	(4,406)
Issuance of common shares under the stock option plan		—	—	—	1,103
Cash flows related to financing activities		\$ 4,685	\$ (6,106)	\$ 33,347	\$ (6,943)
Effect of changes in exchange rates on cash		(309)	341	(188)	950
Change in cash during the periods		4,575	(856)	(8,609)	4,145
Cash at beginning of periods		1,836	91,693	15,020	86,692
Cash at end of periods		\$ 6,411	\$ 90,837	\$ 6,411	\$ 90,837
Interest and income taxes reflected in operating activities:					
Interest paid		\$ 3,002	\$ 1,964	\$ 6,449	\$ 4,835
Interest received		\$ 92	\$ 764	\$ 356	\$ 1,445
Income taxes paid		\$ 2,115	\$ 1,624	\$ 2,055	\$ 2,889

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarters and nine-month periods ended December 31, 2023 and 2022
(In thousands of Canadian dollars, except per share data) (Unaudited)

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 only operates in 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 interim condensed consolidated financial statements for the quarter ended December 31, 2023, were prepared in accordance with IAS 34, *Interim Financial Reporting*, therefore certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the fiscal year ended March 31, 2023.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 6, 2024.

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The disaggregation of the Corporation's revenue from contracts with customers was as follows :

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Geographic markets				
Canada	\$ 11,192	\$ 8,817	\$ 28,676	\$ 23,560
United States of America	95,137	84,189	255,156	241,118
United Kingdom	13,780	9,370	35,783	26,014
Spain	11,356	7,867	30,463	20,444
Rest of Europe	16,199	19,328	47,559	47,486
Other countries	15,854	11,304	48,077	29,022
	\$ 163,518	\$ 140,875	\$ 445,714	\$ 387,644
Market segments:				
Civil	\$ 63,788	\$ 45,108	\$ 167,549	\$ 121,780
Defence	99,730	95,767	278,165	265,864
	\$ 163,518	\$ 140,875	\$ 445,714	\$ 387,644

Geographic market is based on the customer's location.

NOTE 4. GOVERNMENT ASSISTANCE

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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Finite-life intangible assets	\$ 162	\$ 267	\$ 890	\$ 670
Property, plant and equipment	\$ —	\$ 43	\$ 27	\$ 57
Cost of sales and selling and administrative expenses	\$ 1,541	\$ 1,798	\$ 5,562	\$ 4,375

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

NOTE 5. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Raw materials and purchased parts	\$ 63,300	\$ 53,220	\$ 164,186	\$ 145,055
Employee costs	54,359	49,575	156,111	139,491
Amortization of property, plant and equipment and finite-life intangible assets	8,983	9,018	26,964	26,671
Supplies and small tools	6,116	6,115	18,076	16,053
Maintenance and machinery repair	4,380	4,004	13,419	11,459
Others	10,826	13,832	34,807	33,815
	\$ 147,964	\$ 135,764	\$ 413,563	\$ 372,544
Including:				
Foreign exchange losses upon conversion of net monetary items	\$ 583	\$ 1,595	\$ 621	\$ 785
Amortization of customer relationships	\$ 887	\$ 954	\$ 2,652	\$ 2,793

NOTE 6. OTHER GAIN

Gain on a business divestiture

The commercial objectives included in the agreement for the fiscal 2022 sale of Bolton operations to Ontic Engineering & Manufacturing UK Limited were achieved in September 2022, resulting in a net gain of \$1,219 in fiscal 2023.

NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Interest accretion on governmental authorities loans	\$ 788	\$ 859	\$ 2,230	\$ 2,318
Interest on defined benefit obligations	20	17	60	56
Interest on leases	219	199	659	609
Amortization of deferred financing costs	117	118	352	358
Other accretion and adjustments	443	403	155	(331)
Net non-cash financial expenses	\$ 1,587	\$ 1,596	\$ 3,456	\$ 3,010
Interest on long-term debt	\$ 3,002	\$ 1,964	\$ 6,449	\$ 4,835
Interest income on cash	(92)	(764)	(356)	(1,445)
	\$ 4,497	\$ 2,796	\$ 9,549	\$ 6,400

NOTE 8. EARNINGS PER SHARE

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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Weighted-average number of common shares outstanding	33,688,003	34,373,578	33,893,917	34,444,035
Dilutive effect of stock options	165,097	76,855	130,624	101,628
Weighted-average number of common diluted shares outstanding	33,853,100	34,450,433	34,024,541	34,545,663
Options excluded from diluted earnings per share calculation	719,000	1,288,000	1,188,000	1,288,000

NOTE 9. LONG-TERM DEBT

As at	December 31, 2023	March 31, 2023
Senior Secured Syndicated Revolving Credit Facility	\$ 46,971	\$ —
Governmental authorities loans	86,915	89,032
Unsecured Subordinated Term Loan Facility	75,000	75,000
Lease liabilities	15,397	15,946
Deferred financing costs, net	(1,718)	(2,070)
	\$ 222,565	\$ 177,908
Less: current portion	14,610	11,425
Long-term debt	\$ 207,955	\$ 166,483

NOTE 10. ISSUED CAPITAL

A. Share capital

Capital stock varied as follows:

	Three months ended December 31, 2023		Nine months ended December 31, 2023	
	Number	Issued capital	Number	Issued capital
Opening balance	33,847,870	\$ 81,832	34,107,073	\$ 82,459
Repurchase and cancellation	(194,300)	(469)	(453,503)	(1,096)
Closing balance	33,653,570	\$ 81,363	33,653,570	\$ 81,363

On May 19, 2022, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,896,079 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2022, and ended on May 24, 2023.

On August 8, 2023, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,791,984 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on August 10, 2023, and will end on August 9, 2024, or on such earlier date when the Company has either acquired the maximum number of common shares allowable under the NCIB or decided not to make any further purchases under it.

During the nine months ended December 31, 2023, the Company has purchased and cancelled 453,503 common shares for a cash consideration of \$6,799, representing a weighted average price of \$14.99 per share. The \$5,703 excess of purchase price over the carrying value was charged to retained earnings.

B. Stock option plan

For the quarters ended December 31, variances in stock options outstanding and related compensation expense were as follows:

	2023		2022	
	Number of stock options	Exercise price ⁽¹⁾	Number of stock options	Exercise price ⁽¹⁾
Opening balance	1,896,500	\$14.47	1,645,500	\$14.60
Cancelled / forfeited	(1,000)	15.42	(10,000)	15.42
Closing balance	1,895,500	\$14.47	1,635,500	\$14.59
Stock option expense		\$ 370		\$ 324

⁽¹⁾ Weighted average exercise price

For the nine months ended December 31, variances in stock options outstanding and related compensation expense were as follows:

	2023		2022	
	Number of stock options	Exercise price ⁽¹⁾	Number of stock options	Exercise price ⁽¹⁾
Opening balance	1,635,500	\$14.59	1,503,750	\$14.19
Granted	370,000	14.07	247,000	15.42
Exercised	—	—	(103,000)	10.71
Expired	(96,000)	15.01	(2,250)	10.71
Cancelled / forfeited	(14,000)	14.46	(10,000)	15.42
Closing balance	1,895,500	\$14.47	1,635,500	\$14.59
Stock option expense		\$1,078		\$ 977

⁽¹⁾ Weighted average exercise price

2,808,257 common share are reserved for issuance under the plan, of which 2,122,662 had not been issued yet as at December 31, 2023, and March 31, 2023.

C. *Deferred Share Unit ("DSU"), Performance Share Unit ("PSU") and Restricted Share Unit ("RSU") plans*

During the nine months ended December 31, 2023, a new Restricted Share Unit ("RSU") plan was introduced for management and key employees. Under this plan, RSUs will vest on the third anniversary of the grant and be payable to employees who are still employed by the Corporation on the payment date. The payment will represent a cash amount equal to the quoted price of the Corporation's common share for each RSU vested.

RSUs are expensed on an earned basis. 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 RSUs are paid or canceled at the expiry or termination date.

For the three months ended December 31, movements in outstanding PSUs, DSUs and RSUs were as follows:

	2023			2022		
	PSUs	DSUs	RSUs	PSUs	DSUs	RSUs
<i>In number units</i>						
Opening balance	421,202	308,972	86,100	404,050	254,830	—
Issued	—	—	1,000	3,750	—	—
Settled	(101,100)	—	—	(98,200)	—	—
Cancelled/Forfeited	(750)	—	(1,700)	(4,750)	—	—
Closing balance	319,352	308,972	85,400	304,850	254,830	—
Fair value of vested outstanding units, end of periods	\$ 2,916	\$ 4,492	\$ 254	\$ 2,798	\$ 3,148	\$ —

The compensation expense with respect to the PSU, DSU and RSU plans amounted to \$201 during the three-month period ended December 31, 2023 (expense of \$851 during the three-month period ended December 31, 2022).

For the nine months ended December 31, movements in outstanding PSUs, DSUs and RSUs were as follows:

	2023			2022		
	PSUs	DSUs	RSUs	PSUs	DSUs	RSUs
<i>In number units</i>						
Opening balance	304,850	256,406	—	285,350	199,471	—
Issued	152,000	52,566	88,350	129,300	55,359	—
Settled	(101,100)	—	—	(98,200)	—	—
Cancelled/Forfeited	(36,398)	—	(2,950)	(11,600)	—	—
Closing balance	319,352	308,972	85,400	304,850	254,830	—
Fair value of vested outstanding units, end of periods	\$ 2,916	\$ 4,492	\$ 254	\$ 2,798	\$ 3,148	\$ —

The compensation expense with respect to the PSU, DSU and RSU plans amounted to \$2,777 during the nine-month period ended December 31, 2023 (income of \$183 during the nine-month period ended December 31, 2022).

NOTE 11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Changes in accumulated other comprehensive income (loss) were as follows:

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2023	\$ 17,870	\$ (6,191)	\$ (5,473)	\$ 6,206
Other comprehensive income	941	7,887	984	9,812
Balance as at December 31, 2023	\$ 18,811	\$ 1,696	\$ (4,489)	\$ 16,018
Balance as at March 31, 2023	\$ 23,368	\$ (5,977)	\$ (5,319)	\$ 12,072
Other comprehensive (loss) income	(4,557)	7,673	830	3,946
Balance as at December 31, 2023	\$ 18,811	\$ 1,696	\$ (4,489)	\$ 16,018

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2022	\$ 3,010	\$ (15,813)	\$ (5,317)	\$ (18,120)
Other comprehensive income	14,654	8,419	661	23,734
Balance as at December 31, 2022	\$ 17,664	\$ (7,394)	\$ (4,656)	\$ 5,614
Balance as at March 31, 2022	\$ 3,005	\$ 4,637	\$ (777)	\$ 6,865
Other comprehensive income (loss)	14,659	(12,031)	(3,879)	(1,251)
Balance as at December 31, 2022	\$ 17,664	\$ (7,394)	\$ (4,656)	\$ 5,614

NOTE 12. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items was as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Accounts receivable	\$ (12,254)	\$ (18)	\$ (9,058)	\$ 4,177
Inventories	(9,683)	(11,513)	(51,559)	(40,915)
Other assets and derivatives	1,376	(2,149)	292	7,007
Accounts payable and accrued liabilities	5,663	(598)	(6,620)	(1,127)
Provisions	(667)	(2,559)	(1,216)	(4,624)
Customer advances and progress billings	7,100	10,003	2,657	25,148
Other Liabilities	242	(809)	(2,250)	(5,560)
	\$ (8,223)	\$ (7,643)	\$ (67,754)	\$ (15,894)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2023

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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, 2023, and December 31, 2023. It also compares the operating results and cash flows for the quarter and nine-month periods ended December 31, 2023, to those of the same periods of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended December 31, 2023, and should be read in conjunction with them as well as with the audited consolidated financial statements and MD&A for the fiscal year ended March 31, 2023, all of which are available on the Corporation’s website at www.herouxdevtek.com and on SEDAR at www.sedar.com. All amounts in this MD&A are in thousands of Canadian dollars unless otherwise indicated. This MD&A was approved by the Audit Committee and Board of Directors of the Corporation on February 6, 2024.

IFRS and non-IFRS financial measures

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

Materiality for disclosures

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

FORWARD-LOOKING STATEMENTS

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

They may be impacted by factors including, but not limited to customers, supply chain, the aerospace industry and the economy in general; the impact of other worldwide geopolitical and general economic conditions; industry conditions including changes in laws and regulations; increased competition; the lack of availability of qualified personnel or management; availability of commodities and fluctuations in commodity prices; financial and operational performance of suppliers and customers; foreign exchange or interest rate fluctuations; and the impact of accounting policies issued by international standard setters. For further details, please see the Risk Management section of the Corporation’s MD&A for the fiscal year ended March 31, 2023. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

Although management believes the expectations conveyed by 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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Sales	\$ 163,518	\$ 140,875	\$ 445,714	\$ 387,644
Operating income	15,554	5,111	32,151	16,319
Adjusted operating income ⁽¹⁾	15,554	5,111	32,151	15,100
Adjusted EBITDA ⁽¹⁾	24,537	14,129	59,115	41,771
Net income	8,980	1,773	17,578	7,537
Adjusted net income ⁽¹⁾	8,980	1,773	17,578	6,318
Cash flows related to operating activities	10,968	5,237	(16,810)	25,542
Free cash flow (usage) ⁽¹⁾	199	1,793	(41,768)	7,022
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.27	\$ 0.05	\$ 0.52	\$ 0.22
Adjusted EPS ⁽¹⁾	0.27	0.05	0.52	0.18

⁽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.

Events of the Quarter

Héroux-Devtek's throughput this quarter improved 16.1% to \$163.5 million from \$140.9 million a year earlier (improved 15.0% to \$445.7 million from \$387.6 million for the nine-month period). This performance brings the trailing-twelve-month sales to \$601.7 million, and is largely the result of actions taken to better navigate the challenges of the current environment.

The higher volume as well as the Corporation's pricing initiatives drove better profitability, which was partially offset by the year-over-year effects of inflation on costs. As a result, operating income increased to \$15.6 million from \$5.1 million last fiscal year (increased to \$32.2 million from \$16.3 million for the nine-month period), and Adjusted EBITDA increased to \$24.5 million or 15.0% of sales, compared to \$14.1 million or 10.0% of sales last year (increased to \$59.1 million or 13.3% of sales, compared to \$41.8 million or 10.8% of sales for the nine-month period).

Although the operating environment improved compared to last year, it remains volatile and several factors are still hampering the consistent generation of throughput:

- Lead times for the procurement of raw material remain long and Russia's invasion of Ukraine limits the supply of certain material; and,
- Although the peak of inflation has passed, higher costs, higher interest rates and longer raw material lead times continue to hamper the aerospace supply chain's ability to manufacture and deliver products in a timely and efficient manner.

In order to mitigate this, the Corporation has continued to invest in inventory levels to stabilize its production system and to sustain upcoming sales growth. These measures resulted in cash flow usage related to operating activities totaling \$16.8 million over the nine-month period, compared to generation of \$25.5 million last year. During the quarter, however, the Corporation was able to generate \$11.0 million of cash flows related to operating activities, compared to \$5.2 million during the third quarter last year, an increase of \$5.7 million that reflects the impact of higher throughput this quarter.

The Corporation's order book remains healthy, bolstered over the past eighteen months by both civil and defence orders. This level of business reflects not only the health of Héroux-Devtek's customer relationships, but also the strength of the aerospace market as a whole. The challenge remains delivering on these orders in a timely and efficient manner given the current environment.

OPERATING RESULTS

	Three months ended December 31,			Nine months ended December 31,		
	2023	2022	Variance	2023	2022	Variance
Sales	\$ 163,518	\$ 140,875	\$ 22,643	\$ 445,714	\$ 387,644	\$ 58,070
Gross profit	29,085	19,916	9,169	71,683	50,794	20,889
Selling and administrative expenses	13,531	14,805	(1,274)	39,532	35,694	3,838
Other gain	—	—	—	—	(1,219)	1,219
Operating income	15,554	5,111	10,443	32,151	16,319	15,832
Net financial expenses	4,497	2,796	1,701	9,549	6,400	3,149
Income tax expense	2,077	542	1,535	5,024	2,382	2,642
Net income	\$ 8,980	\$ 1,773	\$ 7,207	\$ 17,578	\$ 7,537	\$ 10,041
Adjusted net income ⁽¹⁾	\$ 8,980	\$ 1,773	\$ 7,207	\$ 17,578	\$ 6,318	\$ 11,260
Adjusted EBITDA ⁽¹⁾	\$ 24,537	\$ 14,129	\$ 10,408	\$ 59,115	\$ 41,771	\$ 17,344
<i>As a percentage of sales</i>						
Gross profit	17.8%	14.1%	370 bps	16.1%	13.1%	300 bps
Selling and administrative expenses	8.3%	10.5%	-220 bps	8.9%	9.2%	-30 bps
Operating income	9.5%	3.6%	590 bps	7.2%	4.2%	300 bps
<i>In dollars per share</i>						
Earnings per share - basic and diluted	\$ 0.27	\$ 0.05	\$ 0.22	\$ 0.52	\$ 0.22	\$ 0.30
Adjusted EPS ⁽¹⁾	\$ 0.27	\$ 0.05	\$ 0.22	\$ 0.52	\$ 0.18	\$ 0.34

⁽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.

Sales

Sales by market segments were as follows:

	Three months ended December 31,			
	2023	2022	FX impact	Net variance
Defence	\$ 99,730	\$ 95,767	\$ 1,597	\$ 2,366 2.5 %
Civil	63,788	45,108	1,117	17,563 38.9 %
Total	\$ 163,518	\$ 140,875	\$ 2,714	\$ 19,929 14.1 %

	Nine months ended December 31,			
	2023	2022	FX impact	Net variance
Defence	\$ 278,165	\$ 265,864	\$ 8,989	\$ 3,312 1.2 %
Civil	167,549	121,780	5,415	40,354 33.1 %
Total	\$ 445,714	\$ 387,644	\$ 14,404	\$ 43,666 11.3 %

The following analysis excludes the impact of foreign exchange described above:

On a general basis, the Corporation's increase in sales compared to the comparable periods results from the actions taken to stabilize the Corporation's production system to better deliver in the challenges of the current environment.

Defence

The \$2.4 million and \$3.3 million respective increases in defence sales for the quarter and nine-month period compared to last year are mainly due to higher aftermarket business for legacy programs as well as higher deliveries for the Sikorsky Ch-53K and Lockheed Martin F-35 programs, partly offset by delayed deliveries for the Boeing F-18 program.

Civil

The \$17.6 million and \$40.4 million increases in civil sales for the quarter and nine-month period compared to last year were mainly driven by an increase in deliveries for the Boeing 777 and Embraer Praetor programs.

Gross Profit

Gross profit for the quarter and nine-month period increased to 17.8% and 16.1% from 14.1% and 13.1% of sales respectively last year due to the positive impact of higher volume and pricing initiatives, partly offset by the effects of inflation on costs.

Foreign exchange had a 0.3% positive impact on gross profit for the quarter, and a 0.2% negative impacts on the nine-month period compared to last year.

Selling and Administrative Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Selling and Administrative Expenses	\$ 13,531	\$ 14,805	\$ 39,532	\$ 35,694
Less: Net losses on conversion of net monetary items	583	1,595	621	785
Selling and Administrative expenses excluding conversion of monetary items	\$ 12,948	\$ 13,210	\$ 38,911	\$ 34,909
<i>As a percentage of sales</i>	7.9%	9.4%	8.7%	9.0%

When excluding the effect of the conversion of net monetary items, selling and administrative expenses as a percentage of sales decreased year-over-year from 9.4% to 7.9% for quarter and from 9.0% to 8.7% for the nine-month period due to higher sales partly offset by higher employee-related costs, including an increase in stock-based compensation expense.

Other Gain

The commercial objectives included in the agreement for the sale of Bolton operations to Ontic Engineering & Manufacturing UK Limited that occurred on May 4, 2021, were achieved in September 2022. This resulted in an other gain of \$1.2 million in the second quarter and nine-month period ending September 30, 2022.

Operating Income

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Operating income	\$ 15,554	\$ 5,111	\$ 32,151	\$ 16,319
<i>As a percentage of sales</i>	9.5%	3.6%	7.2%	4.2%

Operating income as a percentage of sales varied over the quarter and nine-month period due to the factors mentioned previously.

Year-over-year, foreign exchange had a positive impact representing 1.0% of sales for the three month period while having a negligible effect over the nine-month period (< 0.1%).

Net Financial Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Interest accretion on governmental authorities loans	\$ 788	\$ 859	\$ 2,230	\$ 2,318
Interest on defined benefit obligations	20	17	60	56
Interest on leases	219	199	659	609
Amortization of deferred financing costs	117	118	352	358
Other accretion and adjustments	443	403	155	(331)
Net non-cash financial expenses	\$ 1,587	\$ 1,596	\$ 3,456	\$ 3,010
Interest on long-term debt	\$ 3,002	\$ 1,964	\$ 6,449	\$ 4,835
Interest income on cash	(92)	(764)	(356)	(1,445)
	\$ 4,497	\$ 2,796	\$ 9,549	\$ 6,400

The increase in interest on long-term debt compared to last year for the quarter and nine-month period mainly relates to increases in underlying benchmark rates, partly offset by a lower average outstanding debt balance over the nine-month period.

The decrease in interest income on cash compared to last year relates to a lower outstanding cash balance as a result of investment in inventory, partly offset by higher underlying benchmark rates.

Other accretion and adjustment were positively impacted during last year's nine-month period by a reversal of accretion following an increase in discount rates on provisions.

Income Tax Expense

The following table reconciles the corporation's effective income tax expense to the blended Canadian statutory tax rate:

	Three months ended December 31,				Nine months ended December 31,			
	2023		2022		2023		2022	
Income before income tax expense	\$ 11,057		\$ 2,315		\$ 22,602		\$ 9,919	
Income tax expense at Canadian blended statutory tax	2,930	26.5%	613	26.5%	5,990	26.5%	2,629	26.5%
Results coming from foreign jurisdictions	(178)		185		(315)		25	
Non-deductible expenses	173		109		399		145	
Prior year adjustments	(448)		(365)		(650)		(417)	
Net recognition of tax benefits	(400)		—		(400)		—	
Income tax expense	\$ 2,077	18.8%	\$ 542	23.4%	\$ 5,024	22.2%	\$ 2,382	24.0%

Net Income

Net income increased to \$9.0 million compared to \$1.8 million for the quarter, and increased from \$7.5 million to \$17.6 million during the nine-month period (from \$6.3 million to \$17.6 million excluding other gains net of taxes), compared to the same periods last fiscal year, mainly as a result of the factors described above.

Consequently, earnings per share increased from \$0.05 to \$0.27 per share for the quarter and increased from \$0.22 to \$0.52 per share during the nine-month period (increased from \$0.18 to \$0.52 excluding other gains net of taxes), compared to the same periods 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 EBITDA:	Operating income excluding amortization expense and other expenses (gains)
Adjusted net income:	Net income excluding other expenses (gains) 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 net additions to property, plant and equipment and net increase or decrease in finite-life intangible assets, plus proceeds of disposal of property, plant and equipment.

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

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

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

The Corporation's adjusted EBITDA is calculated as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Operating income	15,554	5,111	32,151	16,319
Amortization expense	8,983	9,018	26,964	26,671
Other gains	—	—	—	(1,219)
Adjusted EBITDA	\$ 24,537	\$ 14,129	\$ 59,115	\$ 41,771

Management believes adjusted EBITDA provides 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 that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. Adjusted EBITDA is also used by management to assess operational performance and is a component of certain performance-based employee remuneration.

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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Net income	\$ 8,980	\$ 1,773	\$ 17,578	\$ 7,537
Other gain, net of taxes	—	—	—	(1,219)
Adjusted net income	\$ 8,980	\$ 1,773	\$ 17,578	\$ 6,318
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.27	\$ 0.05	\$ 0.52	\$ 0.22
Other gains, net of taxes	—	—	—	(0.04)
Adjusted earnings per share	\$ 0.27	\$ 0.05	\$ 0.52	\$ 0.18

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 items that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. They are also a component of certain performance-based employee remuneration.

Free cash flow is explained and reconciled in *Liquidity and Capital Resources*.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITIES AND NET DEBT POSITION

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

The Corporation has a Revolving Facility with a syndicate of six banks that allows it to borrow up to \$250 million. It also includes an accordion feature which allows Héroux-Devtek to draw an additional \$200 million subject to the lenders’ consent.

As at December 31, 2023, \$47.0 million was drawn against the facility (nil as at March 31, 2023). Drawings on the facility were made due to the Corporation’s investment in inventory made to stabilize the production system and to sustain upcoming sales growth.

Unsecured Subordinated Term Loan Facility (“Term Loan Facility”)

The Corporation has a Term Loan Facility with *Fonds de Solidarité FTQ* for an amount of \$75.0 million that matures in September 2028. This facility is fully drawn and bears interest at a rate of 5.0%. Héroux-Devtek has the option to make early repayments as of September 2024, subject to certain fees.

Net Debt Position

As at	December 31, 2023	March 31, 2023
Long-term debt ⁽¹⁾	\$ 224,283	\$ 179,978
Less: Cash	6,411	15,020
Net debt position	\$ 217,872	\$ 164,958
Adjusted EBITDA ⁽²⁾ - trailing 12 months	78,710	61,366
Net debt to adjusted EBITDA ratio	2.8:1	2.7:1

⁽¹⁾ Excluding net deferred financing costs of \$1.7 million and \$2.1 million as at December 31, 2023 and March 31, 2023, respectively.

⁽²⁾ Non-IFRS financial measure. Refer to the Non-IFRS financial measures section for definitions and reconciliations to the most comparable IFRS measures and to the Selected Quarterly Financial Information.

VARIATIONS IN CASH

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Cash at beginning of periods	\$ 1,836	\$ 91,693	\$ 15,020	\$ 86,692
Cash flows related to operating activities	10,968	5,237	(16,810)	25,542
Cash flows related to investing activities	(10,769)	(328)	(24,958)	(15,404)
Cash flows related to financing activities	4,685	(6,106)	33,347	(6,943)
Effect of changes in exchange rates on cash	(309)	341	(188)	950
Cash at end of periods	\$ 6,411	\$ 90,837	\$ 6,411	\$ 90,837

Operating Activities

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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Net income	\$ 8,980	\$ 1,773	\$ 17,578	\$ 7,537
Items not requiring an outlay of cash:				
Amortization expense	\$ 8,983	\$ 9,018	\$ 26,964	\$ 26,671
Deferred income taxes	(729)	169	1,868	3,241
Net non-cash financial expenses	1,587	1,596	3,456	3,010
Stock-based compensation expense	370	324	1,078	977
	19,191	12,880	50,944	41,436
Net change in non-cash items	(8,223)	(7,643)	(67,754)	(15,894)
Cash flows related to operating activities	\$ 10,968	\$ 5,237	\$(16,810)	\$ 25,542

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

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Accounts receivable	\$(12,254)	\$ (18)	\$(9,058)	\$ 4,177
Inventories	(9,683)	(11,513)	(51,559)	(40,915)
Other assets and derivatives	1,376	(2,149)	292	7,007
Accounts payable and accrued liabilities	5,663	(598)	(6,620)	(1,127)
Provisions	(667)	(2,559)	(1,216)	(4,624)
Customer advances and progress billings	7,100	10,003	2,657	25,148
Other Liabilities	242	(809)	(2,250)	(5,560)
	\$ (8,223)	\$ (7,643)	\$(67,754)	\$(15,894)

For the quarter ended December 31, 2023, the negative net change in non-cash items mainly reflects:

- An increase in accounts receivable due to higher sales volume than the prior quarter, and;
- An investment in inventory levels to stabilize the production system and sustain future sales growth.

Partly offset by:

- An increase in customer advances and progress billing due to timing of deliveries, and;
- An increase in accounts payable and accrued liabilities resulting from the higher level of activity.

For the quarter ended December 31, 2022, the negative net change in non-cash items mainly reflects an increase in inventory levels to stabilize the production system and mitigate the effect of supply chain delays, partly offset by an increase in customer advances.

For the nine-month period ended December 31, 2023, the negative net change in non-cash items mainly reflected:

- An investment in inventory levels to stabilize the production system and sustain future sales growth, and,
- An increase in account receivable mainly due to higher sales volume in the third quarter compared to the fourth quarter of last fiscal year.

For the nine-month period ended December 31, 2022 the negative net change in non-cash items mainly reflected an increase in inventory levels to stabilize the production system and mitigate the effect of supply chain delays, partly offset by:

- An increase in customer advances and progress billings; and,
- A decrease in other assets resulting from the unwinding of the Corporation's cross-currency interest rate swaps for proceeds totaling \$11.3 million.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Net additions to property, plant and equipment	\$ (5,614)	\$ (2,354)	\$ (14,945)	\$ (11,665)
Net change in finite-life intangible assets	(5,155)	(1,090)	(10,013)	(6,855)
Proceeds from a business divestiture	—	3,116	—	3,116
Cash flows related to investing activities	\$ (10,769)	\$ (328)	\$ (24,958)	\$ (15,404)

The increase in investment in finite-life intangible assets mainly relates to the ongoing development of civil aircraft programs.

The following table reconciles additions to property, plant and equipment to the additions as per the statements of cash flows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Additions to property, plant and equipment	\$ 5,177	\$ 2,713	\$ 16,564	\$ 10,529
Government assistance	—	(43)	27	(57)
Variation in unpaid additions included in Accounts payable and accrued liabilities	504	(127)	973	1,418
Non-cash additions made through leasing agreements	(67)	(189)	(2,619)	(225)
Additions, as per statements of cash flows	\$ 5,614	\$ 2,354	\$ 14,945	\$ 11,665

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Increase in long-term debt	\$ 11,722	\$ —	\$ 51,133	\$ 6,239
Repayment of long-term debt	(4,027)	(4,538)	(10,987)	(9,634)
Increase in deferred financing costs	—	—	—	(245)
Repurchase and cancellation of shares	(3,010)	(1,568)	(6,799)	(4,406)
Issuance of common shares under the stock option plan	—	—	—	1,103
Cash flows related to financing activities	\$ 4,685	\$ (6,106)	\$ 33,347	\$ (6,943)

The increase in long-term debt mainly relate to drawings on the Revolving Facility due to the Corporation's investment in inventory made to stabilize the production system and prepare for future sales growth.

Repayments of long-term debt during the quarter and nine-month periods are comprised of lease payments and scheduled reimbursements of governmental loans.

Refer to the *Normal Course Issuer Bid* section below for details regarding the repurchase and cancellation of shares.

NORMAL COURSE ISSUER BID

	Number of shares	Average cost per share	Total cost
Quarter ended June 30, 2023 (Fiscal 2023 NCIB)	101,200	\$ 14.62	1,302
Quarter ended September 30, 2023 (Fiscal 2024 NCIB)	158,003	15.74	2,487
Quarter ended December 31, 2023 (Fiscal 2024 NCIB)	194,300	15.49	3,010
Total	453,503	\$ 14.99	6,799

Fiscal 2023 NCIB

On May 19, 2022, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,896,079 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2022, and ended on May 24, 2023.

Fiscal 2024 NCIB

On August 8, 2023, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,791,984 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on August 10, 2023, and will end on August 9, 2024, or on such earlier date when the Company has either acquired the maximum number of common shares allowable under the NCIB or decided not to make any further purchases under it.

Management views the NCIB as a flexible means to allocate capital to drive shareholder value without compromising the Corporation's position for future growth initiatives, whether they are new contract opportunities or business acquisitions.

FREE CASH FLOW⁽¹⁾

	Three months ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
Cash flows related to operating activities	\$ 10,968	\$ 5,237	\$(16,810)	\$ 25,542
Net additions to property, plant and equipment	(5,614)	(2,354)	(14,945)	(11,665)
Net change in finite-life intangible assets	(5,155)	(1,090)	(10,013)	(6,855)
Free cash flow (usage)	\$ 199	\$ 1,793	\$(41,768)	\$ 7,022

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

The decrease in free cash flow for the nine-month period compared to the corresponding period last year was mainly driven by the investment in inventory described previously.

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

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEETS

Working capital

As at	December 31, 2023	March 31, 2023	Variance	
Current assets	\$ 481,749	\$ 429,513	\$ 52,236	12.2 %
Current liabilities	220,058	223,939	(3,881)	(1.7)%
Working capital	\$ 261,691	\$ 205,574	\$ 56,117	27.3 %
Working capital ratio	2.19	1.92		

The increase in current assets compared to March 31, 2023 reflects mainly a \$50.1 million increase in inventory, as described under *Liquidity and Capital Resources*.

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

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

	December 31, 2023	March 31, 2023	Variance	
Long-term assets	\$ 392,855	\$ 391,824	\$ 1,031	0.3 %
Long-term liabilities	246,891	206,479	\$ 40,412	19.6 %
Shareholders' equity	\$ 407,655	\$ 390,919	\$ 16,736	4.3 %
Net debt-to-equity ratio ⁽¹⁾	0.5:1	0.4:1		

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

The \$40.4 million increase in long-term liabilities is mainly explained by the \$47.0 million drawing on the Revolving Facility described previously.

The \$16.7 million increase in Shareholder's Equity is essentially driven by \$17.6 million of net income.

ADDITIONAL INFORMATION

FOREIGN EXCHANGE (“FX”)

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

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

	December 31, 2023	March 31, 2023
USD (Canadian equivalent of US\$1.0)	1.3226	1.3533
GBP (Canadian equivalent of £1.0)	1.6837	1.6726
EUR (Canadian equivalent of €1.0)	1.4626	1.4708

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

	Quarters ended December 31,		Nine months ended December 31,	
	2023	2022	2023	2022
USD (Canadian equivalent of US\$1.0)	1.3619	1.3580	1.3487	1.3135
GBP (Canadian equivalent of £1.0)	1.6912	1.5953	1.6900	1.5778
EUR (Canadian equivalent of €1.0)	1.4657	1.3864	1.4625	1.3531

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

INTERNAL CONTROLS AND PROCEDURES

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

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

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

No changes were made to the Corporation’s internal controls over financial reporting during the quarter ended December 31, 2023, that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2024			2023				2022
	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter
Sales	\$ 163,518	\$ 141,499	\$ 140,697	\$ 155,978	\$ 140,875	\$ 132,680	\$ 114,089	\$ 147,459
Operating income	15,554	9,101	7,496	9,879	5,111	8,562	2,646	11,463
Adjusted EBITDA ⁽¹⁾	24,537	18,221	16,357	19,595	14,129	16,216	11,426	22,149
Net income	8,980	4,628	3,970	6,288	1,773	4,799	965	11,459
Adjusted Net Income ⁽¹⁾	8,980	4,628	3,970	6,288	1,773	3,580	965	13,158
<i>In dollars per share</i>								
Earnings per share - Diluted	\$ 0.27	\$ 0.14	\$ 0.12	\$ 0.18	\$ 0.05	\$ 0.14	\$ 0.03	\$ 0.33
Adjusted earnings per share ⁽¹⁾	0.27	0.14	0.12	0.18	0.05	0.10	0.03	0.38
<i>In thousands of shares</i>								
Weighted-average number of common diluted shares outstanding	33,853	34,144	34,197	34,300	34,450	34,554	34,633	34,868

⁽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 vacation.

RISKS AND UNCERTAINTIES

Héroux-Devtek operates in industry sector that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2023. Additional risks and uncertainties not presently known to the Corporation or that the Corporation currently believes to be immaterial may also adversely affect its business.

SHAREHOLDER INFORMATION

ISSUED CAPITAL	February 6, 2024
Common shares issued and outstanding	33,653,570
Stock options issued and outstanding	1,895,500

Héroux-Devtek's shares are traded on the Toronto Stock Exchange under the ticker "HRX" and Computershare Trust acts as registrar and transfer agent.

EXPECTED ISSUANCE OF FINANCIAL RESULTS	
Fiscal 2024	
Fourth quarter	May 22, 2024
Fiscal 2025	
First quarter	August 9, 2024
Second quarter	November 12, 2024
Third quarter	February 7, 2025

Contact information

Héroux-Devtek Inc.
1111 St-Charles Street West,
Suite 600, West Tower,
Longueuil, Québec, Canada, J4K 5G4
450-679-3330
IR@HerouxDevtek.com

February 6, 2024



CONTACT INFORMATION

1111 Saint-Charles street West, suite 600
West Tower, Saint-Charles Complex
Longueuil (Québec) Canada J4K 5G4
450 679-3330