



**CONSOLIDATED FINANCIAL
STATEMENTS / MANAGEMENT'S
DISCUSSION AND ANALYSIS**

First quarter ended June 30, 2022



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

First quarter ended June 30, 2022

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED JUNE 30, 2022 AND 2021

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 June 30, 2022 and 2021 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.

August 4, 2022

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	June 30, 2022	March 31, 2022
ASSETS	9		
Current assets			
Cash		\$ 88,307	\$ 86,692
Accounts receivable		90,909	105,389
Income tax receivable		1,852	1,108
Inventories		217,372	200,342
Derivative financial instruments	8	2,116	5,500
Other current assets		16,617	16,419
		417,173	415,450
Property, plant and equipment, net	4	206,784	208,838
Finite-life intangible assets, net	4	46,132	47,320
Derivative financial instruments	8	1,757	14,329
Deferred income tax assets		9,344	6,557
Goodwill		105,300	108,200
Other long-term assets		12,361	12,664
Total assets		\$ 798,851	\$ 813,358
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 103,038	\$ 114,508
Provisions		20,462	21,925
Customer advances and progress billings		34,995	29,875
Income tax payable		1,401	826
Derivative financial instruments	8	3,127	1,852
Current portion of long-term debt	9	10,233	10,835
		173,256	179,821
Long-term debt	9	225,700	225,691
Provisions		14,914	14,828
Derivative financial instruments	8	2,899	830
Deferred income tax liabilities		8,297	8,567
Other liabilities		6,230	6,339
		431,296	436,076
Shareholders' equity			
Issued capital	10	83,365	82,189
Contributed surplus		5,746	5,767
Accumulated other comprehensive income (loss)	11	(3,528)	6,865
Retained earnings		281,972	282,461
		367,555	377,282
Total liabilities and shareholders' equity		\$ 798,851	\$ 813,358

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 June 30,	
		2022	2021
Sales	3	\$ 114,089	\$ 126,188
Cost of sales	4, 5	101,578	104,548
Gross profit		12,511	21,640
Selling and administrative expenses	4, 5	9,865	10,843
Operating income		2,646	10,797
Net financial expenses	6	1,376	1,893
Income before income tax expense		1,270	8,904
Income tax expense		305	2,201
Net income		\$ 965	\$ 6,703
Attributable to:			
Equity holders of the parent		965	6,842
Non-controlling interest		—	(139)
		\$ 965	\$ 6,703
Earnings per share – basic and diluted	7	\$ 0.03	\$ 0.19

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 June 30,	
	Notes	2022	2021
	11		
Other comprehensive income (loss) :			
Items that may be reclassified to net income			
Losses arising from conversion of the financial statements of foreign operations		\$ (3,669)	\$ (3,044)
Cash flow hedges:			
Net (losses) gains on valuation of derivative financial instruments		(7,954)	2,094
Net losses (gains) on derivative financial instruments transferred to net income		447	(1,549)
Deferred income taxes		1,982	(147)
		(5,525)	398
(Losses) gains on hedges of net investments in foreign operations		(1,370)	385
Deferred income taxes		171	(44)
		(1,199)	341
Items that are never reclassified to net income			
Defined benefit pension plans:			
(Loss) gain from remeasurement		(73)	487
Deferred income taxes		19	(129)
		(54)	358
Other comprehensive loss		\$ (10,447)	\$ (1,947)
Comprehensive (loss) income			
Net income		965	6,703
Other comprehensive loss		(10,447)	(1,947)
Comprehensive (loss) income		\$ (9,482)	\$ 4,756
Attributable to:			
Equity holders of the parent		(9,482)	4,895
Non-controlling interest		—	(139)
		\$ (9,482)	\$ 4,756

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	Equity attributable to the equity holders of the parent	Non-Controlling interest	Shareholders' equity
Balance as at March 31, 2022		\$ 82,189	\$ 5,767	\$ 6,865	\$ 282,461	\$ 377,282	\$ —	\$ 377,282
Common shares issued under the stock option plan	10	1,437	(334)	—	—	1,103	—	1,103
Repurchase and cancellation of common shares	10	(261)	—	—	(1,400)	(1,661)	—	(1,661)
Stock-based compensation expense	10	—	313	—	—	313	—	313
Net income		—	—	—	965	965	—	965
Other comprehensive loss	11	—	—	(10,393)	(54)	(10,447)	—	(10,447)
Balance as at June 30, 2022		\$ 83,365	\$ 5,746	\$ (3,528)	\$ 281,972	\$ 367,555	\$ —	\$ 367,555

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Equity attributable to the equity holders of the parent	Non-Controlling interest	Shareholders' equity
Balance as at March 31, 2021		\$ 86,222	\$ 5,126	\$16,279	\$ 282,831	\$ 390,458	\$ 1,274	\$ 391,732
Common shares issued under the stock option plan	10	677	(172)	—	—	505	—	505
Repurchase and cancellation of common shares	10	(914)	—	—	(5,740)	(6,654)	—	(6,654)
Stock-based compensation expense	10	—	218	—	—	218	—	218
Net income (loss)		—	—	—	6,842	6,842	(139)	6,703
Other comprehensive (loss) income	11	—	—	(2,305)	358	(1,947)	—	(1,947)
Balance as at June 30, 2021		\$ 85,985	\$ 5,172	\$13,974	\$ 284,291	\$ 389,422	\$ 1,135	\$ 390,557

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 June 30,	
	Notes	2022	2021
Cash provided by (used for):			
Operating activities			
Net income		\$ 965	\$ 6,703
Items not requiring an outlay of cash:			
Amortization expense	5	8,780	9,252
Deferred income taxes		727	1,269
Net non-cash financial expenses	6	342	1,064
Stock-based compensation expense	10	313	218
Cash flows from operations		11,127	18,506
Net change in non-cash items	12	914	563
Cash flows related to operating activities		\$ 12,041	\$ 19,069
Investing activities			
Net additions to property, plant and equipment		(5,754)	(4,140)
Net change in finite-life intangible assets		(1,757)	(530)
Proceeds from a business divestiture		—	2,041
Cash flows related to investing activities		\$ (7,511)	\$ (2,629)
Financing activities			
Proceeds from long-term debt		690	—
Repayment of long-term debt		(2,902)	(6,500)
Increase in deferred financing costs		(245)	(555)
Repurchase and cancellation of shares	10	(1,661)	(6,654)
Issuance of common shares under the stock option plan		1,103	505
Cash flows related to financing activities		\$ (3,015)	\$ (13,204)
Effect of changes in exchange rates on cash		100	(112)
Change in cash during the periods		1,615	3,124
Cash at beginning of periods		86,692	95,470
Cash at end of periods		\$ 88,307	\$ 98,594
Interest and income taxes reflected in operating activities:			
Interest paid		\$ 1,249	\$ 2,703
Interest received		\$ 215	\$ 142
Income taxes paid		\$ 1,037	\$ 2,651

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three-month periods ended June 30, 2022 and 2021
(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 June 30, 2022 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, 2022.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on August 4, 2022.

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Three months ended June 30,	
	2022	2021
Geographic markets		
Canada	\$ 7,518	\$ 11,400
United States of America	71,679	69,841
United Kingdom	6,952	12,093
Spain	6,962	9,974
Rest of Europe	12,782	13,412
Other countries	8,196	9,468
	\$ 114,089	\$ 126,188
Sectors		
Civil	\$ 35,398	37,639
Defence	78,691	88,549
	\$ 114,089	\$ 126,188

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 June 30,	
	2022	2021
Finite-life intangible assets	\$ 280	\$ —
Property, plant and equipment	\$ 14	\$ —
Cost of sales and selling and administrative expenses	\$ 1,076	\$ 3,476

Government assistance includes mainly research and development tax credits, other credits and grants, including the Canadian Emergency Wage Subsidy for the quarter ended June 30, 2021.

NOTE 5. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows:

	Three months ended June 30,	
	2022	2021
Raw materials and purchased parts	\$ 39,365	\$ 45,332
Employee costs	44,910	45,277
Amortization of property, plant and equipment and finite-life intangible assets	8,780	9,252
Others	18,388	15,530
	\$ 111,443	\$ 115,391
Including:		
Foreign exchange gains upon conversion of net monetary items	\$ (739)	\$ (86)
Amortization of customer relationships	\$ 930	\$ 987

NOTE 6. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended June 30,	
	2022	2021
Interest accretion on governmental authorities loans	\$ 749	\$ 802
Interest on defined benefit obligations	19	24
Interest on leases	213	217
Amortization of deferred financing costs	123	183
Other net non-cash financial income	(762)	(162)
Net non-cash financial expenses	\$ 342	\$ 1,064
Interest on long-term debt	\$ 1,249	\$ 971
Interest income on cash	(215)	(142)
	\$ 1,376	\$ 1,893

NOTE 7. EARNINGS PER SHARE

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

	Three months ended June 30,	
	2022	2021
Weighted-average number of common shares outstanding	34,498,256	36,696,402
Dilutive effect of stock options	135,203	284,280
Weighted-average number of common diluted shares outstanding	34,633,459	36,980,682
Options excluded from diluted earnings per share calculation	966,000	197,000

NOTE 8. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at June 30, 2022, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$315,386 (\$341,604 at March 31, 2022) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$213,060 (US\$219,500 at March 31, 2022) convertible into Canadian dollars at an average rate of 1.2895 (1.2888 at March 31, 2022). These contracts mature at various dates between July 2022 and March 2027, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at March 31, 2022, the Corporation had three cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 90,468 in order to mitigate foreign exchange and interest rate risks. These agreements matured between May 2022 and September 2028, and mainly bore interest at a weighted average fixed rate of 2.4%.

During the quarter ended June 30, 2022, one of these swaps expired, and the other two were unwound for cash proceeds totaling \$11,260.

Equity swap agreement

As at June 30, 2022 and March 31, 2022, the Corporation had entered into an equity swap agreement fixing 300,000 common shares of the Corporation at a price of \$13.52. This agreement manages the Corporation's exposure to fluctuations of its share price and resulting effect on the value of outstanding Performance Share Units and Deferred Share Units and expires in June 2023 (June 2022 as at March 31, 2022) .

NOTE 9. LONG-TERM DEBT

As at	June 30, 2022	March 31, 2022
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 60,650	\$ 58,821
Governmental authorities loans	83,886	84,508
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	18,819	20,497
Deferred financing costs, net	(2,422)	(2,300)
	\$ 235,933	\$ 236,526
Less: current portion	10,233	10,835
Long-term debt	\$ 225,700	\$ 225,691

Revolving Facility

In May 2022, the Corporation reached an agreement to extend its \$250-million Revolving Facility to a new maturity of June 2027 (as at March 31, 2022 - June 2026). The other terms and conditions remain relatively unchanged.

The Revolving Facility bears interest at SOFR + 1.0% representing an effective rate of 1.8% (Libor + 1.0% representing 1.3% as at March 31, 2022) and is secured by essentially all assets of the Corporation and its subsidiaries.

Term Loan

The Term Loan Facility is fully drawn, bears interest at 5.0%, (5.0% as at March 31, 2022) and matures in September 2028.

NOTE 10. ISSUED CAPITAL

A. Share capital

Capital stock varied as follows:

	Three months ended June 30, 2022	
	Number	Issued capital
Opening balance	34,486,776	\$ 82,189
Issued for cash on exercise of stock options	103,000	1,437
Repurchase and cancellation	(107,835)	(261)
Closing balance	34,481,941	\$ 83,365

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 will end on May 24, 2023, 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.

As at June 30, 2022, the Company has purchased and cancelled 107,835 common shares for a cash consideration of \$1,661, representing a weighted average price of \$15.40 per share. The \$1,400 excess of purchase price over the carrying value was charged to retained earnings.

B. Stock option plan

For the quarters ended June 30, variances in stock options outstanding and related compensation expense were as follows:

	2022		2021	
	Number of stock options	Exercise price ⁽¹⁾	Number of stock options	Exercise price ⁽¹⁾
Opening balance	1,503,750	\$14.19	1,449,095	\$13.48
Granted	247,000	15.42	197,000	17.45
Exercised	(103,000)	10.71	(45,794)	11.03
Expired	(2,250)	10.71	—	—
Closing balance	1,645,500	\$14.60	1,600,301	\$14.04
Stock-based compensation expense		\$ 313		\$ 218

⁽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 June 30, 2022 (2,225,662 at March 31, 2022).

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

Movements in outstanding DSUs and PSUs and related expenses were as follows:

	Three months ended June 30,	
	2022	2021
DSUs		
<i>In number of DSUs</i>		
Opening balance	199,471	192,108
Issued	—	1,418
Closing balance of DSUs outstanding	199,471	193,526
DSU expense (income) for the periods	\$ (575)	\$ 189
Fair value of vested outstanding DSUs, end of periods	\$ 2,757	\$ 3,432

	Three months ended June 30,	
	2022	2021
PSUs		
<i>In number of PSUs</i>		
Opening balance	285,350	300,150
Issued	119,700	86,150
Cancelled/Forfeited	(500)	(2,700)
Closing balance of PSUs outstanding	404,550	383,600
PSU expense (income) for the periods	\$ (443)	\$ 418
Fair value of vested outstanding PSUs, end of periods	\$ 3,557	\$ 4,507

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 March 31, 2022	\$ 3,005	\$ 4,637	\$ (777)	\$ 6,865
Other comprehensive loss	(3,669)	(5,525)	(1,199)	(10,393)
Balance as at June 30, 2022	\$ (664)	\$ (888)	\$ (1,976)	\$ (3,528)

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2021	\$ 14,064	\$ 8,531	\$ (6,316)	\$ 16,279
Other comprehensive (loss) income	(3,044)	398	341	(2,305)
Balance as at June 30, 2021	\$ 11,020	\$ 8,929	\$ (5,975)	\$ 13,974

NOTE 12. NET CHANGE IN NON-CASH ITEMS

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

	Three months ended June 30,	
	2022	2021
Accounts receivable	\$ 13,654	\$ 22,372
Inventories	(17,982)	(7,131)
Other assets (note 8)	10,914	(2,877)
Accounts payable and accrued liabilities	(8,703)	(4,904)
Provisions	(438)	(2,017)
Customer advances and progress billings	5,846	(3,866)
Other Liabilities	(2,377)	(1,014)
	\$ 914	\$ 563



MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended June 30, 2022

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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, 2022 and June 30, 2022. It also compares the operating results and cash flows for the quarter ended June 30, 2022 to those of the same period of the prior fiscal year.

This MD&A is based on the unaudited interim condensed consolidated financial statements for the quarter ended June 30, 2022, 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, 2022, 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 August 4, 2022.

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: the effect of the ongoing COVID-19 pandemic on Héroux-Devtek’s operations, customers, supply chain, the aerospace industry and the economy in general; the impact of other worldwide geopolitical and general economic conditions; the war in Ukraine, 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, 2022. Readers are cautioned that the foregoing list of factors that may affect future growth, results and performance is not exhaustive, and undue reliance should not be placed on forward-looking statements.

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

HIGHLIGHTS

	Three months ended June 30,	
	2022	2021
Sales	\$ 114,089	\$ 126,188
Operating income	2,646	10,797
Adjusted EBITDA ⁽¹⁾	11,426	20,049
Net income	965	6,703
Cash flows related to operating activities	12,041	19,069
Free cash flow ⁽¹⁾	4,530	14,399
<i>In dollars per share</i>		
Earnings per share - basic and diluted	\$ 0.03	\$ 0.19

⁽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.

Operating Environment

Héroux-Devtek continued to operate in a complex environment. Several factors are affecting the production system at the same time, rendering the generation of throughput particularly challenging:

- The resurgence of COVID variants over the past six months have caused the number of cases among the Corporation's employees to quadruple resulting in high absenteeism;
- The Corporation's supply chain is also impacted by the COVID-related absenteeism as well as labour shortages observed in the Aerospace industry;
- Lead times for the procurement of raw material have increased significantly and Russia's invasion of Ukraine limits the supply of certain material; and,
- Inflation has reached heights not seen in decades. Central banks are responding by raising base interest rates, therefore increasing financing costs and putting pressure on financially fragile companies.

Nevertheless, Héroux-Devtek's order book remains strong and its teams are committed to coping with the challenges in order to restore sales throughput.

Events of the Quarter

- The Corporation generated consolidated sales of \$114.1 million, compared to \$126.2 million a year earlier, representing a decrease of 9.6%. This shortfall mainly relates to lower throughput resulting from the challenges of the current operating environment described above.
- As a result, operating income decreased to \$2.6 million, compared to \$10.8 million last fiscal year, and Adjusted EBITDA decreased to \$11.4 million, or 10.0% of sales, compared to \$20.0 million or 15.9% last year.
- Earnings per share fell to \$0.03 per share compared to \$0.19 last year.
- Héroux-Devtek generated cash flows related to operating activities totaling \$12.0 million and free cash flow of \$4.5 million during the quarter compared to \$19.1 million and \$14.4 million, respectively, during the same period last year.
- Subsequent to the end of the quarter:
 - On July 19th, Korea Aerospace Industries announced the first flight of the KF-21 Boramae fighter jet, for which Héroux-Devtek is jointly designing and developing the landing gear system with Hanwha.
 - In August, the Corporation announced a major contract with Boeing for the repair and overhaul of the main landing gear and side braces for the F/A-18 E/F super Hornet and the EA-18G Growler. The first phase of the contract covers 40 aircraft and is expected to be followed by options for the sustainment of the complete U.S. Navy fleet of over 600 aircraft.

OPERATING RESULTS

	Three months ended June 30,		
	2022	2021	Variance
Sales	\$ 114,089	\$ 126,188	\$ (12,099)
Gross profit	12,511	21,640	(9,129)
Selling and administrative expenses	9,865	10,843	(978)
Operating income	2,646	10,797	(8,151)
Net financial expenses	1,376	1,893	(517)
Income tax expense	305	2,201	(1,896)
Net income	\$ 965	\$ 6,703	\$ (5,738)
<i>As a percentage of sales</i>			
Gross profit	11.0%	17.1%	-610 bps
Selling and administrative expenses	8.6%	8.6%	— bps
Operating income	2.3%	8.6%	-630 bps
<i>In dollars per share</i>			
Earnings per share - basic and diluted	\$ 0.03	\$ 0.19	\$ (0.16)

Sales

Sales by sector were as follows:

	Three months ended June 30,			
	2022	2021	FX impact	Net variance
Defence ⁽¹⁾	\$ 78,691	\$ 88,549	\$ 5	\$ (9,863) (11.1)%
Civil	35,398	37,639	2	(2,243) (6.0)%
Total	\$ 114,089	\$ 126,188	\$ 7	\$ (12,106) (9.6)%

⁽¹⁾ Includes defence sales to civil customers and governments

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

Defence

During the quarter, Defence sales decreased by 11.1% compared to the first quarter last fiscal year mainly as a result of the challenges of the current operating environment as described in the *Highlights* section under *Overview*. These elements were partially offset by the ramp-up of deliveries for the F-18 program with Boeing.

Civil

The \$2.2 million reduction in civil sales for the quarter was mainly driven by the closure of the Wichita business last December, partly offset by an increase in deliveries for the Embraer Praetor and Boeing 777 programs.

Gross Profit

Gross profit for the quarter decreased from 17.1% to 11.0% of sales compared to the same quarter last year due to lower throughput and higher production inefficiencies resulting from the production system disruptions mentioned above.

Selling and Administrative Expenses

	Three months ended June 30,	
	2022	2021
Selling and Administrative Expenses	\$ 9,865	\$ 10,843
Less: Net gains on conversion of net monetary items	(739)	(86)
Selling and Administrative expenses excluding conversion of monetary items	\$ 10,604	\$ 10,929
<i>As a percentage of sales</i>	9.3%	8.7%

When excluding the effect of the conversion of net monetary items, selling and administrative expenses increased to 9.3% of sales for the quarter as a result of lower sales.

Operating Income

	Three months ended June 30,	
	2022	2021
Operating income	\$ 2,646	\$ 10,797
<i>As a percentage of sales</i>	2.3%	8.6%

As a percentage of sales, when compared to the same periods last fiscal year, operating income decreased this quarter as a result of the factors described above.

Net Financial Expenses

	Three months ended June 30,	
	2022	2021
Interest on long-term debt	\$ 1,249	\$ 971
Net financial expense related to government loans	749	802
Interest income on cash	(215)	(142)
Other interest expense (gains)	(407)	262
	\$ 1,376	\$ 1,893

The decreases in net financial expenses for the quarter mainly relate to the positive impact of discount rate variations during the quarter, partly offset by higher interest on long-term debt as a result of the increase of the effective interest rate from 1.3% to 1.8% on the Revolving Facility.

Income Tax Expense

	Three months ended June 30,	
	2022	2021
Income before income tax expense	\$ 1,270	\$ 8,904
Income tax expense	305	2,201
Effective tax rate	24.0%	24.7%
Canadian blended statutory income tax rate	26.4%	26.5%

For the quarter ended June 30, 2022, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.3 million (for the quarter ended June 30, 2021 - \$0.3 million), partially offset by non-deductible expenses totaling \$0.2 million (for the quarter ended June 30, 2021 - \$0.1 million).

Net Income

Net income decreased from \$6.7 million to \$1.0 million for the quarter ended June 30, 2022 compared to the same period last fiscal year, mainly as a result of lower sales and the factors described above.

Earnings per Share

	Three months ended June 30,	
	2022	2021
Net income attributable to equity holders of the Corporation	\$ 965	\$ 6,842
Weighted-average number of common diluted shares outstanding, in thousands	34,633	36,981
Diluted earnings per share	\$ 0.03	\$ 0.19

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 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 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.

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.

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*.

No reconciliation of Adjusted net income or Adjusted earnings per share is presented in this MD&A as there are no adjusting items in this or the comparative period. There is therefore no difference between these metrics and IFRS net income and earnings per share.

The Corporation's adjusted EBITDA is calculated as follows:

	Three months ended June 30,	
	2022	2021
Operating income	2,646	10,797
Amortization expense	8,780	9,252
Adjusted EBITDA	\$ 11,426	\$ 20,049

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 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.

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 the Corporation to borrow up to \$250 million. In May 2022, Héroux-Devtek reached an agreement to extend the Revolving Facility to a new maturity of June 2027 (as at March 31, 2022, June 2026), the other terms and conditions remain relatively unchanged. The Revolving facility also includes an accordion feature, which allow Héroux-Devtek to draw an additional \$200 million subject to lenders' consent.

As at June 30, 2022 and March 31, 2022, the Corporation had US\$47.0 million drawn against the facility, worth \$60.7 million and \$58.8 million, respectively, reflecting USD/CAD exchange rate fluctuations.

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%, (March 31, 2022 - 5.0%). The Corporation has the option to make early repayments as of September 2024, subject to certain fees.

Net Debt Position

As at	June 30, 2022	March 31, 2022
Long-term debt ⁽¹⁾	\$ 238,355	\$ 238,826
Less: Cash	88,307	86,692
Net debt position	\$ 150,048	\$ 152,134
Adjusted EBITDA ⁽²⁾ - trailing 12 months	74,426	83,049
Net debt to adjusted EBITDA ratio	2.0:1	1.8:1

⁽¹⁾ Excluding net deferred financing costs of \$2.4 million and \$2.3 million as at June 30, 2022 and March 31, 2022, respectively.

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

VARIATIONS IN CASH

	Three months ended June 30,	
	2022	2021
Cash at beginning of periods	\$ 86,692	\$ 95,470
Cash flows related to operating activities	12,041	19,069
Cash flows related to investing activities	(7,511)	(2,629)
Cash flows related to financing activities	(3,015)	(13,204)
Effect of changes in exchange rates on cash	100	(112)
Cash at end of periods	\$ 88,307	\$ 98,594

Operating Activities

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

	Three months ended June 30,	
	2022	2021
Cash flows from operations	\$ 11,127	\$ 18,506
Net change in non-cash items	914	563
Cash flows related to operating activities	\$ 12,041	\$ 19,069

The decrease in cash flows from operations over the quarter compared to the same period last year is mainly the result of lower throughput and resulting margin.

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

	Three months ended June 30,	
	2022	2021
Accounts receivable	\$ 13,654	\$ 22,372
Inventories	(17,982)	(7,131)
Other assets	10,914	(2,877)
Accounts payable and accrued liabilities	(8,703)	(4,904)
Provisions	(438)	(2,017)
Customer advances and progress billings	5,846	(3,866)
Other Liabilities	(2,377)	(1,014)
	\$ 914	\$ 563

For the quarter ended June 30, 2022, the positive net change in non-cash items mainly reflects:

- The seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year;
- A decrease in other assets resulting from the unwinding of the Corporation's cross-currency interest rate swaps for proceeds totaling \$11.3 million; and,
- An increase in customer advances and progress billings.

These positive elements were mostly offset by:

- A decrease in throughput resulting in an increase in inventory; and,
- A decrease in accounts payable as a result of a lower overall level of activity compared to the prior quarter.

For the quarter ended June 30, 2021, the positive net change in non-cash items mainly reflects a seasonal decrease in accounts receivable following the higher level of activity during the fourth quarter of the prior fiscal year, mostly offset by:

- An increase in inventory due to upcoming defence growth;
- A decrease in accounts payable as a result of a lower overall level of activity compared to the prior quarter; and,
- A decrease in customer advances and progress billings.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended June 30,	
	2022	2021
Net additions to property, plant and equipment	\$ (5,754)	\$ (4,140)
Net change in finite-life intangible assets	(1,757)	(530)
Proceeds from a business divestiture	—	2,041
Cash flows related to investing activities	\$ (7,511)	\$ (2,629)

The proceeds of business divestitures last year relates to the divestitures of the Corporation's Bolton, UK activities.

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

	Three months ended June 30,	
	2022	2021
Additions to property, plant and equipment	\$ 4,067	\$ 3,123
Government assistance	(14)	—
Variation in unpaid additions included in Accounts payable and accrued liabilities	1,737	1,187
Non-cash additions made through leasing agreements	(36)	(170)
Additions, as per statements of cash flows	\$ 5,754	\$ 4,140

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended June 30,	
	2022	2021
Increase in long-term debt	\$ 690	\$ —
Repayment of long-term debt	(2,902)	(6,500)
Increase in deferred financing costs	(245)	(555)
Repurchase and cancellation of shares	(1,661)	(6,654)
Issuance of common shares	1,103	505
Cash flows related to financing activities	\$ (3,015)	\$ (13,204)

Repayment of long-term debt during both quarters ended June 30 is comprised of lease payments and scheduled reimbursements of governmental loans.

NORMAL COURSE ISSUER BID

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 will end on May 24, 2023, 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.

As at June 30, 2022, the Company has purchased and cancelled 107,835 common shares for a cash consideration of \$1.7 million, representing a weighted average price of \$15.40 per share.

FREE CASH FLOW⁽¹⁾

	Three months ended June 30,	
	2022	2021
Cash flows related to operating activities	\$ 12,041	\$ 19,069
Net additions to property, plant and equipment	(5,754)	(4,140)
Net change in finite-life intangible assets	(1,757)	(530)
Free cash flow	\$ 4,530	\$ 14,399

⁽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 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	June 30, 2022	March 31, 2022	Variance	
Current assets	\$ 417,173	\$ 415,450	\$ 1,723	0.4 %
Current liabilities	173,256	179,821	(6,565)	(3.7)%
Working capital	\$ 243,917	\$ 235,629	\$ 8,288	3.5 %
Working capital ratio	2.41	2.31		

The increase in current assets is mainly explained by a \$17.0 million increase in inventory partly offset by a \$14.5 million decrease in accounts receivable.

The decrease in current liabilities is mainly explained by a \$11.5 million seasonal reduction in account payables and accrued liabilities partly offset by an increase of \$5.1 million in customer advances and progress billings.

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

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

	June 30, 2022	March 31, 2022	Variance	
Long-term assets	\$ 381,678	\$ 397,908	\$ (16,230)	(4.1)%
Long-term liabilities	258,040	256,255	\$ 1,785	0.7 %
Shareholders' equity	\$ 367,555	\$ 377,282	\$ (9,727)	(2.6)%
Net debt-to-equity ratio ⁽¹⁾	0.41:1	0.40:1		

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

The \$16.2 million decrease in long-term assets is mainly explained by a \$11.3 million decrease in derivative financial instruments due to the unwinding of cross-currency interest rate swaps.

The \$9.7 million reduction in Shareholder's Equity is mainly driven by the net impact of negative foreign exchange variations on the valuation of the Corporation's derivative financial instruments and the conversion of operations denominated in foreign currencies.

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:

	June 30, 2022	March 31, 2022
USD (Canadian equivalent of US\$1.0)	1.2886	1.2496
GBP (Canadian equivalent of £1.0)	1.5668	1.6417
EUR (Canadian equivalent of €1.0)	1.3467	1.3853

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

	Three months ended June 30,	
	2022	2021
USD (Canadian equivalent of US\$1.0)	1.2765	1.2280
GBP (Canadian equivalent of £1.0)	1.6031	1.7170
EUR (Canadian equivalent of €1.0)	1.3590	1.4804

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.

DERIVATIVES

Forward foreign exchange contracts

As at June 30, 2022, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$315.4 million (\$341.6 million at March 31, 2022) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$213.1 million (US\$219.5 million at March 31, 2022) convertible into Canadian dollars at an average rate of 1.2895 (1.2888 at March 31, 2022). These contracts mature at various dates between July 2022 and March 2027, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at March 31, 2022, the Corporation had three cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 90,5 million in order to mitigate foreign exchange and interest rate risks. These agreements matured between May 2022 and September 2028, and mainly bore interest at a weighted average fixed rate of 2.4%.

During the quarter ended June 30, 2022, one of these swaps expired, and the other two were unwound.

Equity swap agreement

As at June 30, 2022 and March 31, 2022, the Corporation had entered into an equity swap agreement fixing 300,000 common shares of the Corporation at a price of \$13.52. This agreement manages the Corporation's exposure to fluctuations of its share price and resulting effect on the value of outstanding Performance Share Units and Deferred Share Units, and expires in June 2023.

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 June 30, 2022 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2023			2022			2021		
	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third Quarter	Second Quarter	
Sales	\$ 114,089	\$ 147,459	\$ 131,147	\$ 131,293	\$ 126,188	\$ 154,989	\$ 150,298	\$ 137,063	
Operating income	2,646	11,463	10,545	11,953	10,797	12,229	13,362	7,120	
Adjusted EBITDA ⁽¹⁾	11,426	22,149	19,694	21,157	20,049	24,975	23,731	21,233	
Net income	965	11,459	6,468	7,510	6,703	8,802	8,486	3,838	
Adjusted Net Income ⁽¹⁾	965	13,158	6,468	7,510	6,703	10,169	9,365	6,118	
<i>In dollars per share</i>									
Earnings per share - Diluted	\$ 0.03	\$ 0.33	\$ 0.18	\$ 0.21	\$ 0.19	\$ 0.24	\$ 0.24	\$ 0.11	
Adjusted earnings per share ⁽¹⁾	0.03	0.38	0.18	0.21	0.19	0.28	0.26	0.17	
<i>In thousands of shares</i>									
Weighted-average number of common diluted shares outstanding	34,633	34,868	35,741	36,576	36,981	36,523	36,510	36,379	

⁽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 sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 2022. 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	August 4, 2022
Common shares issued and outstanding	34,481,941
Stock options issued and outstanding	1,645,500

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 2023	
Second quarter	November 11, 2022
Third quarter	February 8, 2023
Fourth quarter	May 17, 2023
Fiscal 2024	
First quarter	August 8, 2023

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August 4, 2022



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