



CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2020



INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Third quarter ended December 31, 2020

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED DECEMBER 31, 2020 AND 2019

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, 2020 and 2019 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 4, 2021

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	December 31, 2020	March 31, 2020
ASSETS			
Current assets			
Cash and cash equivalents		\$ 95,500	\$ 45,841
Accounts receivable		82,909	112,558
Income tax receivable		2,078	1,291
Inventories		241,295	241,119
Derivative financial instruments	9	4,446	28
Other current assets		17,476	21,213
		443,704	422,050
Property, plant and equipment, net	4	235,235	259,641
Finite-life intangible assets, net	4	55,103	64,047
Derivative financial instruments	9	6,024	3,498
Deferred income tax assets		11,368	19,698
Goodwill		117,996	120,773
Other long-term assets		8,841	9,141
Total assets		\$ 878,271	\$ 898,848
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 102,778	\$ 126,488
Provisions		29,914	27,679
Customer advances and progress billings		40,518	34,885
Income tax payable		2,973	1,403
Derivative financial instruments	9	11	9,321
Current portion of long-term debt	10	16,667	16,857
		192,861	216,633
Long-term debt	10	266,037	272,760
Provisions		19,121	19,527
Derivative financial instruments	9	3,745	14,667
Deferred income tax liabilities		8,949	8,812
Other liabilities		14,592	17,001
		505,305	549,400
Shareholders' equity			
Issued capital	11	80,001	79,757
Contributed surplus		6,582	5,792
Accumulated other comprehensive income	12	17,944	7,160
Retained earnings		267,020	255,221
Total equity attributable to the equity holders of the parent		371,547	347,930
Non-controlling interests		1,419	1,518
		372,966	349,448
Total liabilities and shareholders' equity		\$ 878,271	\$ 898,848

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,	
		2020	2019	2020	2019
Sales	3	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196
Cost of sales	4, 5	122,162	130,424	345,949	372,928
Gross profit		28,136	26,829	69,747	73,268
Selling and administrative expenses	4, 5	13,991	13,363	38,384	38,297
Non-recurring items	6	783	—	9,496	615
Operating income		13,362	13,466	21,867	34,356
Net financial expenses	7	2,658	2,906	8,067	8,379
Income before income tax expense		10,704	10,560	13,800	25,977
Income tax expense		2,218	1,855	2,789	4,522
Net income		\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Attributable to:					
Equity holders of the parent		\$ 8,600	\$ 8,804	\$ 11,110	\$ 21,912
Non-controlling interests		(114)	(99)	(99)	(457)
		\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Earnings per share – basic and diluted	8	\$ 0.24	\$ 0.24	\$ 0.31	\$ 0.60

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars) (Unaudited)

	Note	Three months ended December 31,		Nine months ended December 31,	
	12	2020	2019	2020	2019
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		\$ (4,593)	\$ 3,386	\$ (15,224)	\$ (9,035)
Cash flow hedges:					
Net gains on valuation of derivative financial instruments		11,820	5,856	28,622	4,102
Net losses (gains) on derivative financial instruments transferred to net income		(239)	201	3,484	681
Deferred income taxes		(3,095)	(1,617)	(8,579)	(1,244)
		8,486	4,440	23,527	3,539
Gains on hedge of net investments in foreign operations		1,520	1,045	2,809	3,393
Deferred income taxes		(183)	69	(328)	(488)
		1,337	1,114	2,481	2,905
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains from remeasurement		3,035	3,221	936	(249)
Deferred income taxes		(811)	(850)	(247)	67
		2,224	2,371	689	(182)
Other comprehensive income (loss)		\$ 7,454	\$ 11,311	\$ 11,473	\$ (2,773)
Comprehensive income					
Net income		\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Other comprehensive income (loss)		7,454	11,311	11,473	(2,773)
Comprehensive income		\$ 15,940	\$ 20,016	\$ 22,484	\$ 18,682
Attributable to:					
Equity holders of the parent		\$ 16,054	\$ 20,115	\$ 22,583	\$ 19,139
Non-controlling interests		(114)	(99)	(99)	(457)
		\$ 15,940	\$ 20,016	\$ 22,484	\$ 18,682

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	Retained earnings	Equity attributable to the equity holders of the parent	Non-Controlling interests	Shareholders' equity
Balance as at March 31, 2020		\$ 79,757	\$ 5,792	\$ 7,160	\$ 255,221	\$ 347,930	\$ 1,518	\$ 349,448
Issued under the stock option plan	11	244	(69)	—	—	175	—	175
Stock-based compensation expense	11	—	859	—	—	859	—	859
Net income (loss)		—	—	—	11,110	11,110	(99)	11,011
Other comprehensive income	12	—	—	10,784	689	11,473	—	11,473
Balance as at December 31, 2020		\$ 80,001	\$ 6,582	\$ 17,944	\$ 267,020	\$ 371,547	\$ 1,419	\$ 372,966

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Equity attributable to the equity holders of the parent	Non-Controlling interests	Shareholders' equity
Balance as at March 31, 2019		\$ 79,676	\$ 4,707	\$ 10,502	\$ 307,101	\$ 401,986	\$ 2,112	\$ 404,098
Stock-based compensation expense	11	—	821	—	—	821	—	821
Purchase of minority interests in Tekalia		—	—	—	—	—	(544)	(544)
Capital contribution from a non-controlling interest in a subsidiary		—	—	—	—	—	495	495
Net income (loss)		—	—	—	21,912	21,912	(457)	21,455
Other comprehensive loss	12	—	—	(2,591)	(182)	(2,773)	—	(2,773)
Balance as at December 31, 2019		\$ 79,676	\$ 5,528	\$ 7,911	\$ 328,831	\$ 421,946	\$ 1,606	\$ 423,552

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)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2020	2019	2020	2019
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Items not requiring an outlay of cash:					
Amortization expense	5	9,586	11,097	31,959	32,611
Deferred income taxes		658	(600)	(463)	(1,519)
Gains on sale of property, plant and equipment		—	—	—	(221)
Net non-cash financial expenses	7	1,014	1,313	3,033	3,457
Stock-based compensation expense	11	291	302	859	821
Cash flows from operations		20,035	20,817	46,399	56,604
Net change in non-cash items	13	6,688	(11,153)	11,224	(30,741)
Cash flows related to operating activities		26,723	9,664	57,623	25,863
Investing activities					
Net additions to property, plant and equipment		(4,988)	(5,152)	(14,495)	(13,307)
Net change in finite-life intangible assets		(1,368)	3,427	846	1,043
Cash payment related to business acquisition		—	—	—	(17,149)
Capital contribution from a non-controlling interest in a subsidiary		—	495	—	495
Proceeds on disposal of property, plant and equipment		—	—	—	4,025
Cash flows related to investing activities		(6,356)	(1,230)	(13,649)	(24,893)
Financing activities					
Proceeds from long-term debt		1,238	2,906	64,589	25,950
Repayment of long-term debt		(4,410)	(4,842)	(58,597)	(35,197)
Increase in deferred financing costs		—	(469)	—	(817)
Issuance of common shares		175	—	175	—
Cash flows related to financing activities		(2,997)	(2,405)	6,167	(10,064)
Effect of changes in exchange rates on cash and cash equivalents		(589)	(313)	(482)	(688)
Change in cash and cash equivalents during the periods		16,781	5,716	49,659	(9,782)
Cash and cash equivalents at beginning of periods		78,719	19,630	45,841	35,128
Cash and cash equivalents at end of periods		\$ 95,500	\$ 25,346	\$ 95,500	\$ 25,346
Interest and income taxes reflected in operating activities:					
Interest paid		\$ 1,799	\$ 1,613	\$ 5,626	\$ 4,996
Interest received		\$ 155	\$ 20	\$ 592	\$ 74
Income taxes paid		\$ 897	\$ 3,732	\$ 783	\$ 7,553

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, 2020 and 2019
(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 (the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic and electromechanical 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, 2020 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, 2020.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 4, 2021.

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,	
	2020	2019	2020	2019
Geographic markets				
Canada	\$ 15,437	\$ 14,977	\$ 41,484	\$ 41,804
United States of America	80,922	85,553	218,599	239,223
United Kingdom	11,013	14,020	36,082	44,795
Spain	12,097	12,781	35,217	34,524
Rest of Europe	20,878	19,476	55,206	49,140
Other countries	9,951	10,446	29,108	36,710
	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196
Sectors				
Civil	48,518	73,203	\$ 145,543	\$ 211,782
Defence ⁽¹⁾	101,780	84,050	270,153	234,414
	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196

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

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,	
	2020	2019	2020	2019
Finite-life intangible assets	\$ 165	\$ 125	\$ 631	\$ 518
Property, plant and equipment	—	30	—	30
Cost of sales and selling and administrative expenses	4,047	1,024	14,347	2,330

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

During the quarter and nine-month period ending December 31, 2020, government assistance accounted for in cost of sales and selling and administrative expenses was largely comprised of the Canadian Emergency Wage Subsidy.

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,	
	2020	2019	2020	2019
Raw materials and purchased parts	\$ 59,240	\$ 57,475	\$ 155,910	\$ 161,849
Employee costs	43,496	51,698	129,312	148,755
Amortization of property, plant and equipment and finite-life intangible assets	9,586	11,097	31,959	32,611
Others	23,831	23,517	67,152	68,010
	\$ 136,153	\$ 143,787	\$ 384,333	\$ 411,225
Including:				
Foreign exchange losses upon conversion of net monetary items	1,140	607	2,270	673
Amortization of customer relationships	1,455	1,822	4,166	5,604

NOTE 6. NON-RECURRING ITEMS

Non-recurring items in operating income comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Restructuring charges	\$ 783	\$ —	\$ 9,496	\$ —
Acquisition-related costs	—	—	—	615
	\$ 783	\$ —	\$ 9,496	\$ 615

Restructuring charges

Since the beginning of the fiscal year, Héroux-Devtek has announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will affect 15% of the workforce, or approximately 315 employees, and include the closure of Alta Précision and APPH Wichita.

To date, \$9,496 of related costs have been recorded as restructuring charges, mainly comprised of employee-related charges and costs to dismantle and relocate machinery, and 76% of staff reductions have been completed. The remaining reductions will occur after the closure of Alta Precision and APPH Wichita.

NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Interest accretion on governmental authorities loans	\$ 750	\$ 963	\$ 2,369	\$ 2,226
Interest on net defined benefit obligations	99	62	302	186
Amortization of deferred financing costs	189	202	593	676
Other interest accretion and discount rate adjustments	(24)	86	(231)	369
Net non-cash financial expenses	1,014	1,313	3,033	3,457
Interest expense	1,799	1,613	5,626	4,996
Interest income on cash and cash equivalents	(155)	(20)	(592)	(74)
	\$ 2,658	\$ 2,906	\$ 8,067	\$ 8,379

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,	
	2020	2019	2020	2019
Weighted-average number of common shares outstanding	36,371,775	36,362,210	36,368,737	36,362,210
Dilutive effect of stock options	138,196	338,202	56,429	339,871
Weighted-average number of common diluted shares outstanding	36,509,971	36,700,412	36,425,166	36,702,081
Options excluded from diluted earnings per share calculation	862,000	—	1,274,500	—

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at December 31, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$294,155 (\$404,728 at March 31, 2020) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$193,410 (US\$266,355 at March 31, 2020) convertible into Canadian dollars at an average rate of 1.3232 (1.3243 at March 31, 2020). These contracts mature at various dates between January 2021 and March 2025, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at December 31, 2020, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 80,768 in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

Equity swap agreement

As at December 31, 2020 and March 31, 2020, 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. It is a derivative that is not part of a designated hedging relationship and matures in June 2021.

NOTE 10. LONG-TERM DEBT

As at	December 31, 2020	March 31, 2020
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 86,824	\$ 96,472
Governmental authorities loans	90,378	88,590
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	60,000
Lease liabilities	33,009	44,665
Balance of sale - Acquisitions	—	2,983
Deferred financing costs, net	(2,507)	(3,093)
	282,704	289,617
Less: current portion	16,667	16,857
Long-term debt	\$ 266,037	\$ 272,760

Revolving Facility

The revolving facility matures in December 2024, has a limit of \$250,000, of which \$86,824 or US\$68,000 is drawn, and bears interest at a weighted average of 1.4% (\$96,472 or US\$68,000 at 2.5% at March 31, 2020).

Term Loan Facility

The term loan facility matures in September 2025, is fully drawn and bears interest at a weighted average interest rate of 5.2%.

Lease liabilities

Lease liabilities bear fixed interest rates between 2.1% and 7.0% as at December 31, 2020 (2.8% and 7.0% as at March 31, 2020), maturing from January 2021 to May 2039.

NOTE 11. ISSUED CAPITAL

A. Share capital

Capital stock varied as follows:

	Three months ended December 31, 2020		Nine months ended December 31, 2020	
	Number	Issued capital	Number	Issued capital
Opening balance	36,367,210	79,757	36,367,210	79,757
Issued for cash on exercise of stock options	15,000	244	15,000	244
Closing balance	36,382,210	80,001	36,382,210	80,001

B. Stock option plan

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

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

	2020		2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,846,595	\$ 13.10	1,508,595	\$ 13.87
Exercised	(15,000)	11.71	—	—
Closing balance	1,831,595	\$ 13.11	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 291		\$ 302

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

	2020		2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,497,595	\$ 13.86	1,167,095	\$ 13.23
Granted	349,000	9.83	341,500	16.03
Exercised	(15,000)	11.71	—	—
Closing balance	1,831,595	\$ 13.11	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 859		\$ 821

2,808,257 common share are reserved for issuance under the stock option plan, of which 2,737,507 had not been issued yet as at December 31, 2020 (2,752,507 at March 31, 2020).

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 December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
DSUs				
<i>In number of DSUs</i>				
Opening balance	189,164	154,950	154,950	166,334
Issued	—	—	34,214	21,671
Settled	—	—	—	(33,055)
Closing balance of DSUs outstanding	189,164	154,950	189,164	154,950
DSU expense for the periods	\$ 914	\$ 316	\$ 994	\$ 961
Fair value of vested outstanding DSUs, end of periods	\$ 2,593	\$ 2,884	\$ 2,593	\$ 2,884

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
PSUs				
<i>In number of PSUs</i>				
Opening balance	395,050	331,750	278,450	212,450
Issued	—	—	119,100	119,300
Settled	(84,700)	(16,100)	(84,700)	(16,100)
Cancelled/Forfeited	(1,700)	(35,000)	(4,200)	(35,000)
Closing balance of PSUs outstanding	308,650	280,650	308,650	280,650
PSU expense for the periods	\$ 1,795	\$ 887	\$ 1,968	\$ 2,130
Fair value of vested outstanding PSUs, end of periods	\$ 3,053	\$ 3,683	\$ 3,053	\$ 3,683

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income 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, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714
Other comprehensive income (loss)	(4,593)	8,486	1,337	5,230
Balance as at December 31, 2020	\$ 19,621	\$ 9,625	\$ (11,302)	\$ 17,944
Balance as at March 31, 2020	\$ 34,845	\$ (13,902)	\$ (13,783)	\$ 7,160
Other comprehensive income (loss)	(15,224)	23,527	2,481	10,784
Balance as at December 31, 2020	\$ 19,621	\$ 9,625	\$ (11,302)	\$ 17,944

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2019	\$ 6,845	\$ (2,673)	\$ (5,201)	\$ (1,029)
Other comprehensive income	3,386	4,440	1,114	8,940
Balance as at December 31, 2019	\$ 10,231	\$ 1,767	\$ (4,087)	\$ 7,911
Balance as at March 31, 2019	\$ 19,266	\$ (1,772)	\$ (6,992)	\$ 10,502
Other comprehensive income (loss)	(9,035)	3,539	2,905	(2,591)
Balance as at December 31, 2019	\$ 10,231	\$ 1,767	\$ (4,087)	\$ 7,911

NOTE 13. NET CHANGE IN NON-CASH ITEMS

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Accounts receivable	\$ 10,182	\$ (1,011)	\$ 29,649	\$ 13,944
Income tax receivable	(445)	(747)	(788)	(938)
Inventories	12,170	(12,034)	(176)	(35,364)
Other assets	3,075	1,461	3,979	341
Accounts payable, accrued and other liabilities	(17,163)	(3,329)	(26,232)	(6,372)
Provisions	(2,216)	167	1,831	(2,178)
Customer advances and progress billings	(1,203)	3,983	4,191	4,138
Income tax payable	(116)	(514)	1,573	(602)
Effect of changes in exchange rates	2,404	871	(2,803)	(3,710)
	\$ 6,688	\$ (11,153)	\$ 11,224	\$ (30,741)



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2020

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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, 2020 and December 31, 2020. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 2020 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, 2020, 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, 2020, 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 4, 2021.

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 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, 2020. 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 December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Sales	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196
Operating income	13,362	13,466	21,867	34,356
Adjusted operating income ⁽¹⁾	14,145	13,466	31,363	34,971
Adjusted EBITDA ⁽¹⁾	23,731	24,563	63,322	67,582
Net income	8,486	8,705	11,011	21,455
Adjusted net income ⁽¹⁾	9,365	8,705	18,865	21,971
Cash flows related to operating activities	26,723	9,664	57,623	25,863
Free cash flow ⁽¹⁾	20,367	7,939	43,974	13,599
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.24	\$ 0.24	\$ 0.31	\$ 0.60
Adjusted EPS ⁽¹⁾	0.26	0.24	0.52	0.61
<i>As at</i>			December 31, 2020	March 31, 2020
Funded backlog ⁽²⁾			\$ 739,000	\$ 810,000

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

⁽²⁾ Represents firm orders

- All of our facilities remain open and the Corporation continues to have a strong financial position with available liquidity totaling \$249.8 million as at December 31, 2020 (\$192.8 million as at March 31, 2020). The Corporation's net debt to adjusted EBITDA ratio decreased to 2.1:1 at December 31, 2020 from 2.6:1 at March 31, 2020.
- During the quarter ended December 31, 2020, the Corporation achieved consolidated sales of \$150.3 million, compared to \$157.3 million a year earlier, representing a decrease of 4.4%. Defence sales grew by 21.1% compared to the same quarter last year, largely mitigating the impact of the pandemic on the civil sector.
- Operating income stood at \$13.4 million, reflecting \$0.8 million of restructuring charges as described below, compared to \$13.5 million last fiscal year, while Adjusted EBITDA reached \$23.7 million, or 15.8% of sales, compared to \$24.6 million or 15.6%.
- The restructuring initiatives announced during the fiscal year are progressing as planned and are generating the anticipated savings on the Corporation's cost structure. To date, approximately 11% of the 15% overall planned workforce reduction has been completed and \$9.5 million of related restructuring charges have been incurred to date this fiscal year. Refer to the *Non-Recurring Items* section under *Operating Results* for further details.
- Héroux-Devtek generated cash flows related to operating activities totaling \$26.7 million and free cash flow of \$20.4 million during the quarter compared to \$9.7 million and \$7.9 million, respectively, during the same period last year.
- Subsequent to the end of the quarter, in January the Corporation:
 - was awarded entry to Boeing's Premier Bidder program as a result of Héroux-Devtek's consistent excellence in quality, delivery and business performance; and,
 - announced the early renewal of the collective agreement with the unionized employees at its Laval, Quebec facility. The agreement now extends to December 31, 2024.

OPERATING RESULTS

	Three months ended December 31,			Nine months ended December 31,		
	2020	2019	Variance	2020	2019	Variance
Sales	\$ 150,298	\$ 157,253	\$ (6,955)	\$ 415,696	\$ 446,196	\$ (30,500)
Gross profit	28,136	26,829	1,307	69,747	73,268	(3,521)
Selling and administrative expenses	13,991	13,363	628	38,384	38,297	87
Adjusted operating income ⁽¹⁾	14,145	13,466	679	31,363	34,971	(3,608)
Non-recurring items	783	—	783	9,496	615	8,881
Operating income	13,362	13,466	(104)	21,867	34,356	(12,489)
Net financial expenses	2,658	2,906	(248)	8,067	8,379	(312)
Income tax expense	2,218	1,855	363	2,789	4,522	(1,733)
Net income	\$ 8,486	\$ 8,705	\$ (219)	\$ 11,011	\$ 21,455	\$ (10,444)
Adjusted net income ⁽¹⁾	\$ 9,365	\$ 8,705	\$ 660	\$ 18,865	\$ 21,971	\$ (3,106)
<i>As a percentage of sales</i>						
Gross profit	18.7%	17.1%	160 bps	16.8%	16.4%	40 bps
Selling and administrative expenses	9.3%	8.5%	80 bps	9.2%	8.6%	60 bps
Operating income	8.9%	8.6%	30 bps	5.3%	7.7%	-240 bps
Adjusted operating income ⁽¹⁾	9.4%	8.6%	80 bps	7.5%	7.8%	-30 bps
<i>In dollars per share</i>						
Earnings per share - basic and diluted	\$ 0.24	\$ 0.24	\$ —	\$ 0.31	\$ 0.60	\$ (0.29)
Adjusted EPS ⁽¹⁾	\$ 0.26	\$ 0.24	\$ 0.02	\$ 0.52	\$ 0.61	\$ (0.09)

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

Sales

Sales by sector were as follows:

	Three months ended December 31,				
	2020	2019	FX impact	Net variance	
Defence ⁽¹⁾	\$ 101,780	\$ 84,050	\$ 894	\$ 16,836	20.0 %
Civil	48,518	73,203	357	(25,042)	(34.2)%
Total	\$ 150,298	\$ 157,253	\$ 1,251	\$ (8,206)	(5.2)%

	Nine months ended December 31,				
	2020	2019	FX impact	Net variance	
Defence ⁽¹⁾	\$ 270,153	\$ 234,414	\$ 4,244	\$ 31,495	13.4 %
Civil	145,543	211,782	2,287	(68,526)	(32.4)%
Total	\$ 415,696	\$ 446,196	\$ 6,531	\$ (37,031)	(8.3)%

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

The following explanations relate to sales variations compared to last fiscal year excluding the impact of foreign exchange fluctuations :

Defence

Compared to last year, defence sales increased by 20.0% and 13.4%, for the quarter and year to date respectively, as a result of:

- The ramp-up of deliveries under the Boeing F-18, Sikorsky CH-53K and Saab Gripen E contracts; and,
- Strong deliveries for existing OEM platforms, such as the Eurofighter and Lockheed F-35.

These positive factors were partly offset by the end of a retrofit campaign for the Sikorsky H-60.

Civil

The effect of COVID-19 on the aerospace market drove 34.2% and 32.4% reductions in civil sales for the quarter and nine-month periods ended December 31, 2020 respectively. These decreases were the result of lower deliveries for large commercial programs, where twin-aisle deliveries decreased 44%, reflecting lower OEM demand.

Gross Profit

During the first nine months of fiscal 2021, as described above, the COVID-19 pandemic caused a reduction in civil sales, and therefore gross profit, partly offset by growth in the defence sector. The Corporation also benefited from government relief measures such as the Canadian Emergency Wage Subsidy ("CEWS"), which was almost entirely offset by excess direct costs including production inefficiencies and commercial risks such as surplus inventory.

Gross profit for the quarter grew from \$26.8 million, or 17.1% of sales last year, to \$28.1 million or 18.7%. This increase resulted from a better sales mix, the positive effect of restructuring initiatives on the Corporation cost structure and lower depreciation cost which represented a year over year impact of 0.7%.

Gross profit for the nine-month period decreased from \$73.3 million, or 16.4% of sales last year to \$69.7 million or 16.8%. While the gross profit in dollars remained below last year due to the impact of COVID-19 on civil sales, a better sales mix than last year and the effects of restructuring initiatives drove an improvement in margins as a percentage of sales.

Selling and Administrative Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Selling and Administrative Expenses	\$ 13,991	\$ 13,363	\$ 38,384	\$ 38,297
Less: Net loss on conversion of net monetary items	1,140	607	2,270	673
	\$ 12,851	\$ 12,756	\$ 36,114	\$ 37,624
<i>As a percentage of sales</i>	8.6%	8.1%	8.7%	8.4%

When excluding losses on translation of net monetary items, selling and administrative expenses represented 8.6% of sales for the quarter, compared to 8.1% for the same period last fiscal year. Excluding the effect of a \$0.7 million increase in stock-based compensation expense, selling and administrative expenses remained relatively stable as a percentage of sales.

Over the nine-month period, the increase from 8.4% to 8.7% mainly relates to a reduction in sales partly offset by lower travel expenses.

Non-recurring items

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Non-recurring items in operating income				
Restructuring charges	\$ 783	\$ —	\$ 9,496	\$ —
Acquisition-related costs	—	—	—	615
	\$ 783	\$ —	\$ 9,496	\$ 615

Restructuring charges

Since the beginning of the fiscal year, Héroux-Devtek has announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will affect 15% of the workforce, or approximately 315 employees, and include the closure of Alta Précision and APPH Wichita.

To date, \$9.5 million of related costs have been recorded as restructuring charges, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. As planned, 76% of staff reductions have been completed as at the end of the quarter and the remaining reductions will occur after the closure of Alta Precision and APPH Wichita.

Operating Income

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Operating income	\$ 13,362	\$ 13,466	\$ 21,867	\$ 34,356
Non-recurring items	783	—	9,496	615
Adjusted operating income	\$ 14,145	\$ 13,466	\$ 31,363	\$ 34,971
<i>As a percentage of sales</i>				
Operating income	8.9%	8.6%	5.3%	7.7%
Adjusted operating income	9.4%	8.6%	7.5%	7.8%

Operating income increased from 8.6% to 8.9% of sales, or from 8.6% to 9.4% excluding \$0.8 million of non-recurring items this quarter, reflecting strong profitability partly offset by a \$0.5 million negative foreign exchange impact (or 0.2% of sales).

For the nine-month period, operating income decreased from 7.7% to 5.3% of sales reflecting non-recurring charges totaling \$9.5 million compared to \$0.6 million last year. Excluding these items, adjusted operating income decreased from 7.8% to 7.5% of sales due to the factors described above, as well as a \$1.6 million negative foreign exchange impact (or 0.3% of sales).

Net Financial Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Interest on long-term debt	\$ 1,799	\$ 1,613	\$ 5,626	\$ 4,996
Net financial expense related to government loans	750	963	2,369	2,226
Interest income on cash and cash equivalents	(155)	(20)	(592)	(74)
Other interest expense	264	350	664	1,231
	\$ 2,658	\$ 2,906	\$ 8,067	\$ 8,379

The decreases in net financial expenses for the quarter and nine-month period mainly relate to discount rate adjustments and accretion expense on government loans.

Income Tax Expense

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Income before income tax expense	\$ 10,704	\$ 10,560	\$ 13,800	\$ 25,977
Income tax expense	2,218	1,855	2,789	4,522
Effective tax rate	20.7%	17.6%	20.2%	17.4%
Canadian blended statutory income tax rate	26.5%	26.5%	26.5%	26.5%

For the quarter ended December 31, 2020, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.8 million (\$1.0 million in Fiscal 2020), partially offset by non-deductible expenses totaling \$0.1 million (\$0.1 million in Fiscal 2020).

For the nine-month period ended December 31, 2020, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$1.1 million (\$3.0 million in Fiscal 2020) and favourable adjustments related to prior years of \$0.2 million (none in Fiscal 2020), partially offset by non-deductible expenses totaling \$0.4 million (\$0.3 million in Fiscal 2020).

Net Income

Net income decreased from \$8.7 million to \$8.5 million during the quarter (or increased from \$8.7 million to \$9.4 million excluding non-recurring items net of taxes) and decreased from \$21.5 million to \$11.0 million (or from \$22.0 million to \$18.9 million excluding non-recurring items net of taxes) during the nine-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income:	Operating income excluding non-recurring items.
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 additions to property, plant and equipment and net increase or decrease in finite-life intangible assets.

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

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

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

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Operating income	\$ 13,362	\$ 13,466	\$ 21,867	\$ 34,356
Non-recurring items	783	—	9,496	615
Adjusted operating income	\$ 14,145	\$ 13,466	\$ 31,363	\$ 34,971

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

The Corporation's adjusted EBITDA is calculated as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Operating income	\$ 13,362	\$ 13,466	\$ 21,867	\$ 34,356
Amortization expense	9,586	11,097	31,959	32,611
Non-recurring items	783	—	9,496	615
Adjusted EBITDA	\$ 23,731	\$ 24,563	\$ 63,322	\$ 67,582

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.

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,	
	2020	2019	2020	2019
Net income	\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Non-recurring items, net of taxes	879	—	7,854	516
Adjusted net income	\$ 9,365	\$ 8,705	\$ 18,865	\$ 21,971
Non-controlling interests	(114)	(99)	(99)	(457)
Adjusted net income attributable to the equity holders of the parent	\$ 9,479	\$ 8,804	\$ 18,964	\$ 22,428
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.24	\$ 0.24	\$ 0.31	\$ 0.60
Non-recurring items, net of taxes	0.02	—	0.21	0.01
Adjusted earnings per share	\$ 0.26	\$ 0.24	\$ 0.52	\$ 0.61

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.

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 five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility, which matures in December 2024, allows the Corporation and its subsidiaries to borrow up to \$250.0 million, with an accordion feature to increase available credit by an additional \$100.0 million during the term of this agreement, subject to the approval of the lenders.

As at December 31, 2020, the Corporation had drawn US\$68.0 million against the facility, worth \$86.8 million, down from \$96.5 million as at March 31, 2020 due to fluctuations in the USD/CAD exchange rate.

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

The Corporation has a Term Loan Facility with *Fonds de Solidarité FTQ* for an amount of up to \$75.0 million. Following a \$15.0 million drawing made in April 2020 as a precaution in case of liquidity needs resulting from the impact of COVID-19, this facility is fully drawn and bears interest at a weighted average rate of 5.2%.

The Term Loan Facility is repayable at maturity on September 30, 2025 and, starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

Net Debt Position

As at	December 31, 2020	March 31, 2020
Long-term debt ⁽¹⁾	\$ 285,211	\$ 292,710
Less: Cash and cash equivalents	95,500	45,841
Net debt position	\$ 189,711	\$ 246,869
Adjusted EBITDA ⁽²⁾ - trailing 12 months	91,931	96,191
Net debt to adjusted EBITDA ratio	2.1:1	2.6:1

⁽¹⁾ Excluding net deferred financing costs of \$2.5 million and \$3.1 million as at December 31, 2020 and March 31, 2020, respectively.

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

Net debt decreased by \$57.2 million over the nine-month period mainly as a result of cash flow generation.

Considering the Corporation’s cash and cash equivalents position, its available credit facilities and level of expected capital investments and results, the Corporation’s management does not expect any significant liquidity risk in the foreseeable future.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Cash and cash equivalents at beginning of periods	\$ 78,719	\$ 19,630	\$ 45,841	\$ 35,128
Cash flows related to operating activities	26,723	9,664	57,623	25,863
Cash flows related to investing activities	(6,356)	(1,230)	(13,649)	(24,893)
Cash flows related to financing activities	(2,997)	(2,405)	6,167	(10,064)
Effect of changes in exchange rates on cash and cash equivalents	(589)	(313)	(482)	(688)
Cash and cash equivalents at end of periods	\$ 95,500	\$ 25,346	\$ 95,500	\$ 25,346

Operating Activities

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Cash flows from operations	\$ 20,035	\$ 20,817	\$ 46,399	\$ 56,604
Net change in non-cash items	6,688	(11,153)	11,224	(30,741)
Cash flows related to operating activities	\$ 26,723	\$ 9,664	\$ 57,623	\$ 25,863

The decrease in cash flows from operations over the quarter and nine-month period mainly relates to restructuring charges. See *Non-Recurring Items* under *Operating Results* for further details.

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Accounts receivable	\$ 10,182	\$ (1,011)	\$ 29,649	\$ 13,944
Inventories	12,170	(12,034)	(176)	(35,364)
Other current assets	3,075	1,461	3,979	341
Accounts payable and accrued liabilities	(17,163)	(3,329)	(26,232)	(6,372)
Income taxes payable and receivable	(561)	(1,261)	785	(1,540)
Customer advances and progress billings	(1,203)	3,983	4,191	4,138
Provisions	(2,216)	167	1,831	(2,178)
Effect of changes in exchange rates	2,404	871	(2,803)	(3,710)
	\$ 6,688	\$ (11,153)	\$ 11,224	\$ (30,741)

For the quarter ended December 31, 2020, the positive net change in non-cash items mainly reflects:

- A decrease in civil inventory to align with lower sales and the ramp-down of Alta Précision's operations;
- A decrease in account receivable due to a more linear sales profile over the quarter; and
- A decrease of account payable as a result of the reductions in inventory.

For the nine-month period ended December 31, 2020, the positive net change in non-cash items mainly reflects:

- A decrease in account receivable due to a more linear sales profile over the quarter and overall lower sales volume; and
- A decrease of account payable as a result of a lower overall level of activity.

For the quarter ended December 31, 2019, the negative net change in non-cash items mainly reflected an increase in inventory due to upcoming organic growth from various programs, including the Boeing F-18 and MQ-25.

For the nine-month period ended December 31, 2019, the negative net change in non-cash items mainly reflected:

- An increase in inventory due to the above-mentioned upcoming organic growth;
- A lower number of days payables outstanding at the end of December when compared to March 31, 2019; and
- The negative effect of changes in exchange rates.

These factors were partially offset by the decrease in accounts receivable resulting from an improvement in days receivable at December 31, 2019.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Net additions to property, plant and equipment	\$ (4,988)	\$ (5,152)	\$ (14,495)	\$ (13,307)
Capital contribution from a non-controlling interest in a subsidiary	—	495	—	495
Net change in finite-life intangible assets	(1,368)	3,427	846	1,043
Proceeds on disposal of property, plant and equipment	—	—	—	4,025
Cash payment related to business acquisition	—	—	—	(17,149)
Cash flows related to investing activities	\$ (6,356)	\$ (1,230)	\$ (13,649)	\$ (24,893)

This 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,	
	2020	2019	2020	2019
Additions to property, plant and equipment	\$ 6,710	\$ 2,950	\$ 15,428	\$ 17,405
Variation in unpaid additions included in Accounts payable - other and other liabilities	(480)	2,215	496	2,524
Non-cash additions made through leasing agreements	(1,242)	(13)	(1,429)	(6,622)
Additions, as per statements of cash flows	\$ 4,988	\$ 5,152	\$ 14,495	\$ 13,307

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Increase in long-term debt	\$ 1,238	\$ 2,906	\$ 64,589	\$ 25,950
Repayment of long-term debt	(4,410)	(4,842)	(58,597)	(35,197)
Issuance of common shares	175	—	175	—
Increase in deferred financing costs	—	(469)	—	(817)
Cash flows related to financing activities	\$ (2,997)	\$ (2,405)	\$ 6,167	\$ (10,064)

The \$64.6 million increase in long-term debt during the nine-month period ended December 31, 2020 mainly relates to \$60.0 million of drawings on credit facilities during the first quarter comprised of \$45.0 million from revolving facility and \$15 million from the term loan facility. These drawings were made as a precaution in case of liquidity needs resulting from the impact of COVID-19.

Repayments of long-term debt during the nine-month period ended December 31, 2020 are mainly comprised of lease payments and the repayment of the \$45 million drawing on the revolving facility described above during the second quarter.

For the nine-month period ended December 31, 2019, the increase in long-term debt was mainly related to \$22.1 million of drawings on the credit facilities made to finance the acquisition of Alta Precision.

Repayment of long-term debt for the nine-month period ended December 31, 2019 was comprised of lease payments and a \$15.9 million repayment on the Revolving facility.

As at December 31, 2020, the Corporation was in compliance with all of its restrictive debt covenants and expects to continue to comply with these restrictive financial covenants through the current fiscal year.

FREE CASH FLOW⁽¹⁾

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Cash flows related to operating activities	\$ 26,723	\$ 9,664	\$ 57,623	\$ 25,863
Net additions to property, plant and equipment	(4,988)	(5,152)	(14,495)	(13,307)
Net change in finite-life intangible assets	(1,368)	3,427	846	1,043
Free cash flow	\$ 20,367	\$ 7,939	\$ 43,974	\$ 13,599

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

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

FINANCIAL POSITION

CONSOLIDATED BALANCE SHEETS

Working capital

As at	December 31, 2020	March 31, 2020	Variance	
Current assets	\$ 443,704	\$ 422,050	\$ 21,654	5.1 %
Current liabilities	192,861	216,633	(23,772)	(11.0)%
Working capital	\$ 250,843	\$ 205,417	\$ 45,426	22.1 %
Working capital ratio	2.30	1.95		

The \$21.7 million increase in current assets is mainly due to a \$49.7 million increase in cash and cash equivalents resulting from free cash flow generation, partially offset by a reduction in accounts receivable of \$29.7 million reflecting lower sales volume. The decrease in current liabilities is explained by a reduction of \$23.7 million in account payables and accrued liabilities due to lower volume.

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

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

	December 31, 2020	March 31, 2020	Variance	
Long-term assets	\$ 434,567	\$ 476,798	\$(42,231)	(8.9)%
Long-term liabilities	312,444	332,767	\$(20,323)	(6.1)%
Shareholders' equity	\$ 372,966	\$ 349,448	\$ 23,518	6.7 %
Net debt-to-equity ratio ⁽¹⁾	0.51:1	0.71:1		

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

The \$42.2 million decrease in long-term assets mainly relates to amortization and the negative impact of foreign exchange on the conversion of assets 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:

	December 31, 2020	March 31, 2020
USD (Canadian equivalent of US\$1.0)	1.2732	1.4187
GBP (Canadian equivalent of £1.0)	1.7381	1.7604
EUR (Canadian equivalent of €1.0)	1.5608	1.5584

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,	
	2020	2019	2020	2019
USD (Canadian equivalent of US\$1.0)	1.3030	1.3200	1.3402	1.3260
GBP (Canadian equivalent of £1.0)	1.7207	1.7004	1.7207	1.6824
EUR (Canadian equivalent of €1.0)	1.5537	1.4617	1.5457	1.4775

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 December 31, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$294.2 million (\$404.7 million at March 31, 2020) denominated in USD, EUR and and GBP. This amount includes contracts with nominal value of US\$193.4 million (US\$266.4 million at March 31, 2020) convertible into Canadian dollars at an average rate of 1.3232 (1.3243 at March 31, 2020). These contracts mature at various dates between January 2021 and March 2025, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at December 31, 2020, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 80.8 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

Equity swap agreement

As at December 31, 2020 and March 31, 2020, 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. It is a derivative that is not part of a designated hedging relationship and matures in June 2021.

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, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2021			2020				2019
	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third Quarter	Second Quarter	First Quarter	Fourth quarter
Sales	\$ 150,298	\$ 137,063	\$ 128,335	\$ 166,800	\$ 157,253	\$ 145,516	\$ 143,427	\$ 157,914
Operating income (loss)	13,362	7,120	1,385	(64,426)	13,466	10,519	10,371	15,190
Adjusted operating income ⁽¹⁾	14,145	9,788	7,430	17,577	13,466	10,519	10,986	16,208
Adjusted EBITDA ⁽¹⁾	23,731	21,233	18,358	28,609	24,563	21,510	21,509	25,910
Net income (loss)	8,486	3,838	(1,313)	(72,113)	8,705	6,307	6,443	11,958
Adjusted Net Income ⁽¹⁾	9,365	6,118	3,382	13,695	8,705	6,307	6,959	12,794
<i>In dollars per share</i>								
Earnings (loss) per share - Basic & Diluted	\$ 0.24	\$ 0.11	\$ (0.04)	\$ (1.98)	\$ 0.24	\$ 0.18	\$ 0.18	\$ 0.34
Adjusted earnings per share ⁽¹⁾	0.26	0.17	0.09	0.38	0.24	0.18	0.19	0.36
<i>In millions of shares</i>								
Weighted-average number of common diluted shares outstanding	36.5	36.4	36.4	36.4	36.7	36.7	36.6	36.5
Backlog (in millions)	\$ 739	\$ 764	\$ 772	\$ 810	\$ 839	\$ 769	\$ 747	\$ 624

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

Seasonal trends

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

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, 2020. 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

Common shares issued and outstanding	36,382,210
Stock options issued and outstanding	1,831,595

EXPECTED ISSUANCE OF FINANCIAL RESULTS

Fiscal 2021

Fourth quarter	May 20, 2021
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Fiscal 2022

First quarter	August 10, 2021
Second quarter	November 10, 2021
Third quarter	February 9, 2022

Contact information

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