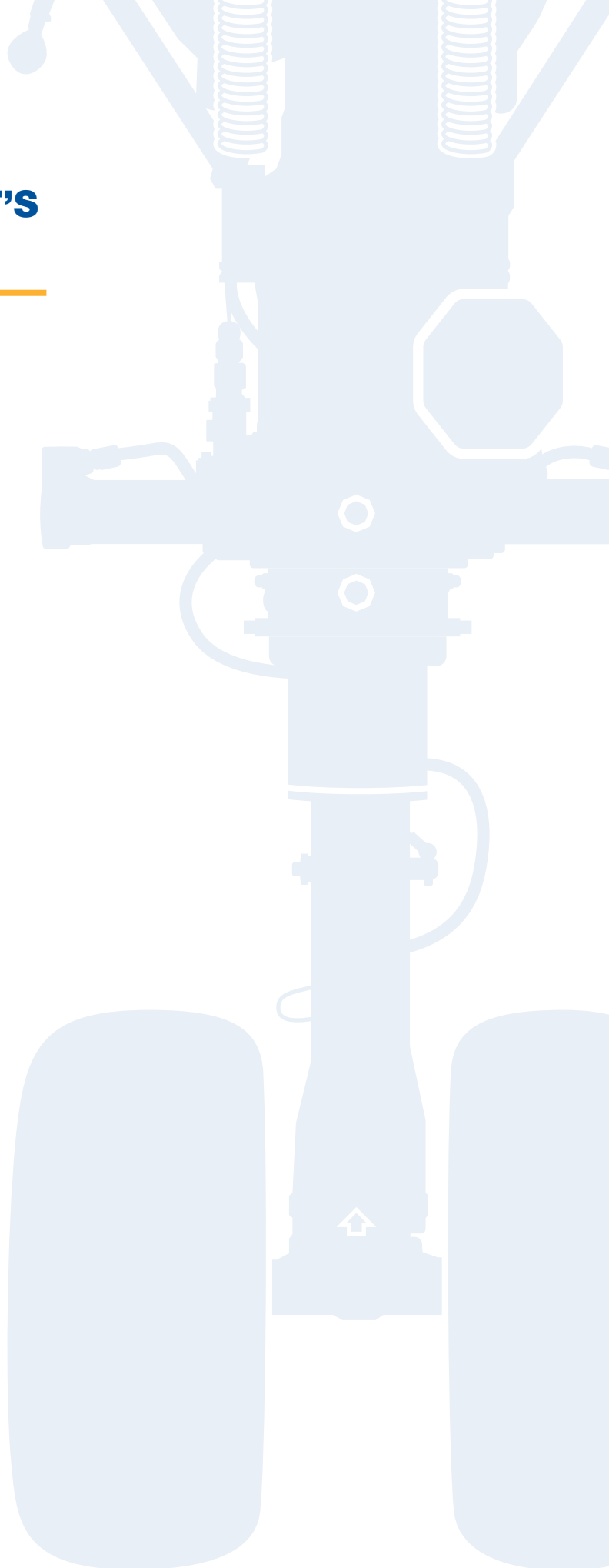


CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 2021





INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Second quarter ended September 30, 2021

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED SEPTEMBER 30, 2021 AND 2020

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 September 30, 2021 and 2020 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.

November 11, 2021

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	September 30, 2021	March 31, 2021
ASSETS	10		
Current assets			
Cash and cash equivalents		\$ 103,217	\$ 95,470
Accounts receivable		85,409	99,724
Income tax receivable		2,306	1,708
Inventories		215,148	216,441
Derivative financial instruments	9	4,643	4,903
Other current assets		21,307	16,523
		432,030	434,769
Property, plant and equipment, net		218,040	227,621
Finite-life intangible assets, net	4	51,485	51,996
Derivative financial instruments	9	5,497	9,374
Deferred income tax assets		9,516	8,485
Goodwill		112,730	115,970
Other long-term assets		4,609	5,069
Total assets		\$ 833,907	\$ 853,284
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities		\$ 99,278	\$ 109,809
Provisions		23,625	25,271
Customer advances and progress billings		37,882	40,867
Income tax payable		2,539	2,107
Derivative financial instruments	9	1,064	—
Current portion of long-term debt	10	14,554	15,315
		178,942	193,369
Long-term debt	10	231,515	235,384
Provisions		16,514	17,548
Derivative financial instruments	9	2,313	544
Deferred income tax liabilities		10,107	9,383
Other liabilities		4,547	5,324
		443,938	461,552
Shareholders' equity			
Issued capital	11	85,807	86,222
Contributed surplus		5,345	5,126
Accumulated other comprehensive income	12	10,786	16,279
Retained earnings		287,142	282,831
Total equity attributable to the equity holders of the parent		389,080	390,458
Non-controlling interest		889	1,274
		389,969	391,732
Total liabilities and shareholders' equity		\$ 833,907	\$ 853,284

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 September 30,		Six months ended September 30,	
		2021	2020	2021	2020
Sales	3	\$ 131,293	\$ 137,063	\$ 257,481	\$ 265,398
Cost of sales	4, 5	109,076	115,998	213,624	223,787
Gross profit		22,217	21,065	43,857	41,611
Selling and administrative expenses	4, 5	10,264	11,277	21,107	24,393
Non-recurring items	6	—	2,668	—	8,713
Operating income		11,953	7,120	22,750	8,505
Net financial expenses	7	1,913	2,479	3,806	5,409
Income before income tax expense		10,040	4,641	18,944	3,096
Income tax expense		2,530	803	4,731	571
Net income		\$ 7,510	\$ 3,838	\$ 14,213	\$ 2,525
Attributable to:					
Equity holders of the parent		7,756	3,906	14,598	2,510
Non-controlling interest		(246)	(68)	(385)	15
		\$ 7,510	\$ 3,838	\$ 14,213	\$ 2,525
Earnings per share – basic and diluted	8	\$ 0.21	\$ 0.11	\$ 0.40	\$ 0.07

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)

		Three months ended September 30,		Six months ended September 30,	
	Notes	2021	2020	2021	2020
	12				
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		\$ 3,780	\$ 1,544	\$ 736	\$ (10,631)
Cash flow hedges:					
Net (losses) gains on valuation of derivative financial instruments		(7,516)	6,404	(5,422)	16,802
Net (gains) losses on derivative financial instruments transferred to net income		(1,123)	765	(2,672)	3,723
Deferred income taxes		2,282	(1,915)	2,135	(5,484)
		(6,357)	5,254	(5,959)	15,041
(Losses) gains on hedge of net investments in foreign operations		(691)	(1,644)	(306)	1,289
Deferred income taxes		80	226	36	(145)
		(611)	(1,418)	(270)	1,144
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains (losses) from remeasurement		1,367	1,534	1,854	(2,099)
Deferred income taxes		(361)	(395)	(490)	564
		1,006	1,139	1,364	(1,535)
Other comprehensive income (loss)		\$ (2,182)	\$ 6,519	\$ (4,129)	\$ 4,019
Comprehensive income					
Net income		7,510	3,838	14,213	2,525
Other comprehensive (loss) income		(2,182)	6,519	(4,129)	4,019
Comprehensive income		\$ 5,328	\$ 10,357	\$ 10,084	\$ 6,544
Attributable to:					
Equity holders of the parent		5,574	10,425	10,469	6,529
Non-controlling interest		(246)	(68)	(385)	15
		\$ 5,328	\$ 10,357	\$ 10,084	\$ 6,544

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 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	11	1,419	(370)	—	—	1,049	—	1,049
Repurchase and cancellation of common shares	11	(1,834)	—	—	(11,651)	(13,485)	—	(13,485)
Stock-based compensation expense	11	—	589	—	—	589	—	589
Net income (loss)		—	—	—	14,598	14,598	(385)	14,213
Other comprehensive (loss) income	12	—	—	(5,493)	1,364	(4,129)	—	(4,129)
Balance as at September 30, 2021		\$ 85,807	\$ 5,345	\$ 10,786	\$ 287,142	\$ 389,080	\$ 889	\$ 389,969

	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, 2020		\$ 79,757	\$ 5,792	\$ 7,160	\$ 255,221	\$ 347,930	\$ 1,518	\$ 349,448
Stock-based compensation expense	11	—	568	—	—	568	—	568
Net income		—	—	—	2,510	2,510	15	2,525
Other comprehensive income (loss)	12	—	—	5,554	(1,535)	4,019	—	4,019
Balance as at September 30, 2020		\$ 79,757	\$ 6,360	\$ 12,714	\$ 256,196	\$ 355,027	\$ 1,533	\$ 356,560

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 September 30,		Six months ended September 30,	
	Notes	2021	2020	2021	2020
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		\$ 7,510	\$ 3,838	\$ 14,213	\$ 2,525
Items not requiring an outlay of cash:					
Amortization expense	5	9,204	11,445	18,456	22,373
Deferred income taxes		(88)	(363)	1,181	(1,121)
Net non-cash financial expenses	7	1,315	1,020	2,379	2,645
Stock-based compensation expense	11	371	288	589	568
Cash flows from operations		18,312	16,228	36,818	26,990
Net change in non-cash items	13	(845)	(801)	(1,166)	3,910
Cash flows related to operating activities		\$ 17,467	\$ 15,427	\$ 35,652	\$ 30,900
Investing activities					
Net additions to property, plant and equipment		(4,438)	(3,378)	(7,710)	(9,507)
Net change in finite-life intangible assets		(1,817)	1,326	(2,347)	2,214
Proceeds from a business divestiture	14	—	—	2,041	—
Cash flows related to investing activities		\$ (6,255)	\$ (2,052)	\$ (8,016)	\$ (7,293)
Financing activities					
Proceeds from long-term debt		1,962	1,752	1,962	63,351
Repayment of long-term debt		(2,591)	(51,300)	(9,091)	(54,187)
Increase in deferred financing costs		—	—	(555)	—
Repurchase and cancellation of shares	11	(6,831)	—	(13,485)	—
Issuance of common shares under the stock option plan		544	—	1,049	—
Cash flows related to financing activities		\$ (6,916)	\$ (49,548)	\$ (20,120)	\$ 9,164
Effect of changes in exchange rates on cash and cash equivalents		327	485	231	107
Change in cash and cash equivalents during the periods		4,623	(35,688)	7,747	32,878
Cash and cash equivalents at beginning of periods		98,594	114,407	95,470	45,841
Cash and cash equivalents at end of periods		\$ 103,217	\$ 78,719	\$ 103,217	\$ 78,719
Interest and income taxes reflected in operating activities:					
Interest paid		\$ 1,726	\$ 1,012	\$ 3,666	\$ 1,882
Interest received		\$ 152	\$ 219	\$ 294	\$ 437
Income taxes paid (recovered)		\$ (254)	\$ 860	\$ 2,397	\$ (114)

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 six-month periods ended September 30, 2021 and 2020
(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 September 30, 2021 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, 2021.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on November 11, 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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Geographic markets				
Canada	\$ 5,865	\$ 15,479	\$ 17,265	\$ 26,047
United States of America	81,882	68,595	151,723	137,677
United Kingdom	9,875	12,386	21,968	25,069
Spain	9,337	13,048	19,311	23,120
Rest of Europe	15,060	18,909	28,472	34,328
Other countries	9,274	8,646	18,742	19,157
	\$ 131,293	\$ 137,063	\$ 257,481	\$ 265,398
Sectors				
Civil	\$ 37,287	47,084	\$ 74,926	97,025
Defence	94,006	89,979	182,555	168,373
	\$ 131,293	\$ 137,063	\$ 257,481	\$ 265,398

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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Finite-life intangible assets	\$ 566	\$ 222	\$ 566	\$ 466
Cost of sales and selling and administrative expenses	\$ 3,676	\$ 5,261	\$ 7,152	\$ 9,527

Government assistance includes mainly research and development tax credits, other credits and grants. Government assistance accounted for in cost of sales and selling and administrative expenses is 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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Raw materials and purchased parts	\$ 50,540	\$ 54,208	\$ 95,872	\$ 96,670
Employee costs	42,189	39,565	84,931	85,816
Amortization of property, plant and equipment and finite-life intangible assets	9,204	11,445	18,456	22,373
Others	17,407	22,057	35,472	43,321
	\$ 119,340	\$ 127,275	\$ 234,731	\$ 248,180
Including:				
Foreign exchange (gains) losses upon conversion of net monetary items	\$ (926)	\$ 227	\$ (1,013)	\$ 1,130
Amortization of customer relationships	\$ 1,142	\$ 1,451	\$ 2,129	\$ 2,711

NOTE 6. NON-RECURRING ITEMS

In Fiscal 2021, Héroux-Devtek announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives were expected to affect 15% of the workforce, or approximately 315 employees, and include the closure of Alta Précision and APPH Wichita.

In the six months ended September 30 of last fiscal year, \$8,713 of related charges were incurred, of which \$2,668 were incurred in the three months ended September 30, 2020.

To date, 90% of staff reductions, which included the closure of Alta Précision, have been completed and the remaining reductions will occur after the closure of APPH Wichita. No related charges were incurred this year.

NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Interest accretion on governmental authorities loans	\$ 796	\$ 828	\$ 1,598	\$ 1,619
Interest accretion on net defined benefit obligations	24	102	48	203
Interest on leases	254	307	521	626
Amortization of deferred financing costs	123	189	306	404
Other interest accretion and discount rate adjustments	118	(406)	(94)	(207)
Net non-cash financial expenses	\$ 1,315	\$ 1,020	\$ 2,379	\$ 2,645
Interest on long-term debt	\$ 750	\$ 1,678	\$ 1,721	\$ 3,201
Interest income on cash and cash equivalents	(152)	(219)	(294)	(437)
	\$ 1,913	\$ 2,479	\$ 3,806	\$ 5,409

NOTE 8. EARNINGS PER SHARE

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

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Weighted-average number of common shares outstanding	36,242,291	36,367,210	36,468,106	36,367,210
Dilutive effect of stock options	333,804	11,387	286,987	23,708
Weighted-average number of common diluted shares outstanding	36,576,095	36,378,597	36,755,093	36,390,918
Options excluded from diluted earnings per share calculation	—	1,497,595	197,000	1,497,595

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at September 30, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$301,272 (\$268,737 at March 31, 2021) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$223,370 (US\$197,500 at March 31, 2021) convertible into Canadian dollars at an average rate of 1.2922 (1.3161 at March 31, 2021). These contracts mature at various dates between October 2021 and March 2026, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at September 30, 2021, the Corporation had 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 mature between May 2022 and September 2028, and mainly bear interest at a weighted average fixed rate of 2.4%.

Equity swap agreement

As at September 30, 2021 and March 31, 2021, 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 2022.

NOTE 10. LONG-TERM DEBT

As at	September 30, 2021	March 31, 2021
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 59,866	\$ 59,342
Governmental authorities loans	89,570	90,382
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	24,181	28,274
Deferred financing costs, net	(2,548)	(2,299)
	\$ 246,069	\$ 250,699
Less: current portion	14,554	15,315
Long-term debt	\$ 231,515	\$ 235,384

Revolving Facility

In June 2021, the Corporation reached an agreement to extend its \$250-million Revolving Facility to a new maturity of June 2026 (previously December 2024). The accordion feature was increased from \$100 million to \$200 million as part of the agreement, while other terms and conditions remain relatively unchanged.

The Revolving Facility bears interest at Libor + 1.0% representing an effective rate of 1.1% (Libor + 1.2% representing 1.3% as at March 31, 2021) and is secured by essentially all assets of the Corporation and its subsidiaries.

Term Loan Facility

In June 2021, the Corporation reached an agreement to extend the Term Loan Facility to a new maturity of September 2028 (previously September 2025). The Corporation will now have the option to make early repayments as of September 2024, subject to certain fees. The Term Loan Facility is fully drawn and now bears interest at 4.95%, compared to 5.20% as at March 31, 2021.

NOTE 11. ISSUED CAPITAL

A. Share capital

Capital stock varied as follows:

	Three months ended September 30, 2021		Six months ended September 30, 2021	
	Number	Issued capital	Number	Issued capital
Opening balance	36,440,077	\$ 85,985	36,764,710	\$ 86,222
Issued for cash on exercise of stock options	48,551	742	94,345	1,419
Repurchase and cancellation	(389,017)	(920)	(759,444)	(1,834)
Closing balance	36,099,611	\$ 85,807	36,099,611	\$ 85,807

On May 20, 2021, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 2,412,279 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2021, and will end on May 24, 2022, 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 of September 30, 2021, the Company has purchased and cancelled 759,444 common shares for a cash consideration of \$13,485, representing a weighted average price of \$17.76 per share. The \$11,651 excess of purchase price over the carrying value was charged to retained earnings.

B. Stock option plan

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

	2021		2020	
	Number of stock options	Exercise price ⁽¹⁾	Number of stock options	Exercise price ⁽¹⁾
Opening balance	1,600,301	\$14.04	1,846,595	\$13.10
Exercised	(48,551)	11.20	—	—
Closing balance	1,551,750	\$14.13	1,846,595	\$13.10
Stock-based compensation expense		\$ 371		\$ 288

⁽¹⁾ Weighted average exercise price

For the six-month periods ended September 30, variances in stock options outstanding and related compensation expense were as follows:

	2021		2020	
	Number of stock options	Exercise price ⁽¹⁾	Number of stock options	Exercise price ⁽¹⁾
Opening balance	1,449,095	\$13.48	1,497,595	\$13.86
Granted	197,000	17.45	349,000	9.83
Exercised	(94,345)	11.12	—	—
Cancelled / forfeited	—	—	—	—
Closing balance	1,551,750	\$14.13	1,846,595	\$13.10
Stock-based compensation expense		\$ 589		\$ 568

⁽¹⁾ Weighted average exercise price

2,808,257 common share are reserved for issuance under the stock option plan, of which 2,265,662 had not been issued yet as at September 30, 2021 (2,360,007 at March 31, 2021).

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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
DSUs				
<i>In number of DSUs</i>				
Opening balance	193,526	154,950	192,108	154,950
Issued	30,258	34,214	31,676	34,214
Settled	(24,313)	—	(24,313)	—
Closing balance of DSUs outstanding	199,471	189,164	199,471	189,164
DSU expense for the periods	\$ 349	\$ 107	\$ 538	\$ 80
Fair value of vested outstanding DSUs, end of periods	\$ 3,330	\$ 1,678	\$ 3,330	\$ 1,678

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
PSUs				
<i>In number of PSUs</i>				
Opening balance	383,600	397,550	300,150	278,450
Issued	—	—	86,150	119,100
Cancelled/Forfeited	(3,000)	(2,500)	(5,700)	(2,500)
Closing balance of PSUs outstanding	380,600	395,050	380,600	395,050
PSU expense for the periods	\$ 365	\$ 50	\$ 783	\$ 173
Fair value of vested outstanding PSUs, end of periods	\$ 4,872	\$ 2,489	\$ 4,872	\$ 2,489

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 June 30, 2021	\$ 11,020	\$ 8,929	\$ (5,975)	\$ 13,974
Other comprehensive income (loss)	3,780	(6,357)	(611)	(3,188)
Balance as at September 30, 2021	\$ 14,800	\$ 2,572	\$ (6,586)	\$ 10,786
Balance as at March 31, 2021	\$ 14,064	\$ 8,531	\$ (6,316)	\$ 16,279
Other comprehensive income (loss)	736	(5,959)	(270)	(5,493)
Balance as at September 30, 2021	\$ 14,800	\$ 2,572	\$ (6,586)	\$ 10,786
	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at June 30, 2020	\$ 22,670	\$ (4,115)	\$ (11,221)	\$ 7,334
Other comprehensive income (loss)	1,544	5,254	(1,418)	5,380
Balance as at September 30, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714
Balance as at March 31, 2020	\$ 34,845	\$ (13,902)	\$ (13,783)	\$ 7,160
Other comprehensive income (loss)	(10,631)	15,041	1,144	5,554
Balance as at September 30, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714

NOTE 13. NET CHANGE IN NON-CASH ITEMS

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

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Accounts receivable	\$ (8,486)	\$ (15,300)	\$ 14,056	\$ 19,467
Inventories	6,671	5,626	475	(12,346)
Other assets	2,051	(736)	(3,002)	561
Accounts payable and accrued liabilities	(3,211)	1,500	(7,722)	(13,427)
Provisions	(1,034)	674	(2,947)	4,047
Customer advances and progress billings	1,757	8,042	(2,110)	5,394
Other Liabilities	1,407	(607)	84	214
	\$ (845)	\$ (801)	\$ (1,166)	\$ 3,910

NOTE 14. BUSINESS DIVESTITURE

On May 4th, 2021, Héroux-Devtek concluded an agreement for the sale of its Bolton, UK operations to Ontic Engineering & Manufacturing UK Limited for a sale price of £2,700 (\$4,614) excluding £900 (\$1,538) which is subject to the achievement of certain commercial objectives. The transaction did not result in a material gain or loss on disposal. An amount of \$2,041 of proceeds were received during the first quarter of fiscal 2022 and the balance of \$2,610, due at the beginning of fiscal 2023, is included in other current assets.



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended September 30, 2021

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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, 2021 and September 30, 2021. It also compares the operating results and cash flows for the quarter and six-month period ended September 30, 2021 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 September 30, 2021, 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, 2021, 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 November 11, 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, 2021. 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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Sales	\$ 131,293	\$ 137,063	\$ 257,481	\$ 265,398
Operating income	11,953	7,120	22,750	8,505
Adjusted operating income ⁽¹⁾	11,953	9,788	22,750	17,218
Adjusted EBITDA ⁽¹⁾	21,157	21,233	41,206	39,591
Net income	7,510	3,838	14,213	2,525
Adjusted net income ⁽¹⁾	7,510	6,118	14,213	9,500
Cash flows related to operating activities	17,467	15,427	35,652	30,900
Free cash flow ⁽¹⁾	11,212	13,375	25,595	23,607
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.21	\$ 0.11	\$ 0.40	\$ 0.07
Adjusted EPS ⁽¹⁾	0.21	0.17	0.40	0.26

⁽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.

- During the quarter ended September 30, 2021, the Corporation generated consolidated sales of \$131.3 million, compared to \$137.1 million a year earlier. Consolidated sales were stable when excluding the negative impact of foreign exchange rate fluctuations totaling \$5.8 million or 4.2% of sales. Defence sales grew by 9.1% compared to the same quarter last year, mitigating the decrease in civil sales.
- Operating income stood at \$12.0 million, compared to \$7.1 million last fiscal year which reflected \$2.7 million of restructuring charges. Adjusted EBITDA reached \$21.2 million, or 16.1% of sales, compared to \$21.2 million or 15.5% last year.
- Earnings per share stood at \$0.21 compared to \$0.11 last year, or compared to \$0.17 when excluding non-recurring items.
- Héroux-Devtek generated cash flows related to operating activities totaling \$17.5 million and free cash flow of \$11.2 million during the quarter compared to \$15.4 million and \$13.4 million, respectively, during the same period last year.
- During the quarter, the Corporation acquired and cancelled 389,017 common shares at an average price of \$17.56 per share for a total cash consideration of \$6.8 million under its Normal Course Issuer Bid ("NCIB"). Refer to the *Normal Course Issuer Bid* section under *Liquidity and Capital Resources* for further details.
- In October 2021, the Corporation announced that it had been awarded a contract by Lockheed Martin for the development of landing gears for its next generation of defense aircraft.
- In November 2021, the Corporation announced a six-year extension of its contract with The Boeing Company to supply complete landing gear systems for the 777 and 777X aircraft programs. The contract, which includes all OEM and aftermarket requirements, has been extended until December 31, 2030.

OPERATING RESULTS

	Three months ended September 30,			Six months ended September 30,		
	2021	2020	Variance	2021	2020	Variance
Sales	\$ 131,293	\$ 137,063	\$ (5,770)	\$ 257,481	\$ 265,398	\$ (7,917)
Gross profit	22,217	21,065	1,152	43,857	41,611	2,246
Selling and administrative expenses	10,264	11,277	(1,013)	21,107	24,393	(3,286)
Adjusted operating income ⁽¹⁾	11,953	9,788	2,165	22,750	17,218	5,532
Non-recurring items	—	2,668	(2,668)	—	8,713	(8,713)
Operating income	11,953	7,120	4,833	22,750	8,505	14,245
Net financial expenses	1,913	2,479	(566)	3,806	5,409	(1,603)
Income tax expense	2,530	803	1,727	4,731	571	4,160
Net income	\$ 7,510	\$ 3,838	\$ 3,672	\$ 14,213	\$ 2,525	\$ 11,688
Adjusted net income ⁽¹⁾	\$ 7,510	\$ 6,118	\$ 1,392	\$ 14,213	\$ 9,500	\$ 4,713
<i>As a percentage of sales</i>						
Gross profit	16.9%	15.4%	150 bps	17.0%	15.7%	130 bps
Selling and administrative expenses	7.8%	8.2%	-40 bps	8.2%	9.2%	-100 bps
Operating income	9.1%	5.2%	390 bps	8.8%	3.2%	560 bps
Adjusted operating income ⁽¹⁾	9.1%	7.1%	200 bps	8.8%	6.5%	230 bps
<i>In dollars per share</i>						
Earnings per share - basic and diluted	\$ 0.21	\$ 0.11	\$ 0.10	\$ 0.40	\$ 0.07	\$ 0.33
Adjusted EPS ⁽¹⁾	\$ 0.21	\$ 0.17	\$ 0.04	\$ 0.40	\$ 0.26	\$ 0.14

⁽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 September 30,				
	2021	2020	FX impact	Net variance	
Defence ⁽¹⁾	\$ 94,006	\$ 89,979	\$ (4,189)	\$ 8,216	9.1 %
Civil	37,287	47,084	(1,621)	(8,176)	(17.4)%
Total	\$ 131,293	\$ 137,063	\$ (5,810)	\$ 40	— %

	Six months ended September 30,				
	2021	2020	FX impact	Net variance	
Defence ⁽¹⁾	\$ 182,555	\$ 168,373	\$ (10,850)	\$ 25,032	14.9 %
Civil	74,926	97,025	(4,453)	(17,646)	(18.2)%
Total	\$ 257,481	\$ 265,398	\$ (15,303)	\$ 7,386	2.8 %

⁽¹⁾ Includes defence sales to civil customers and governments

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

Defence

Defence sales increased by 9.1% and 14.9% respectively during the quarter and six-month period compared to last year, mainly as a result of ramp-up of deliveries under the Sikorsky CH-53K, Boeing F-18 and MQ-25 programs.

These positive factors were partly offset by lower aftermarket sales.

Civil

The respective 17.4% and 18.2% reductions in civil sales for the quarter and six-month period were driven by two main factors:

- The COVID-19 pandemic drove large commercial sales lower than the comparative quarter in last fiscal year, as the pandemic's effect was not yet fully realized in the second quarter of fiscal 2021; and,
- The repatriation by customers of certain Tier-2 contracts in the large commercial sector.

These factors were partly offset by higher deliveries for business jet programs.

Gross Profit

Gross profit for the quarter and six-month period grew to 16.9% and 17.0% of sales, from 15.4% and 15.7% last year, respectively, due to the positive effect of restructuring initiatives on the Corporation's cost structure, including lower depreciation.

Selling and Administrative Expenses

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Selling and Administrative Expenses	\$ 10,264	\$ 11,277	\$ 21,107	\$ 24,393
Less: Net (gains) losses on conversion of net monetary items	(926)	227	(1,013)	1,130
Selling and Administrative expenses excluding conversion of monetary items	\$ 11,190	\$ 11,050	\$ 22,120	\$ 23,263
<i>As a percentage of sales</i>	8.5%	8.1%	8.6%	8.8%

When excluding the effect of the conversion of net monetary items, selling and administrative expenses represented 8.5% of sales for the quarter, compared to 8.1% for the same period last fiscal year. This increase results from the negative effect of foreign exchange fluctuations on the value of sales, as expenses were otherwise relatively stable.

Over the six-month period, selling and administrative expenses improved from 8.8% to 8.6% of sales due to the impact of restructuring initiatives, which were also partly offset by the negative effect of foreign exchange on the value of sales.

Non-recurring items

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Restructuring charges	\$ —	\$ 2,668	\$ —	\$ 8,713
Non-recurring items in operating income	\$ —	\$ 2,668	\$ —	\$ 8,713

Restructuring charges

In Fiscal 2021, Héroux-Devtek announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives were expected to affect 15% of the workforce, or approximately 315 employees, and include the closure of Alta Précision and APPH Wichita.

During the six months ended September 30 of last fiscal year, \$8.7 million of related charges were incurred. Of this amount \$2.7 million were incurred in the three months ended September 30, 2020. To date, 90% of staff reductions, which included the closure of Alta Précision, have been completed and the remaining reductions will occur after the closure of APPH Wichita. No related charges were incurred this quarter.

Operating Income

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Operating income	\$ 11,953	\$ 7,120	\$ 22,750	\$ 8,505
Non-recurring items	—	2,668	—	8,713
Adjusted operating income	\$ 11,953	\$ 9,788	\$ 22,750	\$ 17,218
<i>As a percentage of sales</i>				
Operating income	9.1%	5.2%	8.8%	3.2%
Adjusted operating income	9.1%	7.1%	8.8%	6.5%

Excluding non-recurring items, operating income improved as a percentage of sales compared to last fiscal year for both the quarter and six-month period due to the factors described above, as well as respective 0.4% improvements due to positive foreign exchange fluctuations year over year for both periods.

Net Financial Expenses

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Interest on long-term debt	\$ 750	\$ 1,678	\$ 1,721	\$ 3,201
Net financial expense related to government loans	796	828	1,598	1,619
Interest income on cash and cash equivalents	(152)	(219)	(294)	(437)
Other interest expense	519	192	781	1,026
	\$ 1,913	\$ 2,479	\$ 3,806	\$ 5,409

The decreases in net financial expenses for the quarter and six-month period mainly relate to a lower outstanding debt balance on the Corporation's revolving credit facilities and lower interest rates, partly offset during the quarter by the effect of positive discount rate adjustments last fiscal year.

Income Tax Expense

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Income before income tax expense	\$ 10,040	\$ 4,641	\$ 18,944	\$ 3,096
Income tax expense	2,530	803	4,731	571
Effective tax rate	25.2%	17.3%	25.0%	18.4%
Canadian blended statutory income tax rate	26.4%	26.5%	26.4%	26.5%

For the quarter ended September 30, 2021, the corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.5 million (\$0.2 million in Fiscal 2021), partially offset by the net non-recognition of tax benefits related to tax losses and permanent differences totaling \$0.3 million (\$0.2 million in Fiscal 2021). The effective income tax rate for the quarter ended September 30, 2020 also reflected favourable adjustments related to prior years totaling \$0.3 million.

For the six-month period ended September 30, 2021, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.8 million (\$0.3 million in Fiscal 2021), partially offset by the net non-recognition of tax benefits related to tax losses and permanent differences totaling \$0.5 million (\$0.3 million in Fiscal 2021). The effective income tax rate for the six-month period ended September 30, 2020 also reflected favourable adjustments related to prior years totaling \$0.2 million.

Net Income

Net income increased from \$3.8 million to \$7.5 million during the quarter (or increased from \$6.1 million to \$7.5 million excluding non-recurring items net of taxes) and increased from \$2.5 million to \$14.2 million (or increased from \$9.5 million to \$14.2 million excluding non-recurring items net of taxes) during the six-month period compared to the same periods last fiscal year mainly as a result of the factors described above.

Earnings per Share

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Net income attributable to equity holders of the Corporation	\$ 7,756	\$ 3,906	\$ 14,598	\$ 2,510
Weighted-average number of common diluted shares outstanding, in thousands	36,576	36,379	36,755	36,391
Diluted earnings per share	\$ 0.21	\$ 0.11	\$ 0.40	\$ 0.07
Non-recurring items, net of taxes, in dollars per share	—	0.06	—	0.19
Adjusted earnings per share	\$ 0.21	\$ 0.17	\$ 0.40	\$ 0.26

Compared to the same periods last fiscal year the higher weighted average number of common diluted shares outstanding is the result of the increase in number of in-the-money stock options, partly offset by the effect of the repurchase and cancellation of shares via NCIB.

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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Operating income	\$ 11,953	\$ 7,120	\$ 22,750	\$ 8,505
Non-recurring items	—	2,668	—	8,713
Adjusted operating income	\$ 11,953	\$ 9,788	\$ 22,750	\$ 17,218

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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Operating income	\$ 11,953	\$ 7,120	\$ 22,750	\$ 8,505
Amortization expense	9,204	11,445	18,456	22,373
Non-recurring items	—	2,668	—	8,713
Adjusted EBITDA	\$ 21,157	\$ 21,233	\$ 41,206	\$ 39,591

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 September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Net income	\$ 7,510	\$ 3,838	\$ 14,213	\$ 2,525
Non-recurring items, net of taxes	—	2,280	—	6,975
Adjusted net income	\$ 7,510	\$ 6,118	\$ 14,213	\$ 9,500
Non-controlling interests	(246)	(68)	(385)	15
Adjusted net income attributable to the equity holders of the parent	\$ 7,756	\$ 6,186	\$ 14,598	\$ 9,485
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.21	\$ 0.11	\$ 0.40	\$ 0.07
Non-recurring items, net of taxes	—	0.06	—	0.19
Adjusted earnings per share	\$ 0.21	\$ 0.17	\$ 0.40	\$ 0.26

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 six banks that allows the Corporation to borrow up to \$250 million. In June 2021, the Corporation reached an agreement to extend the Revolving Facility to a new maturity of June 2026 (previously December 2024). The Revolving facility also includes an accordion feature, which was increased to allow Héroux-Devtek to draw an additional \$200 million (previously \$100 million) subject to lenders' consent.

As at September 30, 2021 and March 31, 2021, the Corporation had US\$47.0 million drawn against the facility, worth \$59.9 million and \$59.3 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. This facility is fully drawn and bears interest at a rate of 4.95%, compared to 5.2% as at March 31, 2021. The decrease resulted from an agreement reached in June 2021 which also extended the Term Loan Facility to a new maturity of September 2028 (previously September 2025). The Corporation has the option to make early repayments as of September 2024, subject to certain fees.

Net Debt Position

As at	September 30, 2021	March 31, 2021
Long-term debt ⁽¹⁾	\$ 248,617	\$ 252,998
Less: Cash and cash equivalents	103,217	95,470
Net debt position	\$ 145,400	\$ 157,528
Adjusted EBITDA ⁽²⁾ - trailing 12 months	89,912	88,297
Net debt to adjusted EBITDA ratio	1.6:1	1.8:1

⁽¹⁾ Excluding net deferred financing costs of \$2.5 million and \$2.3 million as at September 30, 2021 and March 31, 2021, 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 \$12.1 million over the six-month period mainly as a result of cash flow generation, net of \$13.5 million allocated to the NCIB.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Cash and cash equivalents at beginning of periods	\$ 98,594	\$ 114,407	\$ 95,470	\$ 45,841
Cash flows related to operating activities	17,467	15,427	35,652	30,900
Cash flows related to investing activities	(6,255)	(2,052)	(8,016)	(7,293)
Cash flows related to financing activities	(6,916)	(49,548)	(20,120)	9,164
Effect of changes in exchange rates on cash and cash equivalents	327	485	231	107
Cash and cash equivalents at end of periods	\$ 103,217	\$ 78,719	\$ 103,217	\$ 78,719

Operating Activities

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

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Cash flows from operations	\$ 18,312	\$ 16,228	\$ 36,818	\$ 26,990
Net change in non-cash items	(845)	(801)	(1,166)	3,910
Cash flows related to operating activities	\$ 17,467	\$ 15,427	\$ 35,652	\$ 30,900

The increase in cash flows from operations over the quarter and six-month period mainly relates to last year's cash charges related to restructuring. See *Non-Recurring Items* under *Operating Results* for further details.

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

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Accounts receivable	\$ (8,486)	\$ (15,300)	\$ 14,056	\$ 19,467
Inventories	6,671	5,626	475	(12,346)
Other assets	2,051	(736)	(3,002)	561
Accounts payable and accrued liabilities	(3,211)	1,500	(7,722)	(13,427)
Provisions	(1,034)	674	(2,947)	4,047
Customer advances and progress billings	1,757	8,042	(2,110)	5,394
Other Liabilities	1,407	(607)	84	214
	\$ (845)	\$ (801)	\$ (1,166)	\$ 3,910

For the quarter ended September 30, 2021, the negative net change in non-cash items mainly reflects an increase in accounts receivable due to timing of sales, partly offset by a decrease in civil inventory.

For the six-month period ended September 30, 2021, the negative net change in non-cash items mainly reflects a seasonal decrease in accounts receivable and payable related to a lower level of activity than during the fourth quarter of fiscal 2021, as well as the utilization of restructuring provisions.

For the quarter ended September 30, 2020, the negative net change in non-cash items mainly reflects an increase in accounts receivable following higher quarter-over-quarter sales, partly offset by an increase in customer advances and progress billings and a decrease in civil inventories resulting from lower expected volume.

For the six-month period ended September 30, 2020, the positive net change in non cash items mainly reflects a seasonal decrease in accounts receivable and payable related to a lower level of activity than during the fourth quarter of fiscal 2020 as well as an increase in inventory related to growth in the F-18 and MQ-25 programs.

Investing Activities

The Corporation's investing activities were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Net additions to property, plant and equipment	\$ (4,438)	\$ (3,378)	\$ (7,710)	\$ (9,507)
Net change in finite-life intangible assets	(1,817)	1,326	(2,347)	2,214
Proceeds from a business divestiture	—	—	2,041	—
Cash flows related to investing activities	\$ (6,255)	\$ (2,052)	\$ (8,016)	\$ (7,293)

The proceeds of business divestiture relates to the Bolton divestiture, further detailed in *Business Divestiture* under *Additional Information*.

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

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Additions to property, plant and equipment	\$ 3,468	\$ 4,010	\$ 5,723	\$ 8,718
Variation in unpaid additions included in Accounts payable and accrued liabilities	1,100	(589)	2,287	976
Non-cash additions made through leasing agreements	(130)	(43)	(300)	(187)
Additions, as per statements of cash flows	\$ 4,438	\$ 3,378	\$ 7,710	\$ 9,507

Financing Activities

The Corporation's financing activities were as follows:

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Increase in long-term debt	\$ 1,962	\$ 1,752	\$ 1,962	\$ 63,351
Repayment of long-term debt	(2,591)	(51,300)	(9,091)	(54,187)
Increase in deferred financing costs	—	—	(555)	—
Repurchase and cancellation of shares	(6,831)	—	(13,485)	—
Issuance of common shares	544	—	1,049	—
Cash flows related to financing activities	\$ (6,916)	\$ (49,548)	\$ (20,120)	\$ 9,164

Repayment of long-term debt during the first six months of fiscal 2022 is comprised of lease payments and scheduled reimbursements of governmental loans.

For the six-month period ended September 30, 2020, the increase in long-term debt mainly related to \$60.0 million of drawings on credit facilities made as a precaution in case of liquidity needs resulting from the impact of COVID-19. \$45 million of these drawings were repaid during the second quarter of last fiscal year, and the remainder in the fourth quarter of last fiscal year.

NORMAL COURSE ISSUER BID

On May 20, 2021, the Corporation announced a Normal Course Issuer Bid (NCIB) for the purchase for cancellation of up to 2,412,279 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2021, and will end on May 24, 2022, or on such earlier date when the Company has either acquired the maximum number of common shares allowable under the NCIB or decided not to make any further purchases under it.

	During the period		
	Number of shares	Average cost per share	Total cost
Quarter ended June 30, 2021	370,427	\$ 17.96	\$ 6,654
Quarter ended September 30, 2021	389,017	17.56	6,831
Through November 11, 2021	337,317	17.73	5,982
Total	1,096,761	\$ 17.75	\$ 19,467

FREE CASH FLOW⁽¹⁾

	Three months ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
Cash flows related to operating activities	\$ 17,467	\$ 15,427	\$ 35,652	\$ 30,900
Net additions to property, plant and equipment	(4,438)	(3,378)	(7,710)	(9,507)
Net change in finite-life intangible assets	(1,817)	1,326	(2,347)	2,214
Free cash flow	\$ 11,212	\$ 13,375	\$ 25,595	\$ 23,607

⁽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	September 30, 2021	March 31, 2021	Variance	
Current assets	\$ 432,030	\$ 434,769	\$ (2,739)	(0.6)%
Current liabilities	178,942	193,369	(14,427)	(7.5)%
Working capital	\$ 253,088	\$ 241,400	\$ 11,688	4.8 %
Working capital ratio	2.41	2.25		

The decrease in current liabilities is mainly explained by a reduction of \$10.5 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:

	September 30, 2021	March 31, 2021	Variance	
Long-term assets	\$ 401,877	\$ 418,515	\$ (16,638)	(4.0)%
Long-term liabilities	264,996	268,183	\$ (3,187)	(1.2)%
Shareholders' equity	\$ 389,969	\$ 391,732	\$ (1,763)	(0.5)%
Net debt-to-equity ratio ⁽¹⁾	0.37:1	0.40:1		

⁽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 \$16.6 million decrease in long-term assets mainly relates to amortization.

ADDITIONAL INFORMATION

BUSINESS DIVESTITURE

On May 4th, 2021, Hérroux-Devtek concluded an agreement for the sale of its Bolton, UK operations to Ontic Engineering & Manufacturing UK Limited for a sale price of £2.7 million (\$4.6 million) excluding £0.9 million (\$1.5 million) which is subject to the achievement of certain commercial objectives.

The transaction did not result in a material gain or loss on disposal. \$2.0 million of proceeds were received during the first quarter of fiscal 2022 and the £1.5 million (\$2.6 million) balance is due at the beginning of Fiscal 2023 and is included in other current assets.

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:

	September 30, 2021	March 31, 2021
USD (Canadian equivalent of US\$1.0)	1.2715	1.2575
GBP (Canadian equivalent of £1.0)	1.7083	1.7337
EUR (Canadian equivalent of €1.0)	1.4803	1.4759

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

	Quarters ended September 30,		Six months ended September 30,	
	2021	2020	2021	2020
USD (Canadian equivalent of US\$1.0)	1.2601	1.3316	1.2441	1.3588
GBP (Canadian equivalent of £1.0)	1.7363	1.7212	1.7267	1.7208
EUR (Canadian equivalent of €1.0)	1.4851	1.5579	1.4827	1.5418

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 September 30, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$301.3 million (\$268.7 million at March 31, 2021) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$223.4 million (US\$197.5 million at March 31, 2021) convertible into Canadian dollars at an average rate of 1.2922 (1.3161 at March 31, 2021). These contracts mature at various dates between October 2021 and March 2026, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at September 30, 2021, the Corporation had 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 mature between May 2022 and September 2028, and mainly bear interest at a weighted average fixed rate of 2.4%.

Equity swap agreement

As at September 30, 2021 and March 31, 2021, 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 2022.

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 September 30, 2021 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

SELECTED QUARTERLY FINANCIAL INFORMATION

Fiscal year	2022		2021				2020	
	Second Quarter	First Quarter	Fourth quarter	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third Quarter
Sales	\$ 131,293	\$ 126,188	\$ 154,989	\$ 150,298	\$ 137,063	\$ 128,335	\$ 166,800	\$ 157,253
Operating income (loss)	11,953	10,797	12,229	13,362	7,120	1,385	(64,426)	13,466
Adjusted operating income ⁽¹⁾	11,953	10,797	13,848	14,145	9,788	7,430	17,577	13,466
Adjusted EBITDA ⁽¹⁾	21,157	20,049	24,975	23,731	21,233	18,358	28,609	24,563
Net income (loss)	7,510	6,703	8,802	8,486	3,838	(1,313)	(72,113)	8,705
Adjusted Net Income ⁽¹⁾	7,510	6,703	10,169	9,365	6,118	3,382	13,695	8,705
<i>In dollars per share</i>								
Earnings (loss) per share - Basic & Diluted	\$ 0.21	\$ 0.19	\$ 0.24	\$ 0.24	\$ 0.11	\$ (0.04)	\$ (1.98)	\$ 0.24
Adjusted earnings per share ⁽¹⁾	0.21	0.19	0.28	0.26	0.17	0.09	0.38	0.24
<i>In thousands of shares</i>								
Weighted-average number of common diluted shares outstanding	36,576	36,981	36,523	36,510	36,379	36,367	36,364	36,700

⁽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, 2021. 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	November 11, 2021
Common shares issued and outstanding	35,762,294
Stock options issued and outstanding	1,551,750

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 2022	
Third quarter	February 9, 2022
Fourth quarter	May 19, 2022
Fiscal 2023	
First quarter	August 5, 2022
Second quarter	November 15, 2022

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November 11, 2021