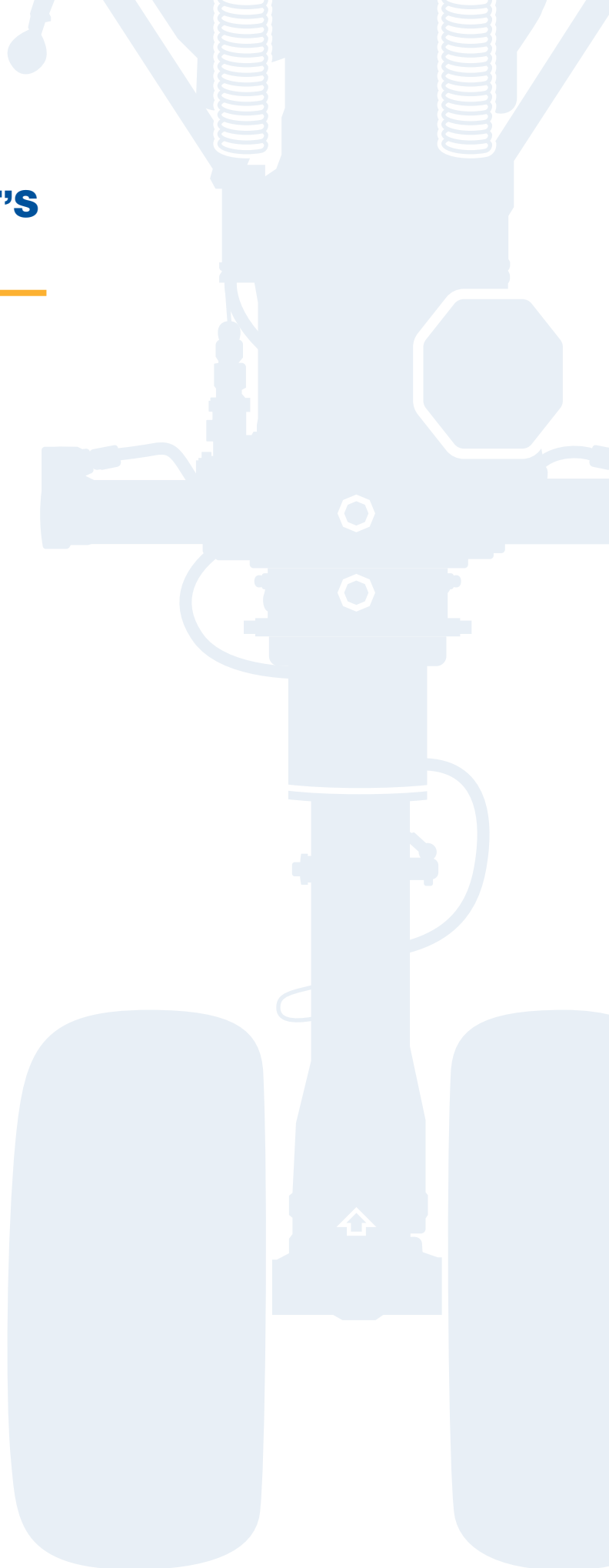


# CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

---

Third quarter ended December 31, 2021





# **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Third quarter ended December 31, 2021**

## TABLE OF CONTENTS

<b>Interim condensed consolidated financial statements</b> .....	<b>5</b>
<b>Notes to the interim condensed consolidated financial statements</b> .....	<b>10</b>
Note 1 Nature of activities and corporate information .....	10
Note 2 Basis of preparation .....	10
Note 3 Revenue from contracts with customers .....	10
Note 4 Government assistance .....	11
Note 5 Cost of sales, selling and administrative expenses .....	11
Note 6 Non-recurring items .....	11
Note 7 Net financial expenses .....	12
Note 8 Earnings per share .....	12
Note 9 Derivative financial instruments .....	12
Note 10 Long-term debt .....	13
Note 11 Issued capital .....	13
Note 12 Accumulated other comprehensive income .....	15
Note 13 Net change in non-cash items .....	16
Note 14 Purchase of minority interest and divestiture .....	16

## **DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED DECEMBER 31, 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 December 31, 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.

February 8, 2022

# CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	December 31, 2021	March 31, 2021
<b>ASSETS</b>	10		
Current assets			
Cash and cash equivalents		\$ 86,836	\$ 95,470
Accounts receivable		86,727	99,724
Income tax receivable		3,767	1,708
Inventories		212,513	216,441
Derivative financial instruments	9	5,557	4,903
Other current assets		16,245	16,523
		411,645	434,769
Property, plant and equipment, net		215,275	227,621
Finite-life intangible assets, net	4	48,237	51,996
Derivative financial instruments	9	8,258	9,374
Deferred income tax assets		6,038	8,485
Goodwill		112,055	115,970
Other long-term assets		3,848	5,069
<b>Total assets</b>		<b>\$ 805,356</b>	<b>\$ 853,284</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities			
Accounts payable and accrued liabilities		\$ 101,427	\$ 109,809
Provisions		19,761	25,271
Customer advances and progress billings		37,554	40,867
Income tax payable		825	2,107
Derivative financial instruments	9	1,243	—
Current portion of long-term debt	10	14,174	15,315
		174,984	193,369
Long-term debt	10	228,790	235,384
Provisions		16,409	17,548
Derivative financial instruments	9	1,961	544
Deferred income tax liabilities		7,838	9,383
Other liabilities		3,835	5,324
		433,817	461,552
Shareholders' equity			
Issued capital	11	82,731	86,222
Contributed surplus		5,489	5,126
Accumulated other comprehensive income	12	11,236	16,279
Retained earnings		272,083	282,831
Total equity attributable to the equity holders of the parent		371,539	390,458
Non-controlling interest	14	—	1,274
		371,539	391,732
<b>Total liabilities and shareholders' equity</b>		<b>\$ 805,356</b>	<b>\$ 853,284</b>

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)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	2021	2020	2021	2020
Sales	3	\$ 131,147	\$ 150,298	\$ 388,628	\$ 415,696
Cost of sales	4, 5	109,800	122,162	323,424	345,949
Gross profit		21,347	28,136	65,204	69,747
Selling and administrative expenses	4, 5	10,802	13,991	31,909	38,384
Non-recurring items	6	—	783	—	9,496
Operating income		10,545	13,362	33,295	21,867
Net financial expenses	7	2,107	2,658	5,913	8,067
Income before income tax expense		8,438	10,704	27,382	13,800
Income tax expense		1,970	2,218	6,701	2,789
Net income		\$ 6,468	\$ 8,486	\$ 20,681	\$ 11,011
Attributable to:					
Equity holders of the parent		6,468	8,600	21,066	11,110
Non-controlling interest	14	—	(114)	(385)	(99)
		\$ 6,468	\$ 8,486	\$ 20,681	\$ 11,011
Earnings per share – basic and diluted	8	\$ 0.18	\$ 0.24	\$ 0.58	\$ 0.31

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 December 31,		Nine months ended December 31,	
	Notes	2021	2020	2021	2020
	12				
Other comprehensive income :					
Items that may be reclassified to net income					
Losses arising from conversion of the financial statements of foreign operations		\$ (2,134)	\$ (4,593)	\$ (1,398)	\$ (15,224)
Cash flow hedges:					
Net (losses) gains on valuation of derivative financial instruments		1,670	11,820	(3,752)	28,622
Net (gains) losses on derivative financial instruments transferred to net income		(794)	(239)	(3,466)	3,484
Deferred income taxes		(231)	(3,095)	1,904	(8,579)
		645	8,486	(5,314)	23,527
Gains on hedge of net investments in foreign operations		2,232	1,520	1,926	2,809
Deferred income taxes		(293)	(183)	(257)	(328)
		1,939	1,337	1,669	2,481
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains from remeasurement		3	3,035	1,857	936
Deferred income taxes		(1)	(811)	(491)	(247)
		2	2,224	1,366	689
Other comprehensive income (loss)		\$ 452	\$ 7,454	\$ (3,677)	\$ 11,473
Comprehensive income					
Net income		6,468	8,486	20,681	11,011
Other comprehensive income (loss)		452	7,454	(3,677)	11,473
Comprehensive income		\$ 6,920	\$ 15,940	\$ 17,004	\$ 22,484
Attributable to:					
Equity holders of the parent		6,920	16,054	17,389	22,583
Non-controlling interest	14	—	(114)	(385)	(99)
		\$ 6,920	\$ 15,940	\$ 17,004	\$ 22,484

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
<b>Balance as at March 31, 2021</b>		<b>\$ 86,222</b>	<b>\$ 5,126</b>	<b>\$ 16,279</b>	<b>\$ 282,831</b>	<b>\$ 390,458</b>	<b>\$ 1,274</b>	<b>\$ 391,732</b>
Common shares issued under the stock option plan	11	1,961	(515)	—	—	1,446	—	1,446
Repurchase and cancellation of common shares	11	(5,452)	—	—	(33,169)	(38,621)	—	(38,621)
Stock-based compensation expense	11	—	878	—	—	878	—	878
Purchase of minority interest	14	—	—	—	(11)	(11)	(889)	(900)
Net income (loss)		—	—	—	21,066	21,066	(385)	20,681
Other comprehensive (loss) income	12	—	—	(5,043)	1,366	(3,677)	—	(3,677)
<b>Balance as at December 31, 2021</b>		<b>\$ 82,731</b>	<b>\$ 5,489</b>	<b>\$ 11,236</b>	<b>\$ 272,083</b>	<b>\$ 371,539</b>	<b>\$ —</b>	<b>\$ 371,539</b>

	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
<b>Balance as at March 31, 2020</b>		<b>\$ 79,757</b>	<b>\$ 5,792</b>	<b>\$ 7,160</b>	<b>\$ 255,221</b>	<b>\$ 347,930</b>	<b>\$ 1,518</b>	<b>\$ 349,448</b>
Issued under the stock option plan		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
<b>Balance as at December 31, 2020</b>		<b>\$ 80,001</b>	<b>\$ 6,582</b>	<b>\$ 17,944</b>	<b>\$ 267,020</b>	<b>\$ 371,547</b>	<b>\$ 1,419</b>	<b>\$ 372,966</b>

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



# CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	2021	2020	2021	2020
<b>Cash and cash equivalents provided by (used for):</b>					
<b>Operating activities</b>					
Net income		\$ 6,468	\$ 8,486	\$ 20,681	\$ 11,011
Items not requiring an outlay of cash:					
Amortization expense	5	9,149	9,586	27,605	31,959
Deferred income taxes		672	658	1,853	(463)
Gains on sale of property, plant and equipment		(910)	—	(910)	—
Net non-cash financial expenses	7	1,352	1,346	3,731	3,991
Stock-based compensation expense	11	289	291	878	859
Cash flows from operations		17,020	20,367	53,838	47,357
Net change in non-cash items	13	478	6,356	(688)	10,266
<b>Cash flows related to operating activities</b>		<b>\$ 17,498</b>	<b>\$ 26,723</b>	<b>\$ 53,150</b>	<b>\$ 57,623</b>
<b>Investing activities</b>					
Net additions to property, plant and equipment		(5,197)	(4,988)	(12,907)	(14,495)
Net change in finite-life intangible assets		836	(1,368)	(1,511)	846
Proceeds from a business divestiture	14	—	—	2,041	—
Purchase of minority interest	14	(900)	—	(900)	—
Proceeds of disposal of property, plant and equipment		319	—	319	—
<b>Cash flows related to investing activities</b>		<b>\$ (4,942)</b>	<b>\$ (6,356)</b>	<b>\$ (12,958)</b>	<b>\$ (13,649)</b>
<b>Financing activities</b>					
Proceeds from long-term debt		1,097	1,238	3,059	64,589
Repayment of long-term debt		(4,904)	(4,410)	(13,995)	(58,597)
Increase in deferred financing costs		—	—	(555)	—
Repurchase and cancellation of shares	11	(25,136)	—	(38,621)	—
Issuance of common shares under the stock option plan		397	175	1,446	175
<b>Cash flows related to financing activities</b>		<b>\$ (28,546)</b>	<b>\$ (2,997)</b>	<b>\$ (48,666)</b>	<b>\$ 6,167</b>
<b>Effect of changes in exchange rates on cash and cash equivalents</b>		<b>(391)</b>	<b>(589)</b>	<b>(160)</b>	<b>(482)</b>
<b>Change in cash and cash equivalents during the periods</b>		<b>(16,381)</b>	<b>16,781</b>	<b>(8,634)</b>	<b>49,659</b>
<b>Cash and cash equivalents at beginning of periods</b>		<b>103,217</b>	<b>78,719</b>	<b>95,470</b>	<b>45,841</b>
<b>Cash and cash equivalents at end of periods</b>		<b>\$ 86,836</b>	<b>\$ 95,500</b>	<b>\$ 86,836</b>	<b>\$ 95,500</b>
<b>Interest and income taxes reflected in operating activities:</b>					
Interest paid		\$ 1,860	\$ 821	\$ 5,526	\$ 2,703
Interest received		\$ 129	\$ 155	\$ 423	\$ 592
Income taxes paid		\$ 3,816	\$ 897	\$ 6,213	\$ 783

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, 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 December 31, 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 February 8, 2022.

## NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Geographic markets				
Canada	\$ 8,148	\$ 15,437	\$ 25,413	\$ 41,484
United States of America	73,258	80,922	224,981	218,599
United Kingdom	7,769	11,013	29,737	36,082
Spain	8,621	12,097	27,932	35,217
Rest of Europe	21,781	20,878	50,253	55,206
Other countries	11,570	9,951	30,312	29,108
	\$ 131,147	\$ 150,298	\$ 388,628	\$ 415,696
Sectors				
Civil	\$ 36,501	48,518	\$ 111,427	145,543
Defence	94,646	101,780	277,201	270,153
	\$ 131,147	\$ 150,298	\$ 388,628	\$ 415,696

## 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,	
	2021	2020	2021	2020
Finite-life intangible assets	\$ —	\$ 165	\$ 566	\$ 631
Cost of sales and selling and administrative expenses	\$ 1,394	\$ 4,047	\$ 8,546	\$ 14,347

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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Raw materials and purchased parts	\$ 45,776	\$ 59,240	\$ 141,648	\$ 155,910
Employee costs	44,798	46,900	134,149	141,752
Amortization of property, plant and equipment and finite-life intangible assets	9,149	9,586	27,605	31,959
Others	20,879	20,427	51,931	54,712
	\$ 120,602	\$ 136,153	\$ 355,333	\$ 384,333
Including:				
Foreign exchange (gains) losses upon conversion of net monetary items	\$ (64)	\$ 1,140	\$ (1,077)	\$ 2,270
Amortization of customer relationships	\$ 1,187	\$ 1,455	\$ 3,316	\$ 4,166

## 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 nine months ended December 31 of last fiscal year, \$9,496 of related charges were incurred, of which \$783 were incurred in the three months ended December 31, 2020.

These restructuring initiatives were completed during the current fiscal year and no additional related charges were incurred.

## NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Interest accretion on governmental authorities loans	\$ 679	\$ 750	\$ 2,277	\$ 2,369
Interest accretion on net defined benefit obligations	24	99	72	302
Interest on leases	252	332	773	958
Amortization of deferred financing costs	124	189	430	593
Other interest accretion and discount rate adjustments	273	(24)	179	(231)
Net non-cash financial expenses	\$ 1,352	\$ 1,346	\$ 3,731	\$ 3,991
Interest on long-term debt	\$ 884	\$ 1,467	\$ 2,605	\$ 4,668
Interest income on cash and cash equivalents	(129)	(155)	(423)	(592)
	\$ 2,107	\$ 2,658	\$ 5,913	\$ 8,067

## 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,	
	2021	2020	2021	2020
Weighted-average number of common shares outstanding	35,440,464	36,371,775	36,124,313	36,368,737
Dilutive effect of stock options	300,489	138,196	280,245	56,429
Weighted-average number of common diluted shares outstanding	35,740,953	36,509,971	36,404,558	36,425,166
Options excluded from diluted earnings per share calculation	—	862,000	189,000	1,274,500

## NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

### *Forward foreign exchange contracts*

As at December 31, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$367,099 (\$268,737 at March 31, 2021) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$249,620 (US\$197,500 at March 31, 2021) convertible into Canadian dollars at an average rate of 1.2892 (1.3161 at March 31, 2021). These contracts mature at various dates between January 2022 and March 2026, with the majority maturing this fiscal year and the next.

### *Cross-currency interest rate swaps*

As at December 31, 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 December 31, 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 and expires in June 2022.

## NOTE 10. LONG-TERM DEBT

As at	December 31, 2021	March 31, 2021
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 59,587	\$ 59,342
Governmental authorities loans	88,133	90,382
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	22,668	28,274
Deferred financing costs, net	(2,424)	(2,299)
	\$ 242,964	\$ 250,699
Less: current portion	14,174	15,315
Long-term debt	\$ 228,790	\$ 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 December 31, 2021		Nine months ended December 31, 2021	
	Number	Issued capital	Number	Issued capital
Opening balance	36,099,611	\$ 85,807	36,764,710	\$ 86,222
Issued for cash on exercise of stock options	35,000	542	129,345	1,961
Repurchase and cancellation	(1,396,190)	(3,618)	(2,155,634)	(5,452)
Closing balance	34,738,421	\$ 82,731	34,738,421	\$ 82,731

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 at December 31, 2021, the Company has purchased and cancelled 2,155,634 common shares for a cash consideration of \$38,621, representing a weighted average price of \$17.92 per share. The \$33,169 excess of purchase price over the carrying value was charged to retained earnings.

## B. Stock option plan

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

	2021		2020	
	Number of stock options	Exercise price <sup>(1)</sup>	Number of stock options	Exercise price <sup>(1)</sup>
Opening balance	1,551,750	\$14.13	1,846,595	\$13.10
Exercised	(35,000)	11.34	(15,000)	11.71
Cancelled / forfeited	(8,000)	17.45	—	—
Closing balance	1,508,750	\$14.18	1,831,595	\$13.11
Stock-based compensation expense		\$ 289		\$ 291

<sup>(1)</sup> Weighted average exercise price

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

	2021		2020	
	Number of stock options	Exercise price <sup>(1)</sup>	Number of stock options	Exercise price <sup>(1)</sup>
Opening balance	1,449,095	\$13.48	1,497,595	\$13.86
Granted	197,000	17.45	349,000	9.83
Exercised	(129,345)	11.18	(15,000)	11.71
Cancelled / forfeited	(8,000)	17.45	—	—
Closing balance	1,508,750	\$14.18	1,831,595	\$13.11
Stock-based compensation expense		\$ 878		\$ 859

<sup>(1)</sup> Weighted average exercise price

2,808,257 common share are reserved for issuance under the stock option plan, of which 2,230,662 had not been issued yet as at December 31, 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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
<b>DSUs</b>				
<i>In number of DSUs</i>				
Opening balance	199,471	189,164	192,108	154,950
Issued	—	—	31,676	34,214
Settled	—	—	(24,313)	—
Closing balance of DSUs outstanding	199,471	189,164	199,471	189,164
DSU expense for the periods	\$ 120	\$ 914	\$ 658	\$ 994
Fair value of vested outstanding DSUs, end of periods	\$ 3,229	\$ 2,593	\$ 3,229	\$ 2,593

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
<b>PSUs</b>				
<i>In number of PSUs</i>				
Opening balance	380,600	395,050	300,150	278,450
Issued	2,000	—	88,150	119,100
Settled	(72,050)	(84,700)	(72,050)	(84,700)
Cancelled/Forfeited	(10,450)	(1,700)	(16,150)	(4,200)
Closing balance of PSUs outstanding	300,100	308,650	300,100	308,650
PSU expense for the periods	\$ 381	\$ 1,795	\$ 1,164	\$ 1,968
Fair value of vested outstanding PSUs, end of periods	\$ 4,004	\$ 3,053	\$ 4,004	\$ 3,053

## 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, 2021	\$ 14,800	\$ 2,572	\$ (6,586)	\$ 10,786
Other comprehensive income (loss)	(2,134)	645	1,939	450
Balance as at December 31, 2021	\$ 12,666	\$ 3,217	\$ (4,647)	\$ 11,236
Balance as at March 31, 2021	\$ 14,064	\$ 8,531	\$ (6,316)	\$ 16,279
Other comprehensive income (loss)	(1,398)	(5,314)	1,669	(5,043)
Balance as at December 31, 2021	\$ 12,666	\$ 3,217	\$ (4,647)	\$ 11,236

	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

## 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,	
	2021	2020	2021	2020
Accounts receivable	\$ (1,871)	\$ 10,182	\$ 12,185	\$ 29,649
Inventories	1,585	12,170	2,060	(176)
Other assets	3,414	2,630	412	3,191
Accounts payable and accrued liabilities	4,530	(13,310)	(3,192)	(26,737)
Provisions	(3,947)	(2,216)	(6,894)	1,831
Customer advances and progress billings	(731)	(1,203)	(2,841)	4,191
Other Liabilities	(2,502)	(1,897)	(2,418)	(1,683)
	\$ 478	\$ 6,356	\$ (688)	\$ 10,266

## NOTE 14. PURCHASE OF MINORITY INTEREST AND 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 (\$1,542) 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 £1,500 (\$2,570), due at the beginning of fiscal 2023, is included in other current assets.

During the quarter ended December 31st, 2021, Héroux-Devtek purchased the remaining 30% minority interest in Tekalia Aeronautik for \$900.





# MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2021

## TABLE OF CONTENTS

<b>OVERVIEW</b> .....	<b>19</b>
<i>Forward-looking Statements</i> .....	19
<i>Highlights</i> .....	20
<b>OPERATING RESULTS</b> .....	<b>21</b>
<i>Non-IFRS Financial Measures</i> .....	24
<b>LIQUIDITY AND CAPITAL RESOURCES</b> .....	<b>26</b>
<i>Credit Facilities and Net Debt Position</i> .....	26
<i>Variations in Cash and Cash Equivalents</i> .....	26
<i>Normal Course Issuer Bid</i> .....	29
<i>Free Cash flow</i> .....	29
<b>FINANCIAL POSITION</b> .....	<b>30</b>
<i>Consolidated Balance Sheets</i> .....	30
<b>ADDITIONAL INFORMATION</b> .....	<b>31</b>
<i>Purchase of Minority Interest and Divestiture</i> .....	31
<i>Foreign Exchange</i> .....	31
<i>Derivatives</i> .....	31
<i>Internal Controls and Procedures</i> .....	32
<i>Selected Quarterly Financial Information</i> .....	32
<i>Risks and Uncertainties</i> .....	33
<i>Shareholder Information</i> .....	33

# 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 December 31, 2021. It also compares the operating results and cash flows for the quarter and nine-month period ended December 31, 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 December 31, 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](http://www.herouxdevtek.com) and on SEDAR at [www.sedar.com](http://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 8, 2022.

## IFRS and non-IFRS financial measures

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

## Materiality for disclosures

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

## FORWARD-LOOKING STATEMENTS

---

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

They may be impacted by factors including, but not limited to: the effect of the ongoing COVID-19 pandemic on Héroux-Devtek’s operations, customers, supply chain, the aerospace industry and the economy in general; the impact of other worldwide 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 December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Sales	\$ 131,147	\$ 150,298	\$ 388,628	\$ 415,696
Operating income	10,545	13,362	33,295	21,867
Adjusted operating income <sup>(1)</sup>	10,545	14,145	33,295	31,363
Adjusted EBITDA <sup>(1)</sup>	19,694	23,731	60,900	63,322
Net income	6,468	8,486	20,681	11,011
Adjusted net income <sup>(1)</sup>	6,468	9,365	20,681	18,865
Cash flows related to operating activities	17,498	26,723	53,150	57,623
Free cash flow <sup>(1)</sup>	13,456	20,367	39,051	43,974
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.18	\$ 0.24	\$ 0.58	\$ 0.31
Adjusted EPS <sup>(1)</sup>	0.18	0.26	0.58	0.52

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

### Events of the Quarter

- The Corporation generated consolidated sales of \$131.1 million, compared to \$150.3 million a year earlier, representing a decrease of 12.8%. This shortfall mainly relates to delayed deliveries resulting from supply chain and production system disruptions related to the current environment, mostly due to the Omicron variant. Héroux-Devtek expects to recover these sales over the coming quarters.
- As a result, operating income decreased to \$10.5 million, compared to \$13.4 million last fiscal year, and Adjusted EBITDA decreased to \$19.7 million, or 15.0% of sales, compared to \$23.7 million or 15.8% last year.
- Earnings per share fell to \$0.18 compared to \$0.24 last year, or compared to \$0.26 when excluding non-recurring items.
- Héroux-Devtek generated cash flows related to operating activities totaling \$17.5 million and free cash flow of \$13.5 million during the quarter compared to \$26.7 million and \$20.4 million, respectively, during the same period last year.
- The Corporation acquired and cancelled 1,396,190 common shares at an average price of \$18.00 per share for a total cash consideration of \$25.1 million under its Normal Course Issuer Bid ("NCIB"), bringing the year to date total to 2,155,634 for \$38.6 million while maintaining a net debt to Adjusted EBITDA ratio of 1.8:1. Refer to the *Normal Course Issuer Bid* section under *Liquidity and Capital Resources* for further details.
- Héroux-Devtek's restructuring plan, announced in May 2020 as a result of the onset of the Covid-19 pandemic, was completed at the end of December with the closure of its Wichita facility.

# OPERATING RESULTS

	Three months ended December 31,			Nine months ended December 31,		
	2021	2020	Variance	2021	2020	Variance
Sales	\$ 131,147	\$ 150,298	\$ (19,151)	\$ 388,628	\$ 415,696	\$ (27,068)
Gross profit	21,347	28,136	(6,789)	65,204	69,747	(4,543)
Selling and administrative expenses	10,802	13,991	(3,189)	31,909	38,384	(6,475)
Adjusted operating income <sup>(1)</sup>	10,545	14,145	(3,600)	33,295	31,363	1,932
Non-recurring items	—	783	(783)	—	9,496	(9,496)
Operating income	10,545	13,362	(2,817)	33,295	21,867	11,428
Net financial expenses	2,107	2,658	(551)	5,913	8,067	(2,154)
Income tax expense	1,970	2,218	(248)	6,701	2,789	3,912
Net income	\$ 6,468	\$ 8,486	\$ (2,018)	\$ 20,681	\$ 11,011	\$ 9,670
Adjusted net income <sup>(1)</sup>	\$ 6,468	\$ 9,365	\$ (2,897)	\$ 20,681	\$ 18,865	\$ 1,816
<i>As a percentage of sales</i>						
Gross profit	16.3%	18.7%	-240 bps	16.8%	16.8%	— bps
Selling and administrative expenses	8.2%	9.3%	-110 bps	8.2%	9.2%	-100 bps
Operating income	8.0%	8.9%	-90 bps	8.6%	5.3%	330 bps
Adjusted operating income <sup>(1)</sup>	8.0%	9.4%	-140 bps	8.6%	7.5%	110 bps
<i>In dollars per share</i>						
Earnings per share - basic and diluted	\$ 0.18	\$ 0.24	\$ (0.06)	\$ 0.58	\$ 0.31	\$ 0.27
Adjusted EPS <sup>(1)</sup>	\$ 0.18	\$ 0.26	\$ (0.08)	\$ 0.58	\$ 0.52	\$ 0.06

<sup>(1)</sup> 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,			
	2021	2020	FX impact	Net variance
Defence <sup>(1)</sup>	\$ 94,646	\$ 101,780	\$ (3,122)	\$ (4,012) (3.9)%
Civil	36,501	48,518	(1,163)	(10,854) (22.4)%
Total	\$ 131,147	\$ 150,298	\$ (4,285)	\$ (14,866) (9.9)%

	Nine months ended December 31,			
	2021	2020	FX impact	Net variance
Defence <sup>(1)</sup>	\$ 277,201	\$ 270,153	\$ (13,972)	\$ 21,020 7.8 %
Civil	111,427	145,543	(5,616)	(28,500) (19.6)%
Total	\$ 388,628	\$ 415,696	\$ (19,588)	\$ (7,480) (1.8)%

<sup>(1)</sup> Includes defence sales to civil customers and governments

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

### Defence

During the quarter, Defence sales decreased by 3.9% compared to the third quarter last fiscal year due to lower throughput in the Corporation's U.S. operations, where current supply chain and production system disruptions were more severe than elsewhere.

Defence sales increased 7.8% during the nine-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 22.4% and 19.6% reductions in civil sales for the quarter and nine-month period were driven by two main factors:

- Large commercial sales were lower than the comparative periods in last fiscal year as the pandemic's effect was not yet fully realized then; 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 decreased from 18.7% to 16.3% of sales compared to the same quarter last year due to lower throughput resulting from the disruptions mentioned above caused by the current environment, as well as higher quality-related costs.

Over the nine-month period, gross profit remained stable at 16.8% of sales as the negative effects of the quarter were offset by the positive effect of restructuring initiatives on the Corporation's cost structure, including lower depreciation.

## Selling and Administrative Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Selling and Administrative Expenses	\$ 10,802	\$ 13,991	\$ 31,909	\$ 38,384
Less: Net (gains) losses on conversion of net monetary items	(64)	1,140	(1,077)	2,270
Selling and Administrative expenses excluding conversion of monetary items	\$ 10,866	\$ 12,851	\$ 32,986	\$ 36,114
<i>As a percentage of sales</i>	8.3%	8.6%	8.5%	8.7%

When excluding the effect of the conversion of net monetary items, selling and administrative expenses decreased to 8.3% of sales for the quarter and 8.5% over the nine month period, from 8.6% and 8.7% last fiscal year, respectively. The respective \$2.0 million and \$3.1 million decreases mainly result from the positive impact of restructuring initiatives and lower stock-based compensation.

## Non-recurring items

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
<b>Non-recurring items in operating income</b>				
Restructuring charges	\$ —	\$ 783	\$ —	\$ 9,496
Non-recurring items in operating income	\$ —	\$ 783	\$ —	\$ 9,496

### 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 nine months ended December 31 of last fiscal year, \$9.5 million of related charges were incurred. Of this amount \$0.8 million were incurred in the three months ended December 31, 2020. These restructuring initiatives were completed during the current fiscal year and no additional related charges were incurred.

## Operating Income

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Operating income	\$ 10,545	\$ 13,362	\$ 33,295	\$ 21,867
Non-recurring items	—	783	—	9,496
Adjusted operating income	\$ 10,545	\$ 14,145	\$ 33,295	\$ 31,363
<i>As a percentage of sales</i>				
Operating income	8.0%	8.9%	8.6%	5.3%
Adjusted operating income	8.0%	9.4%	8.6%	7.5%

As a percentage of sales, when compared to the same periods last fiscal year, operating income decreased this quarter and increased over the nine-month period as a result of the factors described above.

## Net Financial Expenses

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Interest on long-term debt	\$ 884	\$ 1,467	\$ 2,605	\$ 4,668
Net financial expense related to government loans	679	750	2,277	2,369
Interest income on cash and cash equivalents	(129)	(155)	(423)	(592)
Other interest expense	673	596	1,454	1,622
	\$ 2,107	\$ 2,658	\$ 5,913	\$ 8,067

The decreases in net financial expenses for the quarter and nine-month period mainly relate to a lower outstanding debt balance on the Corporation's revolving credit facilities and lower interest rates.

## Income Tax Expense

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Income before income tax expense	\$ 8,438	\$ 10,704	\$ 27,382	\$ 13,800
Income tax expense	1,970	2,218	6,701	2,789
Effective tax rate	23.3%	20.7%	24.5%	20.2%
Canadian blended statutory income tax rate	26.4%	26.5%	26.4%	26.5%

For the quarter ended December 31, 2021, the corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$0.7 million (\$0.8 million in Fiscal 2021), partially offset by the net non-recognition of tax benefits related to tax losses and permanent differences totaling \$0.6 million (\$0.2 million in Fiscal 2021). The effective income tax rate for the quarter ended December 31, 2021 also reflected favourable adjustments related to prior years totaling \$0.2 million.

For the nine-month period ended December 31, 2021, the Corporation's effective income tax rate mainly reflected the favourable impact of results in other tax jurisdictions of \$1.5 million (\$1.1 million in Fiscal 2021), partially offset by the net non-recognition of tax benefits related to tax losses and permanent differences totaling \$1.2 million (\$0.4 million in Fiscal 2021). The effective income tax rate for the nine-month period ended December 31, 2021 also reflected favourable adjustments related to prior years totaling \$0.2 million (\$0.2 million in Fiscal 2021).

## Net Income

Net income decreased from \$8.5 million to \$6.5 million during the quarter (or decreased from \$9.4 million to \$6.5 million excluding non-recurring items net of taxes) and increased from \$11.0 million to \$20.7 million (or increased from \$18.9 million to \$20.7 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.

## Earnings per Share

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Net income attributable to equity holders of the Corporation	\$ 6,468	\$ 8,600	\$ 21,066	\$ 11,110
Weighted-average number of common diluted shares outstanding, in thousands	35,741	36,510	36,405	36,425
Diluted earnings per share	\$ 0.18	\$ 0.24	\$ 0.58	\$ 0.31
Non-recurring items, net of taxes, in dollars per share	—	0.02	—	0.21
Adjusted earnings per share	\$ 0.18	\$ 0.26	\$ 0.58	\$ 0.52

## 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 net 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,	
	2021	2020	2021	2020
Operating income	10,545	13,362	33,295	21,867
Non-recurring items	—	783	—	9,496
Adjusted operating income	\$ 10,545	\$ 14,145	\$ 33,295	\$ 31,363

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,	
	2021	2020	2021	2020
Operating income	10,545	13,362	33,295	21,867
Amortization expense	9,149	9,586	27,605	31,959
Non-recurring items	—	783	—	9,496
Adjusted EBITDA	\$ 19,694	\$ 23,731	\$ 60,900	\$ 63,322

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,	
	2021	2020	2021	2020
Net income	\$ 6,468	\$ 8,486	\$ 20,681	\$ 11,011
Non-recurring items, net of taxes	—	879	—	7,854
Adjusted net income	\$ 6,468	\$ 9,365	\$ 20,681	\$ 18,865
Non-controlling interests <sup>(1)</sup>	—	(114)	(385)	(99)
Adjusted net income attributable to the equity holders of the parent	\$ 6,468	\$ 9,479	\$ 21,066	\$ 18,964
<i>In dollars per share</i>				
Earnings per share - basic and diluted	\$ 0.18	\$ 0.24	\$ 0.58	\$ 0.31
Non-recurring items, net of taxes	—	0.02	—	0.21
Adjusted earnings per share	\$ 0.18	\$ 0.26	\$ 0.58	\$ 0.52

<sup>(1)</sup> Following the acquisition of the minority interest in Tekalia during the third quarter of fiscal 2022, there is no further non-controlling interest accounted for. Refer to Purchase of Minority Interest and Business Divestiture under Additional Information for further details.

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, Héroux-Devtek 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 December 31, 2021 and March 31, 2021, the Corporation had US\$47.0 million drawn against the facility, worth \$59.6 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	December 31, 2021	March 31, 2021
Long-term debt <sup>(1)</sup>	\$ 245,388	\$ 252,998
Less: Cash and cash equivalents	86,836	95,470
Net debt position	\$ 158,552	\$ 157,528
Adjusted EBITDA <sup>(2)</sup> - trailing 12 months	85,875	88,297
Net debt to adjusted EBITDA ratio	1.8:1	1.8:1

<sup>(1)</sup> Excluding net deferred financing costs of \$2.4 million and \$2.3 million as at December 31, 2021 and March 31, 2021, respectively.

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

## VARIATIONS IN CASH AND CASH EQUIVALENTS

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Cash and cash equivalents at beginning of periods	\$ 103,217	\$ 78,719	\$ 95,470	\$ 45,841
Cash flows related to operating activities	17,498	26,723	53,150	57,623
Cash flows related to investing activities	(4,942)	(6,356)	(12,958)	(13,649)
Cash flows related to financing activities	(28,546)	(2,997)	(48,666)	6,167
Effect of changes in exchange rates on cash and cash equivalents	(391)	(589)	(160)	(482)
Cash and cash equivalents at end of periods	\$ 86,836	\$ 95,500	\$ 86,836	\$ 95,500

## 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,	
	2021	2020	2021	2020
Cash flows from operations	\$ 17,020	\$ 20,367	\$ 53,838	\$ 47,357
Net change in non-cash items	478	6,356	(688)	10,266
Cash flows related to operating activities	\$ 17,498	\$ 26,723	\$ 53,150	\$ 57,623

The decrease in cash flows from operations over the quarter compared to the same period last year is mainly the result of lower throughput, while the increase over the nine-month period mainly relates to last year's cash charges related to restructuring, partially offset by lower throughput. 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,	
	2021	2020	2021	2020
Accounts receivable	\$ (1,871)	\$ 10,182	\$ 12,185	\$ 29,649
Inventories	1,585	12,170	2,060	(176)
Other assets	3,414	2,630	412	3,191
Accounts payable and accrued liabilities	4,530	(13,310)	(3,192)	(26,737)
Provisions	(3,947)	(2,216)	(6,894)	1,831
Customer advances and progress billings	(731)	(1,203)	(2,841)	4,191
Other Liabilities	(2,502)	(1,897)	(2,418)	(1,683)
	\$ 478	\$ 6,356	\$ (688)	\$ 10,266

For the quarter ended December 31, 2021, the positive net change in non-cash items mainly reflects an increase in accounts payable due to the timing of purchase, partly offset by the utilization of restructuring provisions.

For the nine-month period ended December 31, 2021, the negative net change in non-cash items mainly reflects the utilization of restructuring provisions and seasonal decreases in account payable and accounts receivable related to a lower level of activity than during the fourth quarter of fiscal 2021.

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.

## Investing Activities

The Corporation's investing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Net additions to property, plant and equipment	\$ (5,197)	\$ (4,988)	\$ (12,907)	\$ (14,495)
Net change in finite-life intangible assets	836	(1,368)	(1,511)	846
Proceeds from a business divestiture	—	—	2,041	—
Proceeds on disposal of property, plant and equipment	319	—	319	—
Purchase of minority interest	(900)	—	(900)	—
Cash flows related to investing activities	\$ (4,942)	\$ (6,356)	\$ (12,958)	\$ (13,649)

Refer to *Purchase of Minority Interest and Divestiture* under *Additional Information* for details of these transactions.

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,	
	2021	2020	2021	2020
Additions to property, plant and equipment	\$ 5,802	\$ 6,710	\$ 11,525	\$ 15,428
Variation in unpaid additions included in Accounts payable and accrued liabilities	(200)	(480)	2,087	496
Non-cash additions made through leasing agreements	(405)	(1,242)	(705)	(1,429)
Additions, as per statements of cash flows	\$ 5,197	\$ 4,988	\$ 12,907	\$ 14,495

## Financing Activities

The Corporation's financing activities were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Increase in long-term debt	\$ 1,097	\$ 1,238	\$ 3,059	\$ 64,589
Repayment of long-term debt	(4,904)	(4,410)	(13,995)	(58,597)
Increase in deferred financing costs	—	—	(555)	—
Repurchase and cancellation of shares	(25,136)	—	(38,621)	—
Issuance of common shares	397	175	1,446	175
Cash flows related to financing activities	\$ (28,546)	\$ (2,997)	\$ (48,666)	\$ 6,167

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

For the nine-month period ended December 31, 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
Quarter ended December 31, 2021	1,396,190	18.00	25,136
Through February 8, 2022	140,000	17.05	2,387
<b>Total</b>	<b>2,295,634</b>	<b>\$ 17.86</b>	<b>\$ 41,008</b>

## FREE CASH FLOW<sup>(1)</sup>

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
Cash flows related to operating activities	\$ 17,498	\$ 26,723	\$ 53,150	\$ 57,623
Net additions to property, plant and equipment	(5,197)	(4,988)	(12,907)	(14,495)
Net change in finite-life intangible assets	836	(1,368)	(1,511)	846
Proceeds of disposal of property, plant and equipment	319	—	319	—
<b>Free cash flow</b>	<b>\$ 13,456</b>	<b>\$ 20,367</b>	<b>\$ 39,051</b>	<b>\$ 43,974</b>

<sup>(1)</sup> 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	December 31, 2021	March 31, 2021	Variance	
Current assets	\$ 411,645	\$ 434,769	\$(23,124)	(5.3)%
Current liabilities	174,984	193,369	(18,385)	(9.5)%
Working capital	\$ 236,661	\$ 241,400	\$(4,739)	(2.0)%
Working capital ratio	2.35	2.25		

The decrease in current assets is mainly explained by a \$13.0 million seasonal decrease in account receivable and an \$8.6 million decrease in cash as detailed in the *Variations in Cash and Cash Equivalents* section under *Liquidity and Capital Resources*.

The decrease in current liabilities is mainly explained by a \$8.4 million seasonal reduction in account payables and accrued liabilities combined with the \$4.7 million net utilization of provisions, mainly related to restructuring.

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

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

	December 31, 2021	March 31, 2021	Variance	
Long-term assets	\$ 393,711	\$ 418,515	\$(24,804)	(5.9)%
Long-term liabilities	258,833	268,183	\$(9,350)	(3.5)%
Shareholders' equity	\$ 371,539	\$ 391,732	\$(20,193)	(5.2)%
Net debt-to-equity ratio <sup>(1)</sup>	0.43:1	0.40:1		

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

The \$24.8 million decrease in long-term assets mainly relates to amortization, while the \$9.4 million reduction in Long-term liabilities mainly relates to schedule repayments of long-term debt.

The \$20.2 million reduction in Shareholder's Equity is mainly driven by the allocation of \$41.0 million to the NCIB, partly offset by net income.

# ADDITIONAL INFORMATION

## PURCHASE OF MINORITY INTEREST AND 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 £2.7 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.

During the quarter ended December 31st, 2021, Héroux-Devtek purchased the remaining 30% minority interest in Tekalia Aeronautik for \$0.9 million.

## 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, 2021	March 31, 2021
USD (Canadian equivalent of US\$1.0)	1.2678	1.2575
GBP (Canadian equivalent of £1.0)	1.7132	1.7337
EUR (Canadian equivalent of €1.0)	1.4391	1.4759

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,	
	2021	2020	2021	2020
USD (Canadian equivalent of US\$1.0)	1.2600	1.3030	1.2494	1.3402
GBP (Canadian equivalent of £1.0)	1.6991	1.7207	1.7175	1.7207
EUR (Canadian equivalent of €1.0)	1.4409	1.5537	1.4688	1.5457

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, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$367.1 million (\$268.7 million at March 31, 2021) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$249.6 million (US\$197.5 million at March 31, 2021) convertible into Canadian dollars at an average rate of 1.2892 (1.3161 at March 31, 2021). These contracts mature at various dates between January 2022 and March 2026, with the majority maturing this fiscal year and the next.

## Cross-currency interest rate swaps

As at December 31, 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 December 31, 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, and expires 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 December 31, 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
	Third Quarter	Second Quarter	First Quarter	Fourth quarter	Third Quarter	Second Quarter	First Quarter	Fourth quarter
Sales	\$ 131,147	\$ 131,293	\$ 126,188	\$ 154,989	\$ 150,298	\$ 137,063	\$ 128,335	\$ 166,800
Operating income (loss)	10,545	11,953	10,797	12,229	13,362	7,120	1,385	(64,426)
Adjusted operating income <sup>(1)</sup>	10,545	11,953	10,797	13,848	14,145	9,788	7,430	17,577
Adjusted EBITDA <sup>(1)</sup>	19,694	21,157	20,049	24,975	23,731	21,233	18,358	28,609
Net income (loss)	6,468	7,510	6,703	8,802	8,486	3,838	(1,313)	(72,113)
Adjusted Net Income <sup>(1)</sup>	6,468	7,510	6,703	10,169	9,365	6,118	3,382	13,695
<i>In dollars per share</i>								
Earnings (loss) per share - Basic & Diluted	\$ 0.18	\$ 0.21	\$ 0.19	\$ 0.24	\$ 0.24	\$ 0.11	\$ (0.04)	\$ (1.98)
Adjusted earnings per share <sup>(1)</sup>	0.18	0.21	0.19	0.28	0.26	0.17	0.09	0.38
<i>In thousands of shares</i>								
Weighted-average number of common diluted shares outstanding	35,741	36,576	36,981	36,523	36,510	36,379	36,367	36,364

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

### Seasonal trends

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



## RISKS AND UNCERTAINTIES

---

Héroux-Devtek operates in industry sectors that have a variety of risk factors and uncertainties. Risk and uncertainties that could materially affect the Corporation's business, financial condition and results of operations in an adverse manner are described in the Corporation's MD&A for the fiscal year ended March 31, 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

---

<b>ISSUED CAPITAL</b>	<b>February 8, 2022</b>
Common shares issued and outstanding	34,598,421
Stock options issued and outstanding	1,508,750

---

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

<b>EXPECTED ISSUANCE OF FINANCIAL RESULTS</b>	
Fiscal 2022	
Fourth quarter	May 19, 2022
Fiscal 2023	
First quarter	August 5, 2022
Second quarter	November 15, 2022
Third quarter	February 8, 2023

---

### Contact information

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

**February 8, 2022**