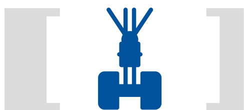
EQUIPPED TO WEATHER TURBULENCE

2020 Annual Report

Royal Canadian Air Force CC-295

"As much as our uniquely balanced profile has proven highly valuable through growth times in the aerospace industry, it will undoubtedly prove critical in our ability to weather the current storm and emerge faster and stronger from the downturn."

MARTIN BRASSARD, PRESIDENT & CEO



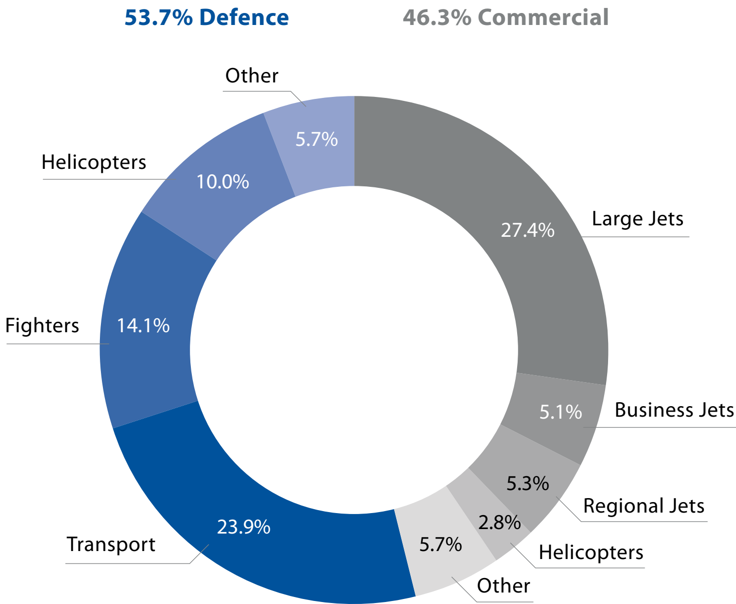
HÉROUX-DEVTEK AT A GLANCE

- Héroux-Devtek Inc. (traded on the Toronto Stock Exchange under the symbol "HRX") is an international aerospace provider specializing in the design, development, manufacture, repair and overhaul of aircraft landing gears, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components for the global market.
- Headquartered in Québec, Canada, Héroux-Devtek is the third-largest landing gear manufacturer in the world, supplying leading aerospace customers operating in both the commercial and defence sectors.
- In addition to its ability to manufacture complete landing gear systems and components to specification, Héroux-Devtek has built a strong reputation for its ability to support and service landing gear systems and components for a wide range of military and civil aircraft, including several out-of-production aircraft. Service offerings include complete maintenance, repair and overhaul, spares provisioning and supply, warranty administration and support, technical publications, as well as on-site technical support and training.
- Founded in 1942, Héroux-Devtek now employs some 1,950 dedicated people at its 18 Centers of excellence located in Canada, the United States, the United Kingdom and Spain.
- Héroux-Devtek is recognized for its forward thinking, its system integration accomplishments, its engineering prowess, its world-class service and above all, its excellence in execution.

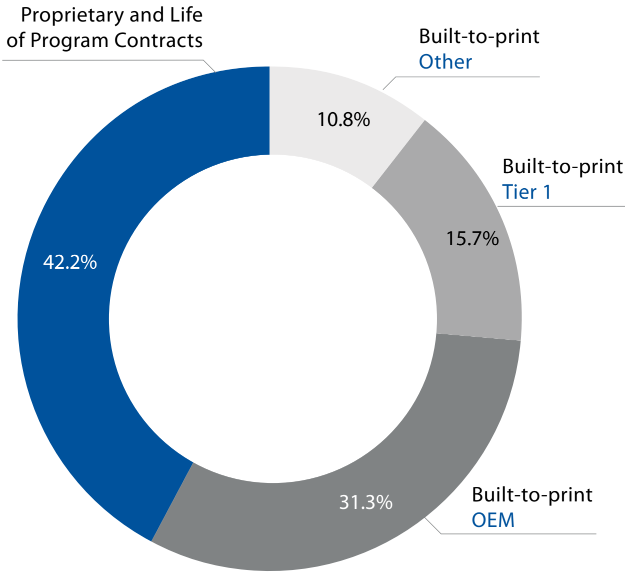
DIVERSIFIED AND BALANCED REVENUE MIX

(based on Fiscal 2020 sales)

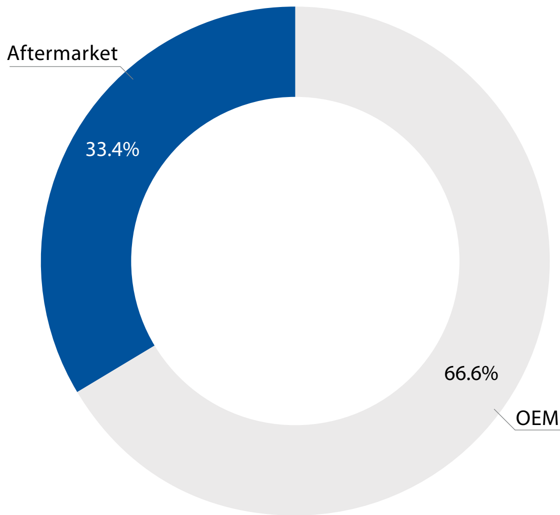
DEFENCE / COMMERCIAL



PROPRIETARY / BUILD-TO-PRINT LONG TERM AGREEMENT



OEM/AFTERMARKET



DIVERSIFIED CUSTOMER BASE

The Corporation serves a broad range of customers in the different markets in which it operates, mainly OEMs and second-tier system suppliers.

Its customers include Airbus, BAE Systems, Boeing, Dassault Aviation, Embraer, Leonardo, Lockheed Martin, Safran Landing Systems, Northrop-Grumman, Saab, Sikorsky, Textron and the U.S. Government, among others.

FINANCIAL HIGHLIGHTS

FISCAL YEARS ENDED MARCH 31	2020	2019	2018	2017	2016
OPERATING RESULTS	(in millions of dollars except per share data and ratios)				
Sales	**613.0**	483.9	386.6	406.5	406.8
Operating income (loss)	**(30.1)**	37.2	23.4	35.6	37.8
Adjusted operating income [(1)]	**52.5**	41.6	30.3	35.9	39.3
Adjusted EBITDA [(1)]	**96.2**	74.2	56.9	61.4	64.1
Net income (loss)	**(50.7)**	26.2	13.7	31.8	26.6
Adjusted net income [(1)]	**35.7**	30.4	24.2	26.4	27.7
Cash flows related to operating activities	**52.6**	70.0	56.1	56.1	6.8
Free cash flow [(1)]	**30.3**	58.6	50.8	33.0	(66.3)
Funded backlog	**810.0**	624.0	466.0	405.0	460.0
FINANCIAL POSITION					
Cash and cash equivalents	**45.8**	35.1	93.2	42.5	19.3
Working capital	**205.4**	173.1	201.9	165.1	150.5
Total assets	**898.8**	872.8	632.2	607.3	609.4
Long-term debt [(2)]	**292.7**	263.3	132.0	134.8	147.2
Shareholders' equity	**349.4**	404.1	379.0	355.9	331.1
PER SHARE DATA					
EPS – basic and diluted (loss)	**(1.38)**	0.73	0.38	0.88	0.74
Adjusted EPS [(1)]	**1.00**	0.84	0.67	0.73	0.77
Average number of shares outstanding (diluted, in 000's)	**36,363**	36,437	36,332	36,284	36,119
FINANCIAL RATIOS					
Adjusted EBITDA [(1)] margin	**15.7%**	15.3%	14.7%	15.1%	15.7%
Working capital ratio	**1.95**	1.93	2.86	2.58	2.34
Net debt-to-equity [(3)]	**0.71**	0.56	0.10	0.26	0.39

[(1)] These are non-IFRS measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

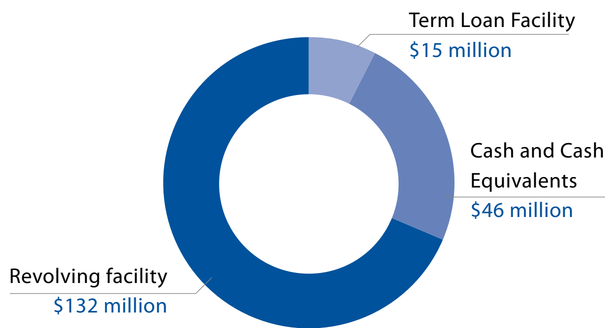
[(2)] Including the current portion, but excluding net deferred financing costs.

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

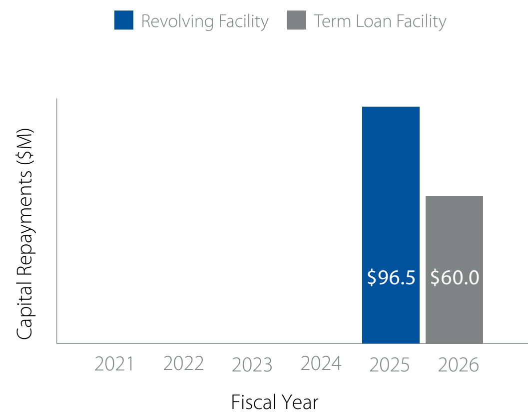
INVESTMENT HIGHLIGHTS

SOLID FINANCIAL POSITION TO WITHSTAND TURBULENT TIMES.
AVAILABLE LIQUIDITY, CASH FLOW GENERATION AND IMPROVED DEBT MATURITY PROFILE.

$193 MILLION OF AVAILABLE LIQUIDITY AS AT MARCH 31, 2020

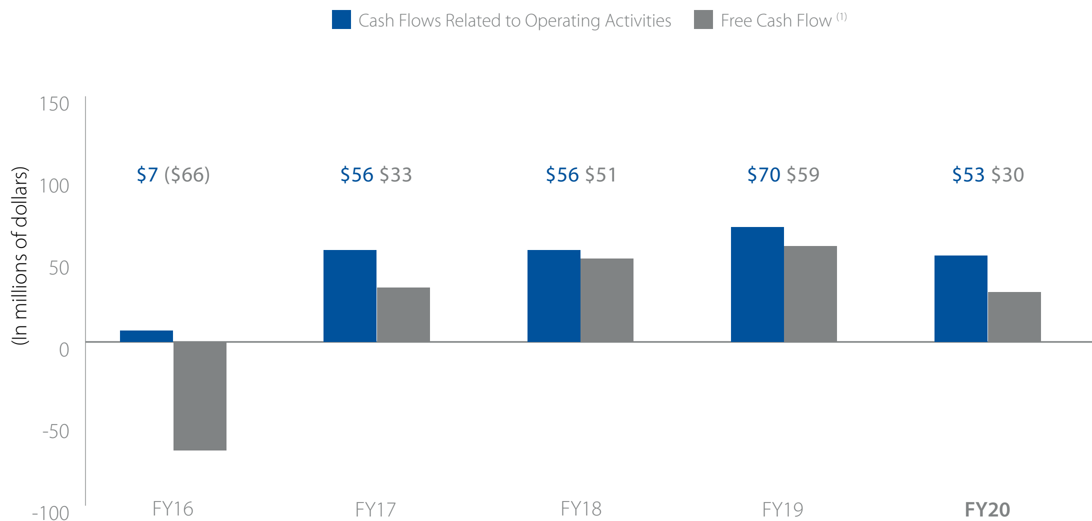


DEBT MATURITY PROFILE



MAINTAINING STRONG CASH FLOWS

(in millions of dollars)



[1] These are non-IFRS measures. Please refer to the "Non-IFRS financial measures" section of the MD&A under Operating Results for definitions and reconciliations to the most comparable IFRS measures.

EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS MESSAGE TO SHAREHOLDERS

BETTER POSITIONNED THAN EVER BEFORE TO FACE A CRISIS OF UNPRECEDENTED MAGNITUDE

Dear Shareholders,

By virtually any metric, the crisis we are currently experiencing is the most serious and sudden one to have hit the aerospace industry since at least the early-1980s when I originally entered the sector.

The early 1990s were particularly challenging for the industry, which was hit on several fronts. The end of the Cold War led to a significant reduction in the defence budgets of several superpowers globally, while stagflation in the early 1990s resulted in a 27% decrease in commercial air travel. Following this, the industry entered a phase of consolidation, resulting in mergers that spawned many of the large aerospace companies that lead the market today.

In the early 2000s, the events of September 11, 2001 challenged the industry with a 20% decrease in air traffic due to a loss of passenger confidence and an increase in air travel costs due to enhanced security which persists today. Finally, the 2007-2008 financial crisis led to a significant drop in demand for commercial sector products due to lower air traffic. This drop was short-lived however, as the super cycle in the aerospace industry that had begun following the market recovery in 2003 lasted for 18 years until the current pandemic brought it to an end.

WHAT MAKES THE CURRENT CRISIS DIFFERENT FOR HÉROUX-DEVTEK

In comparison, the magnitude of the current crisis has been much more significant. Air traffic all but stopped in April, with a 95% drop in passenger traffic as compared to April of 2019, and the International Air Transport Association (IATA) currently forecasts a 48% decline overall in 2020 over 2019.

The measures taken by governments to stop the spread of the COVID-19 virus, such as the closure of borders, have led to this drastic decrease in air traffic. Deprived of a key portion of their revenues, many airlines are experiencing financial difficulties, forcing several to delay orders for new commercial aircrafts. These delays, particularly in the large commercial aircraft segment, have had an impact on OEMs, which in turn have had to reduce their production rates by more than 40%.

Beyond the challenges faced in the commercial segment, defence spending is expected to remain strong in the year ahead, with fighter jets specifically forecasted to continue to grow. Our presence in this market will help sustain our operations while the commercial market recovers.

While we are facing a larger crisis, Héroux-Devtek is not the same business it was when we faced earlier challenges. Our growth over the last years has brought several key changes that make me very confident that we will be able to overcome the current downturn, continuing to generate strong free cash flows and largely protecting our profitability across each of our business units.

Today, we commercialize complete landing gear systems and actuators, as opposed to components of landing gears like in the past. This means we serve OEMs directly, in addition to key Tier 1 suppliers, which, along with the higher complexity of our product, reduces our vulnerability to potential repatriation by customers. 40% of our sales are now also derived from products for which we own the intellectual property.

In addition, the diversity of the products we manufacture, which can equip several types of aircraft in both the defence and commercial aviation markets and our presence in both North America and Europe allow us to reach a larger market and gives us access to a diversity of clienteles. This is exemplified by our firm order backlog, which reached $810 million at year-end, two thirds of which is related to the more stable defence segment.

IN THE FACE OF ADVERSITY: RESILIENCE IS ONE OF OUR CORE VALUES

What's also historically been a distinctive attribute of the culture we have built is the resilience of our management team and employees. As one of our core values, resilience has helped us weather recessions and downturns in the past. Each time, we have been able to emerge as a stronger, more experienced organization.

While the scope and magnitude of the COVID-19 disruptions may be unprecedented, it still calls for the same disciplined approach of proactive decision-making, careful planning and resilience. The clear and decisive actions taken by management to adjust production capacity, lower costs, and access strong liquidities are a clear demonstration of this.

Leveraging the strong governance practices and exceptional multidisciplinary expertise at the Board level, we will remain on the lookout for market movements caused by the crisis and will be ready to act in order to take advantage of any strategic opportunities that arise, including through acquisitions.

A STRONG MANAGEMENT TEAM

I would like to thank Martin Brassard, the entire management team and our dedicated employees for the excellent fiscal year that we have just completed and the strategies swiftly deployed to deal with the turbulence.

I would also like to thank each member of the Board of Directors for their support and the quality of their contribution throughout the year, as well as our valued shareholders for their continued trust.

While we don't know with certainty the speed at which passenger traffic demand will return to more normal patterns, we do know that Héroux-Devtek could not have entered this downward market with an overall better structure, vision, market position and team.

GILLES LABBÉ
EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS

PRESIDENT & CEO MESSAGE TO SHAREHOLDERS

EQUIPPED TO FACE MORE CHALLENGING TIMES ON THE HEELS OF A RECORD YEAR

Dear Shareholders,

In June 2019, I proudly became CEO of Héroux-Devtek. The Company was in a great position, with strong cash flows and solid orders from our civil and defence customers around the world. We had recently made acquisitions which both reinforced our position in our markets and opened up new avenues for expansion. Fiscal 2020 was also a solid year of organic growth and, as a result, our sales reached an all-time high at $613 million, an increase of 26.7% over last year.

And then, the Covid-19 pandemic struck, harming economies around the world to an unprecedented degree. The civil aviation industry was hurt tremendously, forcing us to revise our growth forecasts; we therefore recorded $86 million of non-cash impairment charges, which resulted in a net loss of $51 million. If we exclude these charges, our earnings per share were at a record high of $1.00, compared to $0.84 last year.

OUR INDUSTRY REALITY WITH COVID-19

Over a short period of time, we had to make important adjustments to adapt to the new reality. Our Company was deemed an essential service; so, we promptly developed security measures to protect our employees while they worked during the pandemic. Our first operations to face COVID-19 were in Spain where our local team put in place excellent security measures that we were able to emulate in our 17 other plants around the world. Thanks to our quick reaction and effective protocols, I am proud to confirm that we have not had any virus transmission within any of our facilities.

The pandemic had a huge impact on commercial airlines, which grounded most of their fleet, facing a year-over year demand decrease of 95% in the month of April. We had to adjust our manufacturing capacity to the realities of the market, resulting in a 10% workforce reduction and the closure of our Montreal facility. These difficult decisions will allow us to maintain our competitive cost base and remain profitable as we weather the storm.

Boeing MQ-25 Unmanned Aerial Refueler

LOOKING INTO THE FUTURE: EQUIPPED TO WEATHER THE STORM

There are four main reasons why Héroux-Devtek is in a strong position to face this storm and come out stronger than ever.

First, we have a strong financial position and a very healthy balance sheet. Our liquidity at year-end stood at $195 million and we expect to continue generating positive cash flow in fiscal 2021. As well, we extended our revolving credit facility to December 2024, giving us flexibility we may need in the future.

Second, we have a strong backlog valued at $810 million, with two thirds coming from the defence market. This sector is widely expected to be relatively untouched by the effects of the pandemic. Our defence order book is diversified by segment and by geography: it includes fighter jets, cargo aircraft and helicopters from various OEMs and governments across North America and Europe.

Thirdly, our defence sales should increase year over year as we are entering the ramp-up phase of several important new platforms for Héroux-Devtek. We will deliver our first F/A-18 main landing gear system to Boeing later this year, a program with many opportunities both for new aircraft and aftermarket requirements. We are also developing the complete landing gear system for its MQ-25 unmanned tanker. In addition, we expect growth from programs that are entering into service, such as the Sikorsky CH 53K and the Saab Gripen E.

Fourthly, the depth and breadth of our management team and our talented employees will continue to play a key role in the resilience and success of our Company. Héroux-Devtek was founded in 1942, and, to this day, its employees have always been its strength. I want to take this opportunity to thank each and every one of them for their dedication, commitment and support.

FINAL WORDS

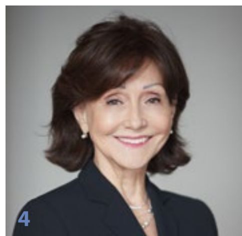
Taking over from Gilles last year was a humbling experience. Héroux-Devtek is now the third-largest landing gear manufacturer in the world and has strong relationships with aircraft manufacturers, governments and suppliers. This is no small feat under any circumstances and is the result of Gilles' efforts, along with the hard work of the senior management team and dedicated employees. I would like to thank our clients and suppliers for the trust and partnership that they continue to place in us.

Finally, I would like to thank our Board members for their continued support, as well as the quality of their advice as we continue in this new market environment. Together, we, including employees, management and board members, will weather the storm and come out stronger and better than ever.

MARTIN BRASSARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

Héroux-Devtek's Board of Directors is composed of eight members from various sectors, including the aerospace industry and the business world, providing the management team with a comprehensive and experience-rich perspective.



1 **Gilles Labbé**
Executive Chairman of the board
Non-independent board member since 1985

2 **Nathalie Bourque**
Corporate Director and consultant
Independent board member since 2015
Member of the Audit Committee

3 **Martin Brassard**
President and Chief Executive Officer
Non-independent board member since 2019

4 **Paule Doré**
Corporate Director
Independent board member since 2010
Chair of the Human Resources and Corporate Governance Committee

5 **Louis Morin**
President, Busrel Inc.
Independent Director since 2008
Chair of the Audit Committee

6 **James J. Morris**
Corporate Director and consultant
Independent Director since 2013
Member of the Human Resources and Corporate Governance Committee

7 **Brian A. Robbins**
Executive Chairman, Exco Technologies Limited
Lead Director, Independent board member since 2000
Member of the Human Resources and Corporate Governance Committee

8 **Beverly Wyse**
Corporate Director and consultant
Independent Director since 2019
Member of the Audit Committee

One year anniversary of the closing of the CESA acquisition

STRATEGIC PILLARS AND CORPORATE PRIORITIES

FINANCIAL

MAXIMIZE SHAREHOLDER VALUE

- Seize growth opportunities even through challenging times
- Control costs strategically
- Extract operational leverage
- Further deleverage our balance sheet

OPERATIONAL

FOCUS ON EXCELLENCE

- Maintain the best operational track record
- Remain partners of choice for customers
- Deliver excellence
- Implement best-in-class processes and technologies
- Leverage position as global supplier

EMPLOYEES

FOSTER OUR INTRAPRENEURIAL CULTURE

- Resilience
- Respect
- Responsibility
- Recognition

CUSTOMERS

EXCEED EXPECTATIONS

- Reliability
- Quality
- Commitment
- Agility

FEATURED SUPPLY CONTRACTS

1

2

COMMERCIAL

1 Boeing 777 and 777X
Héroux-Devtek supplies complete landing gear systems and spare parts for commercial jets. In addition to the ongoing delivery of the Boeing 777 aircraft to customers worldwide, Boeing has made significant progress this past year towards the entry into service slated for 2021 of its much awaited 777X model, which will be the world's largest twin-engine jet. The first flight of the Boeing 777X was successfully completed in January 2020 and significant additional milestones have been reached since.

2 Dassault F6X
Héroux-Devtek supplies the landing gear systems for Dassault Aviation's Falcon 6X as part of a design, manufacturing and life cycle contract. Capable of flying 5,500 nm (10,186 km), the Falcon 6X is the most spacious, modern and agile jet in business aviation.

DEFENCE

3 Sikorsky CH-53K
Héroux-Devtek supplies the landing gear systems for the new Sikorsky CH-53K King Stallion heavy lift helicopter as part of a design, manufacturing and life cycle contract. Currently in its final stage of development test – expected to carry through to the end of 2020, the CH-53K will be the most powerful and heaviest-lifting helicopter ever used by the U.S. Marine Corps.

4 Lockheed Martin C-130J Super Hercules
Engineered and commercialized by Lockheed Martin, the C-130J Super Hercules is one of the most widely used military transport aircraft, particularly for humanitarian missions. Héroux-Devtek has been involved for over three decades in support of Lockheed Martin's military program. For the C-130J, Héroux-Devtek manufactures and assembles the landing gear for Lockheed Martin's global production and provides spare parts over a five-year period which began in January 2020.

5 Boeing F-18
In early Fiscal 2020, Héroux-Devtek concluded a new agreement to supply the main landing gear for the Boeing F/A-18E/F Super Hornet and its derived version, the EA-18G Growler. The agreement includes the supply of spare parts and aftermarket services. The F-18 delivers cutting edge, next-generation multi-role strike fighter capability. Delivery of the first shipset is expected in late calendar 2020.

6 Saab Gripen E
Héroux-Devtek supplies the complete landing gear systems for Saab's Gripen E fighter aircraft as part of a design, manufacturing and life cycle contract. The contract covers a total of 96 aircraft representing firm orders for Gripen E from the Swedish and Brazilian Air Forces. The contract also includes the supply of spare parts. The Gripen E entered into production in 2019.

7 Boeing MQ-25
When it goes into service, the MQ-25 drone will become the U.S. Navy's first operational carrier-based unmanned aircraft. A demonstration of engineering prowess, the MQ-25 was designed to provide in-flight refuelling capability. Héroux-Devtek's contract supports Boeing's engineering and manufacturing development program with the initial objective to provide four MQ-25 aircraft to the U.S. Navy for Initial Operational Capability by 2024. In April 2020, the US Navy has awarded Boeing a new contract to acquire three more MQ-25 tankers, bringing the program's total to seven aircraft.

VanderWolf Images - stock.adobe.com

4

7

5

3

6

GLOBAL CENTERS OF EXCELLENCE

Through a combination of organic development and strategic acquisitions over the years, Héroux-Devtek has built a strong, industry-leading diversified production capacity across its 18 Centers of excellence in North America and Europe. In addition to being ideally located in close proximity to partner and supplier plants, our sites are often within close range of our customers' assembly or maintenance facilities, thereby simplifying deliveries and enabling optimal customer service experiences.

CANADA

1 **St-Hubert, Québec**
Design, engineering and product support. Technical expertise and state-of-the-art testing facility

2 **Longueuil, Québec**
Repair and overhaul activities, finishing and assembly of landing gear

3 **Laval, Québec**
Manufacturing and assembly of actuators. Manufacturing of high precision, small and medium landing gear components

4 **Montréal (Anjou), Québec (Alta Précision)**
Manufacturing of medium complex landing gear components

5 **Montréal (Pointe aux trembles), Québec (Tekalia Aeronautik)**
Surface treatment services

6 **Kitchener, Ontario**
Manufacturing of medium to large complex landing gear components

7 **Cambridge, Ontario**
Manufacturing of ultra-large-scale complex landing gear components

8 **Scarborough, Ontario**
Electronic enclosures, heat exchangers and cabinets

USA

9 Strongsville, (Greater Cleveland), Ohio
Finishing and assembly of landing gear

10 Springfield, Ohio
Manufacturing of medium to large complex landing gear and titanium components

11 Wichita, Kansas
Repair & Overhaul activities and manufacturing of hydraulic systems and components

12 Everett, Washington
Final assembly of Boeing 777/777X landing gear systems

13 Livonia, Michigan (Beaver Aerospace and Defence)
Design and manufacturing of ball screws and electro-mechanical linear actuation systems

UNITED KINGDOM

14 Nottingham, Nottinghamshire
Manufacturing of small to medium landing gear components

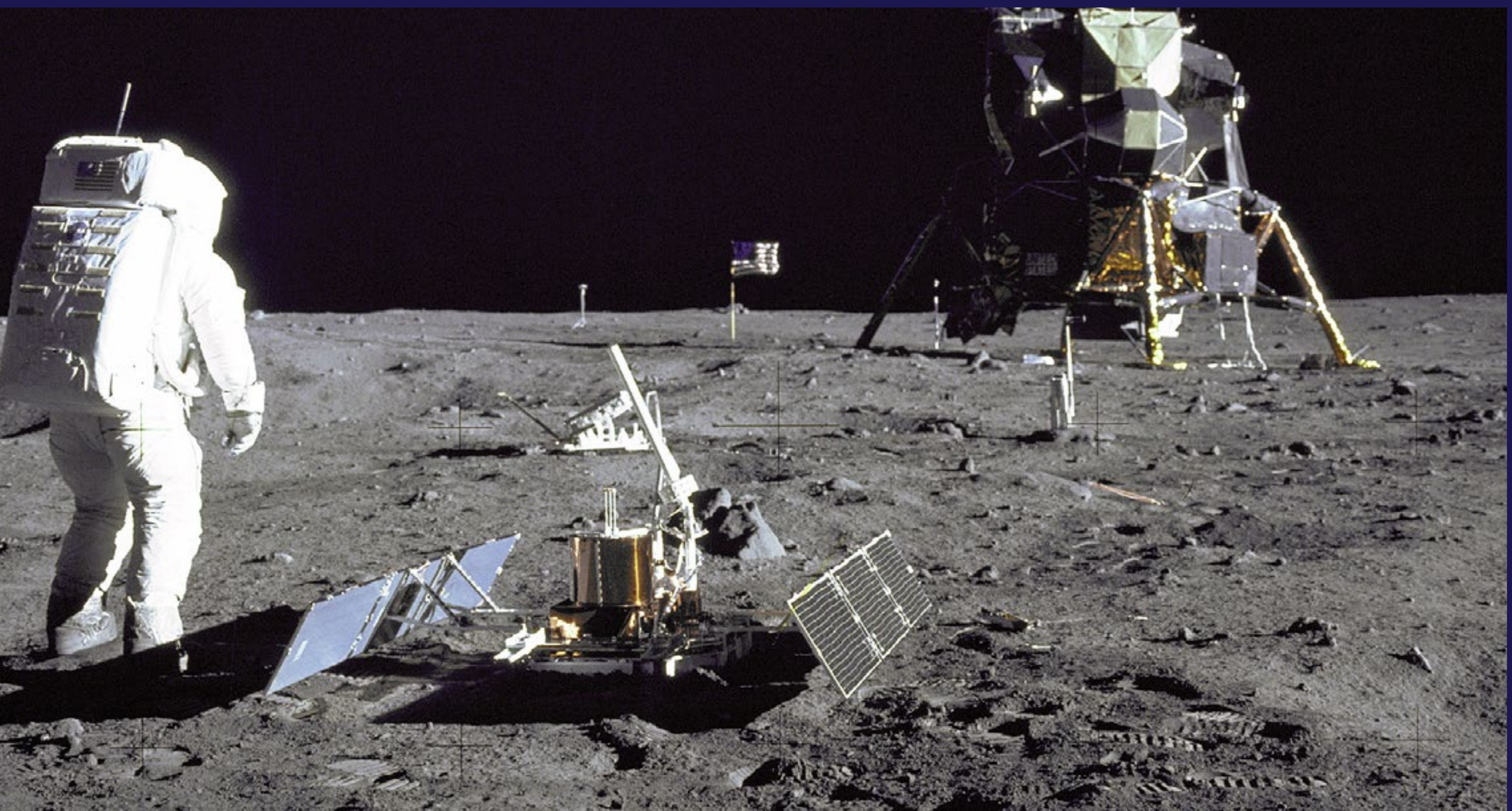
15 Runcorn, Cheshire
Repair and overhaul activities, finishing and assembly of landing gear, product support, testing and design engineering

16 Bolton, Westhoughton
Design, manufacturing, assembly and testing of fluid filtration applications

SPAIN

17 Seville (CESA – Compañia Española de Sistemas Aeronáuticos, S.A.)
Assembly and installation of aircraft components at customer assembly lines

18 Getafe (CESA – Compañia Española de Sistemas Aeronáuticos, S.A.)
Design, engineering, assembly and support for landing gear and actuation systems



FIFTY YEARS ON THE MOON

The year 2019 marked the 50th anniversary of Héroux-Devtek's presence on the moon. Or rather, the presence, on the moon, of a landing gear manufactured by Héroux-Devtek. The company, then called Héroux Machine Parts Limited, was retained by NASA to build the landing gear for the lunar module that would land on the moon with astronauts Neil Armstrong and Buzz Aldrin on board.

The company was awarded the contract at the end of 1965, a contract worth $350,000. The order was for the construction of the landing gear legs for the lunar module, which were to be in the shape of "spider legs." This NASA specification was based on the dual role that the landing gear would play. In addition to allowing the lunar module to land on the moon's surface, the landing gear was also meant to serve as a launch pad to propel the module to its rendezvous point.

In all, the Héroux-Devtek team delivered 17 sets of four legs for some 15 lunar modules. Héroux-Devtek's landing gear equipped lunar modules for all Apollo missions. In total, there have been six missions that have brought astronauts to the lunar surface. Some half a century later, the landing gears used for these missions are still on the moon in six different locations.

It took a lot of ingenuity to design and manufacture the parts requested according to NASA's very detailed and precise specifications. But Héroux-Devtek's team rose to the challenge, a testament to their expertise. This mission became a calling card for the Company on the international scene and continues to be part of its identity today.

To mark this event, Canada Post has issued two commemorative stamps in honour of the 50th anniversary of the Apollo 11 mission and the Canadians who contributed to the success of this historic accomplishment.

CORPORATE TEAM

Gilles Labbé
Executive Chairman of the Board

Martin Brassard
President and Chief Executive Officer

Stéphane Arsenault
Vice-President and Chief Financial Officer

Jean Gravel
Vice-President, Sales & Programs

Stéphane Rainville
Vice-President, Human Resources

Alexandre Verdon
Vice-President, Business Development

Patrick Gagnon
Vice-President, Corporate Controller

Julie Lapointe
Director, Financial Reporting

Olivier Perron
Director, Tax

Steve Plourde
Director, Internal Audit & Corporate Governance

Jean-Philippe Sanche
Director, Legal Affairs

OPERATIONS MANAGEMENT TEAM

Jack Curley
Vice-President, Central Region

Dominique Dallaire
Vice-President, Eastern Region

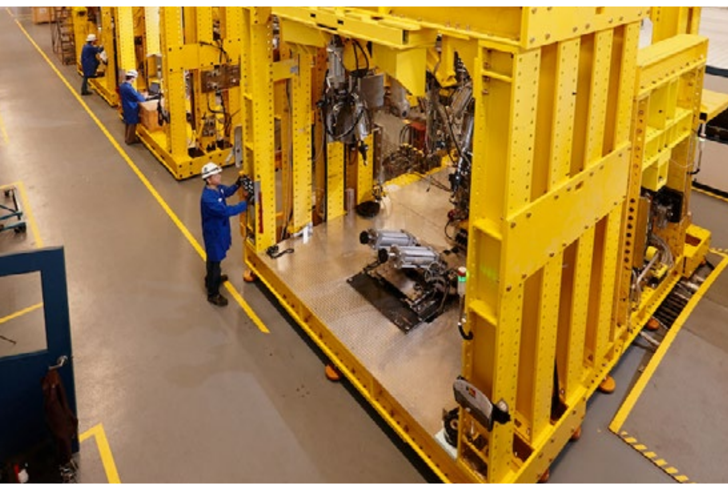
Marc-Olivier Gagnon
Vice-President Product Support

José Leal
Managing Director, CESA

Mike Meshay
Vice-President, Beaver, Magtron and Wichita

Daniel Normandin
Vice-President Engineering, QA & Environments

Gaétan Roy
Managing Director, UK



SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

August 7, 2020 at 10:00 A.M. Held virtually via webcast. The webcast can be accessed through the Events section of our website www.herouxdevtek.com/en/news-events/events or directly at https://web.lumiagm.com/105412381.

REGISTRAR AND TRANSFER AGENT

Computershare Trust
1500 Robert-Bourassa Street, 7th Floor
Montréal (Québec) Canada H3A 3S8
514 982-7555 /1 800 564-6253

AUDITORS

Ernst & Young LLP
900 de Maisonneuve Boulevard West, Suite 2300
Montréal (Québec) H3A 0A8
514 875-6060

SHARE LISTING

Shares are traded on the Toronto Stock Exchange

Ticker Symbol: HRX

INVESTOR RELATIONS

Héroux-Devtek Inc.
450 679-3330
ir@herouxdevtek.com

Hugo Delorme
514 700-5550, extension 555
hdelorme@mercureconseil.ca

HEROUXDEVTEK.COM

CONTACT INFORMATION

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

CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2020

HÉROUX DEVTEK

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2020

TABLE OF CONTENTS

Management's report 4
Independent Auditor's report 5
Consolidated financial statements 7
Notes to the consolidated financial statements 12

- Note 1 Nature of activities and corporate information 12
- Note 2 Basis of preparation 12
- Note 3 Significant accounting policies 13
- Note 4 Significant accounting estimates and assumptions 23
- Note 5 Business acquisitions 24
- Note 6 Sales and backlog 27
- Note 7 Government assistance 28
- Note 8 Cost of sales, selling and administrative expenses 28
- Note 9 Net financial expenses 28
- Note 10 Non-recurring items 29
- Note 11 Earnings per share 29
- Note 12 Inventories 29
- Note 13 Derivative financial instruments 30
- Note 14 Other assets 30
- Note 15 Property, plant and equipment 31
- Note 16 Finite-life intangible assets 33
- Note 17 Goodwill 34
- Note 18 Accounts payable and accrued liabilities 35
- Note 19 Provisions 35
- Note 20 Long-term debt 35
- Note 21 Other liabilities 37
- Note 22 Issued capital 37
- Note 23 Accumulated other comprehensive income 40
- Note 24 Income taxes 40
- Note 25 Pension and other retirement benefit plans 42
- Note 26 Commitments 45
- Note 27 Contingencies 45
- Note 28 Net change in non-cash items 45
- Note 29 Geographic information 46
- Note 30 Executive compensation 46
- Note 31 Financial instruments 46
- Note 32 Financial risk management 47
- Note 33 Capital risk management 50
- Note 34 Subsequent Events 50

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management Discussion and Analysis ("MD&A") of Héroux-Devtek Inc. (the "Corporation") are the responsibility of management and have been reviewed and approved by its Board of Directors. The accompanying consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). The MD&A has been prepared in accordance with the requirements of Canadian securities regulators. The consolidated financial statements and MD&A include items that are based on best estimates and judgments of the expected effects of current events and transactions. Management has determined such items on a reasonable basis in order to ensure that the consolidated financial statements and MD&A are presented fairly in all material respects. All figures presented in these consolidated financial statements are expressed in thousands of Canadian dollars unless otherwise indicated.

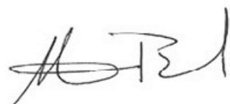
Héroux-Devtek Inc.'s Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting, the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been made known to them and has been properly disclosed in the accompanying consolidated financial statements and MD&A. Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as of the end of fiscal year 2020. As of March 31, 2020, management has concluded that the ICFR and DC&P effectively provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS and that material information related to the Corporation has been disclosed in the consolidated financial statements and MD&A. Also, based on this assessment, the CEO and the CFO determined that there were no material weaknesses in the ICFR and DC&P. However, due to their inherent limitation, certain misstatements may not be prevented or detected by ICFR.

Héroux-Devtek Inc.'s CEO and CFO have provided a certification related to Héroux-Devtek Inc.'s annual disclosure documents to the Canadian Securities Administrators in accordance with Regulation 52-109, including the consolidated financial statements and MD&A.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and MD&A. The Board of Directors carries out this responsibility principally through its Audit Committee. The Audit Committee is appointed by the Board of Directors and consists entirely of independent and financially literate directors.

The Audit Committee meets periodically with management, as well as with the external auditors, to review the consolidated financial statements, the external auditors' report, MD&A, auditing matters and financial reporting issues, to discuss ICFR and DC&P, and to satisfy itself that each party is properly discharging its responsibilities. In addition, the Audit Committee has the duty to review the appropriateness of the accounting policies and significant estimates and judgments underlying the consolidated financial statements as presented by management, and to review and make recommendations to the Board of Directors with respect to the fees of the external auditors. The Audit Committee reports its findings to the Board of Directors for its consideration when it approves the consolidated financial statements and MD&A for issuance to Shareholders.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Shareholders. The external auditors have full and free access to the Audit Committee to discuss their audit and related matters.



Martin Brassard
President and Chief Executive Officer

Stéphane Arsenault, CPA, CA
Vice-President and Chief Financial Officer

May 20, 2020

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF HÉROUX-DEVTEK INC.

Opinion

We have audited the consolidated financial statements of Héroux-Devtek Inc. and its subsidiaries (the Group), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, and the consolidated statements of income (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in shareholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If based on the work we will perform on this other information, we conclude there is a material misstatement of other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Wajih Chemali.

Ernst + Young LLP [1]

Ernst & Young LLP
Montréal, Québec
May 20, 2020

[1] CPA Auditor, CA, public accountancy permit no. A121006

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2020	March 31, 2019
Assets	20		
Current assets			
Cash and cash equivalents		$ 45,841	$ 35,128
Accounts receivable		112,558	115,431
Income tax receivable		1,291	2,393
Inventories	12	241,119	184,035
Derivative financial instruments	13	28	783
Other current assets	14	21,213	21,349
		422,050	359,119
Property, plant and equipment, net	3, 15	259,641	227,954
Finite-life intangible assets, net	3, 16	64,047	69,377
Derivative financial instruments	13	3,498	5,816
Deferred income tax assets	24	19,698	14,575
Goodwill	17	120,773	189,012
Other long-term assets	14	9,141	6,914
Total assets		$ 898,848	$ 872,767
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	18	$ 126,488	$ 117,990
Provisions	19	27,679	26,972
Customers advances and progress billings		34,885	21,919
Income tax payable		1,403	1,911
Derivative financial instruments	13	9,321	2,134
Current portion of long-term debt	3, 20	16,857	15,066
		216,633	185,992
Long-term debt	3, 20	272,760	245,240
Provisions	19	19,527	16,789
Derivative financial instruments	13	14,667	1,317
Deferred income tax liabilities	24	8,812	6,354
Other liabilities	21	17,001	12,977
		549,400	468,669
Shareholders' equity			
Issued capital	22	79,757	79,676
Contributed surplus		5,792	4,707
Accumulated other comprehensive income	23	7,160	10,502
Retained earnings		255,221	307,101
Total equity attributable to the equity holders of the parent		347,930	401,986
Non-controlling interests		1,518	2,112
		349,448	404,098
Total liability and shareholder's equity		$ 898,848	$ 872,767

Commitments and Contingencies (notes 26 and 27)

Subsequent event (note 34)

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

On behalf of the Board of Directors

Louis Morin

Director

Gilles Labbé

Director

CONSOLIDATED STATEMENTS OF (LOSS) INCOME

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

For the fiscal years ended March 31,	Notes	2020	2019
Sales	6, 29	$ 612,996	$ 483,877
Cost of sales	7, 8, 12	509,876	400,681
Gross profit		103,120	83,196
Selling and administrative expenses	7, 8	50,572	41,633
Non-recurring items	10	82,618	4,323
Operating (loss) income		(30,070)	37,240
Net financial expenses	9, 10	7,846	6,811
Income (loss) before income tax expense		(37,916)	30,429
Income tax expense	10, 24	12,742	4,235
Net (loss) income		$ (50,658)	$ 26,194
Attributable to:			
Equity holders of the parent		(50,113)	26,447
Non-controlling interests		(545)	(253)
		$ (50,658)	$ 26,194
(Loss) earnings per share – basic and diluted	11	$ (1.38)	$ 0.73

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2020	2019
Other comprehensive loss:			
Items that may be reclassified to net (loss) income			
Gains (losses) arising from conversion of the financial statements of foreign operations	23	$ 15,579	$ (850)
Cash flow hedges:	23		
Net losses on valuation of derivative financial instruments		(17,990)	(3,362)
Net losses on derivative financial instruments transferred to net income		1,376	906
Deferred income taxes		4,484	660
		(12,130)	(1,796)
Losses on hedges of net investments in foreign operations	23	(7,168)	(1,221)
Deferred income taxes		377	152
		(6,791)	(1,069)
Items that are never reclassified to net (loss) income			
Defined benefit pension plans:	25		
Losses from remeasurement		(2,398)	(2,487)
Deferred income taxes		631	656
		(1,767)	(1,831)
Other comprehensive loss		$ (5,109)	$ (5,546)
Comprehensive (loss) income			
Net (loss) income		$ (50,658)	$ 26,194
Other comprehensive loss		(5,109)	(5,546)
Comprehensive (loss) income		$ (55,767)	$ 20,648
Attributable to:			
Equity holders of the parent		(55,222)	20,901
Non-controlling interests		(545)	(253)
		$ (55,767)	$ 20,648

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars)

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity attributable to the equity holders of the parent	Non-Controlling interests	Total Shareholders' equity
Balance as at March 31, 2019		$79,676	$4,707	$10,502	$307,101	$401,986	$ 2,112	$404,098
Common shares issued under the stock option plan	22	81	(23)	—	—	58	—	58
Stock-based compensation expense	22	—	1,108	—	—	1,108	—	1,108
Purchase of minority interests in Tekalia	5	—	—	—	—	—	(544)	(544)
Capital contribution from a non-controlling interest in a subsidiary		—	—	—	—	—	495	495
Net loss		—	—	—	(50,113)	(50,113)	(545)	(50,658)
Other comprehensive loss	23	—	—	(3,342)	(1,767)	(5,109)	—	(5,109)
Balance as at March 31, 2020		$79,757	$5,792	$ 7,160	$255,221	$347,930	$ 1,518	$349,448

	Notes	Issued capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity attributable to the equity holders of the parent	Non-Controlling interests	Total Shareholders' equity
Balance as at March 31, 2018		$78,105	$4,227	$14,217	$282,485	$379,034	$ —	$379,034
Common shares:	22							
Issued under the stock purchase and ownership incentive plan		470	—	—	—	470	—	470
Issued under the stock option plan		1,101	(402)	—	—	699	—	699
Business acquisition	5	—	—	—	—	—	2,365	2,365
Stock-based compensation expense	22	—	882	—	—	882	—	882
Net income (loss)		—	—	—	26,447	26,447	(253)	26,194
Other comprehensive loss	23	—	—	(3,715)	(1,831)	(5,546)	—	(5,546)
Balance as at March 31, 2019		$79,676	$4,707	$10,502	$307,101	$401,986	$ 2,112	$404,098

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2020	2019
Cash and cash equivalents provided by (used for):			
Operating activities			
Net (loss) income		$ (50,658)	$ 26,194
Items not requiring an outlay of cash:			
Amortization expense	15, 16	43,643	32,650
Deferred income taxes	24	1,300	(2,019)
Gain on sale of property, plant and equipment and software		(141)	(8)
Impairment of goodwill, deferred income tax assets and other long-term assets	10, 14, 17, 24	85,808	—
Non-cash net financial expenses	9	1,041	2,697
Stock-based compensation expense	22	1,108	882
Cash flows from operations		82,101	60,396
Net change in non-cash items	28	(29,528)	9,573
Cash flows related to operating activities		52,573	69,969
Investing activities			
Cash payment for business acquisitions	5	(17,149)	(198,149)
Additions to property, plant and equipment	15	(20,645)	(12,858)
Net (increase) decrease in finite-life intangible assets	16	(1,598)	2,353
Capital contribution from a non-controlling interest in a subsidiary		495	—
Proceeds on disposal of property, plant and equipment		4,053	35
Cash flows related to investing activities		(34,844)	(208,619)
Financing activities			
Increase of long-term debt		30,927	117,883
Repayment of long-term debt		(38,024)	(36,198)
Issuance of common shares	22	58	1,169
Increase in deferred financing costs	20	(897)	(2,534)
Cash flows related to financing activities		(7,936)	80,320
Effect of changes in exchange rates on cash and cash equivalents		920	249
Change in cash and cash equivalents during the year		10,713	(58,081)
Cash and cash equivalents at beginning of year		35,128	93,209
Cash and cash equivalents at end of year		$ 45,841	$ 35,128
Interest and income taxes reflected in operating activities:			
Interest paid		$ 6,905	$ 4,914
Interest received		$ 100	$ 800
Income taxes paid		$ 6,775	$ 5,965

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2020 and 2019

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

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

Héroux-Devtek Inc. is incorporated under the laws of Québec. Its head office is domiciled at Complexe St-Charles, 1111 St-Charles Street West, suite 600, West Tower, Longueuil (Québec), Canada. Héroux-Devtek Inc. and its subsidiaries ("Héroux-Devtek" or the "Corporation") specialize in the design, development, manufacture, repair and overhaul of aircraft landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components.

The Corporation operates as 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 consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are measured at fair value, provisions, which are measured based on the best estimates of the expenditures required to settle the obligation and the pension benefit obligations, which are measured at the present value of the defined benefit obligations and reduced by the fair value of plan assets. Certain comparative figures for the consolidated balance sheet as at March 31, 2019 have been reclassified to conform to the March 31, 2020 consolidated balance sheet's presentation.

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and were approved for issue by the Board of Directors of the Corporation on May 20, 2020.

Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned, except for Tekalia Inc. where the Corporation holds a 67% controlling interest. The principal wholly-owned subsidiaries included in these consolidated financial statements are the following:

Name	Location
Devtek Aerospace Inc.	Canada
Alta Précision Inc.	Canada
HDI Landing Gear USA Inc.	United States
APPH Limited	United Kingdom
Beaver Aerospace & Defense Inc.	United States
Compañia Española de Sistemas Aeronauticos S.A.	Spain

Subsidiaries are consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date that such control ceases. Control is achieved when the Corporation has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and ability to use its power to affect its returns. The Corporation reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of these three elements of control. Changes in the Corporation's ownership interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

The cost of an acquisition is measured as the aggregate of the consideration paid, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Corporation measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets.

The financial statements of the subsidiaries are prepared for the same reporting period as Héroux-Devtek Inc., using consistent accounting policies. All inter-company transactions and account balances are eliminated in full.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

A. Foreign currency

The consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation accounts for transactions in its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

The functional currency of Héroux-Devtek and of the Canadian operations is the Canadian dollar. The functional currency of the U.S. operations is the U.S. dollar, the functional currency of the U.K operations is the British pound and the functional currency of Spain operations is the Euro. The functional currency is the currency that is representative of an operation's primary economic environment.

Conversion of transactions and account balances
Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange at the reporting date. All differences are included in the consolidated statements of income.

Non-monetary items denominated in foreign currencies are translated at the exchange rate at the date of the transactions.

Translation of financial statements of foreign operations
Assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange at the reporting date and the statements of income are translated at the average exchange rate for the fiscal year. Exchange differences arising from the translation are recognized in other comprehensive income and remain in accumulated other comprehensive income until the disposal of the related net investment, at which time they are recognized in the consolidated statements of income.

B. Cash and cash equivalents

Cash and cash equivalents comprise cash.

C. Inventories

Inventories include raw materials, direct labour and related manufacturing overhead costs.

Inventories consist of raw materials (including purchased parts), work-in-progress and finished goods which are valued at the lower of cost (unit cost method except for certain raw materials that are valued at the weighted average cost method) and net realizable value.

The unit cost method is the cost method under which the actual production costs are charged to each unit produced and recognized in the consolidated statements of income as the unit is delivered. Estimates of net realizable value are based on the most reliable evidence available of the amount for which the inventories are expected to be realized. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the reporting period to the extent that such events confirm conditions existing at the end of the reporting period.

D. Property, plant and equipment

Assets acquired
Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see H). Such cost may include the cost of replacing a major part of the property, plant and equipment and, in this situation, the carrying amount of the replaced part is derecognized. Cost also includes borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (see F).

Amortization is calculated on a straight-line basis over the useful life of the asset as follows:

- Buildings and leasehold improvements - 5 to 50 years,
- Machinery and equipment - 3 to 25 years,
- Tooling related to specific contracts - based on pre-determined contract quantities, not exceeding the lower of ten years or the useful life. Contract quantities are assessed at the beginning of the production stage considering, among other factors, existing firm orders and options. The Corporation's management conducts quarterly and annual reviews of the contract quantities,
- Standard and general tooling - 3 to 5 years,

- Automotive equipment - 3 to 10 years,
- Computer and office equipment - 3 to 5 years.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. The gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the net carrying amount of the asset) is included in the consolidated statements of income in the fiscal year the asset is derecognized. The asset's residual value, useful life and method of amortization are reviewed and adjusted annually at year-end, or when warranted by specific circumstances.

The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met. Refer to section L of this note and *note 4 - Significant accounting estimates and assumptions* for further information about provisions for asset retirement obligations.

E. Finite-life intangible assets

Finite-life intangible assets include capitalized development costs, customer relationships and contracts and software. They are measured at cost upon initial recognition. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, they are carried at cost less accumulated amortization and impairment losses, if any.

Finite-life intangible assets are amortized over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method for finite-life intangible assets are reviewed at each fiscal year-end or when warranted by specific circumstances. Changes in the expected useful life or the expected pattern of consumption of future economic benefits associated with finite-life intangible assets are accounted for as changes in accounting estimates.

The gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the net carrying amount of the asset and is recognized in the consolidated statements of income.

Development costs

Development costs of an individual sales contract are capitalized as an intangible asset when the Corporation can demonstrate:

- the feasibility of completing the intangible asset so that it will be available for use or sale;
- its intention to complete the intangible asset and use or sell it;
- its ability to use or sell the asset;
- how the asset will generate future economic benefits;
- the availability of resources to complete the development and to use or sell the intangible asset; and,
- the ability to measure reliably the expenditure attributable to the intangible asset during its development phase.

Capitalized development costs (design engineering, manufacturing engineering costs and other related costs) related to sales contracts are amortized based on predetermined expected quantities to be sold. They are presented net of related government assistance and amounts contributed by customers.

The expected quantities to be sold are established based on management's assessment at the beginning of the production stage for each contract, taking into consideration, among other factors, existing firm orders and options. The Corporation's management conducts quarterly reviews as well as a detailed annual review in the fourth quarter of the contract quantities, its capitalized development costs and their recoverability.

Following initial recognition of capitalized development costs as an asset, the asset is carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization begins when development is complete and the asset is available for use. Usually, the development phase represents a period of 4 to 7 years. During the period of development, the asset is tested for impairment annually.

Customer relationships and contracts

Customer relationships and contracts are amortized on a straight-line basis over the estimated useful life of the related customer relationship and contracts, which represents a period of up to 15 years.

Software

Software is amortized over 3 to 7 years.

F. Borrowing costs

Borrowing costs are recognized as an expense when incurred, except when they are capitalized as part of the cost of a qualifying asset. Borrowing costs are capitalized when the Corporation:

- incurs expenditures for the asset;
- incurs borrowing costs; and

- undertakes activities that are necessary to prepare the asset for its intended use or sale, to the extent that these activities are performed over a period exceeding the normal operating cycle of the Corporation (12 months).

Conversely, the Corporation ceases capitalizing borrowing costs when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are completed.

G. Business combinations and goodwill

Business combinations are accounted for using the acquisition method.

The cost of a business combination is measured as the fair value of assets given, equity instruments issued and liabilities assumed at the date of acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed are measured initially at fair value at the date of acquisition. Acquisition-related costs associated with the business combinations are expensed as incurred.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses, if any. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash generating units ("CGU") or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

H. Impairment of goodwill and other non-financial assets

Goodwill is tested for impairment annually on March 31 or when warranted by specific circumstances. A prior year's impairment test may be used in the annual impairment test when specific criteria are met. Impairment is determined by assessing the recoverable amount of the CGU to which the goodwill relates. A CGU's recoverable amount is the higher of a CGU's fair value less costs of disposal and its value in use. The Corporation uses the discounted cash flow method to estimate value in use, consisting of future cash flows derived from the most recent budget and strategic plan, which cover five years, approved by the Corporation's management and Board of Directors. These future cash flows consider each CGU's past performance, market share, economic trends, specific and market industry trends and corporate strategies. A perpetual growth rate is used for cash flows beyond this five-year period. The perpetual growth rate is determined with regard to the specific markets in which the CGU participates. The discount rate used by the Corporation for cash flows is a pre-tax rate based on the weighted-average cost of capital pertaining to each CGU, which reflects the current market assessment of (i) the time value of money, and (ii) the risks specific to the assets. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

For non-financial assets other than goodwill, the Corporation assesses at each reporting date whether there is an indication that the carrying amount may be impaired. If any such indication exists, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, the recoverable amount is determined by reference to the CGU's value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written-down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. For non-financial assets other than goodwill, a previously recognized impairment loss is reversed if there has been a change in the estimated recoverable amount since the last impairment loss was recognized. That increased amount cannot exceed the carrying amount that would have been determined, net of accumulated amortization, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the consolidated statements of income.

I. Financial assets

Initial recognition

At initial recognition, financial assets are classified either as financial assets at fair value through profit or loss ("FVTPL"), measured at amortized cost ("AC") or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Corporation's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion"). The Corporation's financial assets are held within a business model with the objective to

hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion are classified and subsequently measured at amortized cost. They consist of cash and cash equivalents, accounts receivable and certain other current and long-term assets.

When financial assets are recognized initially, they are measured at fair value, plus in the case of a financial asset other than FVTPL, the directly attributable transaction costs. Purchases and sales of financial assets are recognized on the transaction date, which is the date that the Corporation commits to purchase or sell the assets.

FVTPL

FVTPL include certain derivative financial instruments, except those that are designated as Hedges. FVTPL are carried at fair value with gains and losses recognized in the consolidated statements of income. The Corporation assesses whether embedded derivative financial instruments are required to be separated from host contracts when the Corporation first becomes party to the contract.

AC

AC are non-derivative financial assets with fixed or determinable payments not quoted in an active market. AC are mainly comprised of accounts receivable and certain other current and long-term assets. AC are carried at amortized cost using the effective interest rate method. An allowance for doubtful accounts is recorded when an account receivable become impaired. Also, under the forward-looking expected credit loss ("ECL") approach, all financial assets, except for those measured at FVTPL, are subject to review for impairment at least at each reporting date. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Corporation expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The Company considers a financial asset in default when collection of an account receivable is 30 days past due its contractual terms. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is considered at a higher credit risk as soon as it is 30 days past due and the Company regularly monitors these accounts receivable to ensure its credit risk is not significant with such customers. In some cases, the fact that certain accounts receivable are past due does not necessarily indicate a higher credit risk and subsequent collection is successful. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows which generally occurs if the account receivable is 90 days past due unless the Company has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

For accounts receivables, the Corporation has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses taking into consideration historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. If in a subsequent year, the amount of the estimated impairment loss increases or decreases due to an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or decreased by adjusting the carrying value of the financial assets. If a past write-off is later recovered, the recovery is recognized in the consolidated statements of (loss) income.

FVTOCI

These include cross-currency interest rate swap agreements that are used to hedge the net investments in certain foreign subsidiaries and forward foreign exchange contracts. They are carried at fair value. The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income, if any.

The Corporation assesses at each reporting date whether any financial asset is impaired.

J. Financial liabilities

Liabilities at fair value

Financial liabilities classified at FVTPL are comprised of derivative financial instruments, except those that are designated as FVTOCI. They are carried at fair value with gains and losses recognized in the consolidated statements of income. Gains and losses on FVTOCI are recognized in other comprehensive income.

Amortized costs

All debts, accounts payable, accrued liabilities, provisions and certain other liabilities are initially recognized at fair value less directly attributable transaction costs when they have not been designated as FVTPL.

After initial recognition, they are subsequently measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation underlying the liability is discharged, cancelled or has expired.

K. Derivative financial instruments and hedges

Derivative financial instruments

The Corporation uses derivative financial instruments such as forward foreign exchange contracts, cross-currency interest rate swap agreements and equity swap agreements to hedge its risks associated with foreign currency, interest rate and other price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value. Derivative financial instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Cash flow hedges

For the purpose of hedge accounting, all hedges are classified as cash flow hedges except for hedges of net investments in foreign operations (see below). Hedging exposure to variability in cash flows is attributable to a risk associated with a recognized liability or a highly probable forecast transaction in foreign currency.

At the inception of a hedge relationship, the Corporation formally designates and documents the hedge relationship to which the Corporation wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed quarterly to determine that they actually have been highly effective throughout the designated periods.

The change in the fair value of the effective portion of hedges is recognized in other comprehensive income, while the ineffective portion is recognized in the consolidated statements of income. Amounts recognized in other comprehensive income are transferred to the consolidated statements of income when the hedged transaction affects income, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. In the event that the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in accumulated other comprehensive income are transferred to the consolidated statements of income.

Hedges of net investments in foreign operations

The Corporation designates certain long-term debt as a hedge of its net investments in foreign operations. The portion of gains or losses from the hedging item that is determined to be an effective hedge is recognized in other comprehensive income, while the ineffective portion is recorded in the consolidated statements of income. The amounts recognized in other comprehensive income are reclassified in the consolidated statements of income upon disposal of the related net investments.

L. Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) 1) as a result of a past event; 2) when it is more probable than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and, 3) when a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is accounted for in the consolidated statements of income, net of any reimbursement.

If the known expected settlement date exceeds twelve months from the date of recognition, provisions are discounted using a current pre-tax interest rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a financial expense. Provisions are reviewed periodically and adjusted as appropriate.

Onerous contracts

These represent anticipated negative margins on sales contracts in progress or in the funded backlog (firm customer purchase orders).

Asset retirement obligations

The Corporation's asset retirement obligations mainly consist of environmental rehabilitation costs related to one of the Corporation's manufacturing sites in Canada. The present value of these obligations is measured in the year in which they are identified and when a reasonable estimate of their present value can be made. The present value of the obligations is determined as the sum of the estimated discounted future cash flows of the costs associated with the legal obligations for future rehabilitation. These asset retirement costs are capitalized as part of the property, plant and equipment and amortized over the relevant assets' useful lives. The discount fluctuation is expensed as incurred and recognized in the consolidated statements of income as financial expenses. The estimated future costs of decommissioning are reviewed annually and adjusted as appropriate. Changes in the estimated future costs are recognized in the consolidated statements of income as changes occur.

Product warranty

This provision covers the cost of known or anticipated defects on products under terms of warranties.

Litigations and other

Due to the nature of its business activities including the purchase or sale of businesses, the Corporation is exposed to the risks of technical and business litigations. On the basis of information at its disposal at the reporting date, the Corporation carried out a review of the financial risks to which the Corporation could be exposed. The recorded provision covers the estimated risks associated with these litigations.

Restructuring provisions are recognized when the Corporation has put in place a detailed restructuring plan which has been communicated in sufficient detail to create a constructive obligation. Restructuring provisions include only costs directly related to the restructuring plan, and are measured at the best estimate of the amount required to settle the Corporation's obligations.

M. Progress billings

Progress billings represent amounts received from customers for costs incurred on specific contracts. These amounts are reversed to sales at such time as the related units are delivered and billed to customers.

N. Deferred financing costs

Deferred financing costs related to long-term debt are amortized using the effective interest rate method over the period that represents the duration of the related long-term debt.

O. Pensions and other retirement benefits

The Corporation has defined contribution pension plans as well as funded and unfunded defined benefit pension plans that provide pension benefits to its employees. The current and past service costs of these pension plans are recorded within the cost of sales and selling and administrative expenses under "Employee costs" in the consolidated statements of income while the administrative costs related to these pension plans are included in selling and administrative expenses. The net interest income or expense on the net surplus or deficit is recorded in financial expenses.

The actuarial determination of the defined benefit obligations for pensions uses the projected unit credit method which incorporates management's best estimate of future salary levels, when applicable, other cost escalations, retirement ages of employees, discount rates and other actuarial factors.

The Pension and other retirement benefit plans liabilities included in Other liabilities in the consolidated balance sheets represent the present value of the defined benefit obligations reduced by the fair value of plan assets.

Remeasurements on defined benefit plans include actuarial gains and losses, changes in the effect of the asset ceiling and the return on plan assets, excluding the amount included in net interest on the net defined liability or assets. Remeasurements are charged or credited to other comprehensive income in the period in which they arise.

Past service costs arising from the plan amendments are recognized in full immediately in the consolidated statements of income.

P. Share-based payments

Stock option plan

The Corporation has a stock option plan in which options to purchase common shares are issued to officers and key employees. The Corporation uses a binomial valuation model to determine the fair value of stock options when granted. The resulting fair value is amortized to income over their earned period using the graded amortization method. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in contributed surplus.

Stock purchase and ownership incentive plan

The Corporation has a stock purchase and ownership incentive plan allowing key members of management to purchase, by payroll deductions of a maximum of 10% of their annual base salary, to a number of common shares of the Corporation on the TSE. The Corporation matches a portion of such employee contributions in the form of additional common shares acquired on the TSE at market price. The Corporation's matching award cannot exceed 5.25% of the employee's annual base salary. Common shares purchased by the Corporation on behalf of the employee are accounted for in selling and administrative expenses.

Deferred share unit ("DSU") plan

The Corporation has a DSU plan under which rights are issued to its non-employee directors. The DSU enables the participants to receive compensation at the end of their mandate as a member of the Board of Directors, representing a cash amount equal to one time the quoted price of the Corporation's common share for each DSU.

These DSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. Each director can also elect, each fiscal year, to have up to 100% of his director's annual retainer fees converted into DSUs. These DSUs vest over a one-year period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the DSUs are exercised and paid at the end of each director's mandate.

Performance share unit ("PSU") plan

The Corporation has a PSU plan as part of the incentive plan for management and key employees. PSUs vest over a period of three years. The PSU enables the participants to receive compensation at the expiry or termination date representing a cash amount equal to the quoted price of the Corporation's common share for each PSU vested, conditional on the achievement of certain financial targets.

PSUs are expensed on an earned basis, their value is equal to that of the underlying shares and is remeasured at each reporting period. The related compensation expense is included in selling and administrative expenses and its counterpart is accounted for in accounts payable and accrued liabilities until the PSUs are paid or cancelled at the expiry or termination date.

Q. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of estimated discounts, and after eliminating intercompany sales. Revenue from the sale of goods is recognized in a manner that depicts the transfer of promised goods to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation, which is generally achieved upon the delivery of the products.

Revenues from the sale of new or overhauled aerospace components are considered a single performance obligation and are recognized at the point in time when the customer has obtained control of the component and the Corporation has satisfied its performance obligation. Generally, these conditions are met upon delivery of the goods.

R. Government assistance

Government assistance, which mainly includes investment and other tax credits, grants and the discount portion of the governmental authorities loans, is recognized when there is reasonable assurance that it will be received and all related conditions will be complied with. When the government assistance relates to an expense item, it is recognized as a reduction of expense over the period necessary to match the government assistance on a systematic basis to the costs that it is intended to subsidize. Where government assistance relates to an asset, it is deducted from the cost of the related asset.

Forgivable loans from governmental authorities are accounted for as government assistance when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan.

Benefits derived from government authority loans with below-market interest rates are measured at the inception of the loans as the difference between the cash received and the amount at which the loans are initially recognized in the consolidated balance sheet. At initial recognition, the fair value of a loan with a below-market rate of interest is estimated at the present value of all future cash disbursements, discounted using a prevailing market rate of interest for a similar instrument with a similar credit rating.

After initial recognition, the loan is accounted for as a financial liability measured at amortized cost using the effective interest method. Repayments are mainly based on the Corporations sales growth, or sales of specific programs. Assumptions underlying expected sales are reviewed at least annually, and are used to derive expected repayment schedules. When expected repayment schedule changes, the Corporation recalculates the carrying value of the loan using the original effective interest rate, with the corresponding gain or loss accounted for in financial expenses.

S. Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date. Current income tax relating to items recognized directly in shareholders' equity is recognized in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income.

Deferred income tax

Deferred income tax is provided for using the liability method on temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax assets and liabilities are recognized for all deductible and taxable temporary differences, except:

- where the deferred income tax asset or liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income or loss nor taxable income or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all other deductible temporary differences, carry forward or unused tax credits and unused tax losses to the extent that it is probable that taxable income will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized. The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date. Deferred income tax assets and liabilities are measured at the income tax rates that are expected to apply to the fiscal year when the asset is realized or the liability is settled, based on income tax rates and tax laws that have been enacted or substantively enacted at the reporting date. Deferred income tax relating to items recognized directly in shareholders' equity is recognized directly in shareholders' equity and not in the consolidated statements of income or in the consolidated statements of comprehensive income. Deferred income tax assets and liabilities are offset if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. All deferred income tax assets and liabilities are classified as non-current.

Sales tax

Sales, expenses and assets are recognized net of the amount of sales tax, except where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authorities, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

Receivables and payables are stated with the amount of sales tax included, if applicable.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of other current assets or accounts payable and accrued liabilities in the consolidated balance sheet.

T. Earnings per share

Basic and diluted earnings per share is computed based on net income attributable to equity holders of the Corporation. It is also determined using the weighted-average number of common shares outstanding during the year. The calculation of diluted earnings per share takes into consideration the exercise of all dilutive elements. This method assumes that the proceeds of the Corporation's in-the-money stock options would be used to purchase common shares at the average market price during the year.

U. Adoption of the new accounting standard IFRS 16 - Leases

Prior to April 1, 2019

The Corporation followed IAS 17 where a lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership to the Corporation. A finance lease was capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments, computed by using the implicit interest rate of the lease contract. Lease payments were apportioned between interest expense and the reduction of the lease obligation. Interest expense is reflected in the consolidated statements of income. Capitalized leased assets were accounted for in the categories of property, plant and equipment corresponding to their nature. Capitalized leased assets were amortized over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term.

A lease was classified as an operating lease if it did not transfer substantially all the risks and rewards incidental to ownership. Operating lease payments were recognized as an expense on a straight-line basis over the related lease term.

Effective April 1, 2019

Effective April 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, represents a major revision of the way in which companies account for leases. It sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease following a single model where previously leases were classified as either finance leases or operating leases. Most leases are recognized on the Corporation's consolidated balance sheet. Certain exemptions apply for short-term leases and leases of low-value assets. The right-of-use asset and lease liability are recognized at the lease commencement date.

Right-of-use of assets

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 20 years for buildings and 1 to 6 years for machinery, equipment and tooling.

Lease liabilities

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Effect of adopting IFRS 16

The adoption of IFRS 16 had an impact on the consolidated balance sheet and statement of (loss) income as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense from the liability recorded. In addition, the principal repayments of lease liabilities are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities prior to April 1, 2019.

The Corporation applied this standard using the modified retrospective approach (without restating comparative figures) for the fiscal year beginning April 1, 2019. Certain leases were not brought on the Corporation's consolidated balance sheet as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

- Account for leases for which the remaining lease term ends within 12 months of the effective date as short-term leases; and
- Recognize short-term leases and low value leases on a straight-line basis as part of operating expenses in the consolidated statements of income.

The adoption of IFRS 16 had the following impacts on the consolidated statement of income (loss) for the year ended March 31, 2020:

Increase (decrease)	March 31, 2020
Cost of sales, Selling and administrative expenses	
Depreciation and amortization	$ 3,098
Other (rent expense)	(3,679)
Operating income	581
Financial expenses	1,283
Deferred income tax expense	(175)
Net income and comprehensive income	$ (527)

Increase (decrease)	As of April 1, 2019
Property, plant and equipment, net	$ 14,892
Long-term debt [1]	14,892

[1] The current portion of long-term debt impact corresponds to $2,520 as at April 1, 2019

The following table presents the reconciliation between the operating leases commitments as of March 31, 2019 and the additional lease liabilities as of April 1, 2019:

Operating lease commitments as at March 31, 2019	$ 16,823
Discounting operating leases as at April 1, 2019 [1]	(1,068)
Commitments relating to the change in the lease term assumptions and inclusion of non-lease components	1,002
Leases committed but not yet commenced as at April 1, 2019	(1,865)
Additional lease liabilities as at April 1, 2019	$ 14,892
Pre-existing capital leases as at April 1, 2019	20,411
Total lease liabilities as at April 1, 2019	$ 35,303

[1] At the date of adoption of IFRS 16, the weighted average incremental borrowing rate was 4.2%

NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTION

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

A. Impact of COVID-19

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at March 31, 2020, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and other intangible assets. Following this assessment, the Corporation recorded a non-cash impairment charge of $85,808 (note 10) affecting mainly goodwill. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, property, plant & equipment, finite-life intangible assets, deferred income tax assets, goodwill, provision for onerous contracts, government authorities loans and net defined benefit obligations. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

B. Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that may enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation. The key assumptions used to determine the recoverable amount of the CGUs, including sensitivity analysis, are further explained in note 17.

C. Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

D. Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 25.

E. Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in note 3. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and contract quantities. For purpose of impairment testing, the Corporation exercises judgment to identify the cash inflows and outflows. The recoverable amount is based on fair value less costs of disposal, generally determined using a discounted cash flow model. Other assumptions used to determine the recoverable amount include the applicable discount rate and the expected future cash flows which include costs to complete the development activities.

F. Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

G. Government authorities loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the sales of certain of the Corporation's programs or segments. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate the future sales growth of these programs or segments over the expected duration of the loan. These forecasts are used to determine effective interest rates and expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

H. Customer relationships

Customer relationships acquired in business acquisitions are considered intangible assets with finite lives. Their value was estimated upon acquisition using valuation methodologies which rely on many underlying assumptions, including:

- Expected future order intake;
- Operational execution and cost management;
- Stability of economic conditions, including foreign exchange rates;
- Production rates;
- Government spending.

They are recorded at cost less accumulated impairment and amortization and are amortized on a straight-line basis over their useful lives without exceeding 15 years.

NOTE 5. BUSINESS ACQUISITIONS

Fiscal 2020 acquisition

Acquisition of Alta Précision

On June 7, 2019, the Corporation completed the acquisition of all of the shares of Alta Précision Inc. ("Alta"), for $18,552, including a $500 balance of sale and the assumption of Alta's net outstanding debt amounting to $903. Located in Montreal, Canada, Alta is a manufacturer of high-precision landing gear components. This acquisition expands the Corporation's portfolio of commercial products by providing both access to new programs and additional content on existing platforms. The acquisition was financed with the Corporation's available credit facilities and was treated as a business combination.

Alta was a minority shareholder of Tekalia. As a result of the acquisition, the Corporation increased its participation in Tekalia to 67% from 60% as at March 31, 2019. In connection with this acquisition, the Corporation incurred acquisition-related costs that are presented in note 10.

Refer to note 34 - Subsequent event for additional information.

Purchase Price

The purchase price allocation that reflects the fair value of the assets acquired and liabilities assumed during Fiscal 2020 with any excess allocated to goodwill was prepared using the acquisition method as follows:

Cash payment	$ 17,149
Long-term debt assumed [1]	903
Working capital adjustment receivable	—
Balance of purchase price payable	500
Total purchase price	$ 18,552

[1] *Excludes lease liabilities*

Purchase Price Allocation

	Purchase price allocation
Accounts receivable	$ 1,455
Inventories	11,567
Other current assets	376
	13,398
Property, plant and equipment, including right-of-use assets	19,546
Finite-life intangible assets	2,797
Deferred income tax assets	1,858
Other long-term assets	264
Investment in Tekalia	544
Total identifiable assets	$ 38,407
Accounts payable and accrued liabilities	6,629
Customer advances and progress billings	2,872
Provisions	6,918
Long-term debt [(1)]	6,844
Total identifiable liabilities	$ 23,263
Net identifiable assets and liabilities	15,144
Goodwill	3,408
Total purchase price	$ 18,552

[(1)] *Corresponds to lease liabilities*

Fiscal 2019 acquisitions

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all of the shares of Compañia Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE, for €130,370 ($195,816). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition allows the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

- A $50,000, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- A US$50,000 ($65,205) drawing on the Corporation's credit facility; and,
- The Corporation's available cash balance.

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23,697 ($35,594) upon closing.
For the period between October 1, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included €42,086 ($63,519) and €2,674 ($4,047), respectively, generated by CESA. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of CESA would have amounted to $117,277 and $2,806, respectively for the fiscal year ended March 31, 2019.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver") from Phillips Service Industries Inc. for a purchase price of US$21,617 ($28,466). This price included a working capital adjustment received in April 2019 of US$295 ($388) and a US$3,500 ($4,609) balance of sale payable over the two years following the acquisition which bears interests at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition allows the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included US$18,871 ($24,839) and US$1,395 ($1,828), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of Beaver would have amounted to $33,223 and $2,243, respectively.

Acquisition of Tekalia

On January 23, 2019, the Corporation completed the acquisition of 60% of the shares of Tekalia Aeronautik (2010) Inc. ("Tekalia"), a supplier of surface treatment services to the aerospace sector, with annual sales of approximately $12,000, for a purchase price of $6,529. The transaction was financed through the Corporation's cash and was treated as a business combination. The acquisition of Tekalia allows the Corporation to further secure surface treatment capacity to support its North American customers' growth.

In connection with these acquisitions, the Corporation incurred acquisition-related costs which are presented in note 10.

Purchase Prices

The purchase prices allocations that reflects the fair value of the assets acquired and liabilities assumed with any excess allocated to goodwill were determined using the acquisition method as follows:

	CESA	Beaver	Tekalia	Total
Cash payment	$ 170,930	$ 23,671	$ 3,548	$ 198,149
Long-term debt assumed [1]	35,594	574	2,981	39,149
Working capital adjustment receivable	(10,708)	(388)	—	(11,096)
Balance of purchase price payable	—	4,609	—	4,609
Total purchase price for the Corporation's interest	$ 195,816	$ 28,466	$ 6,529	$ 230,811
Non-controlling interests	—	—	2,365	2,365
	$ 195,816	$ 28,466	$ 8,894	$ 233,176

[1] Excludes lease liability related to IFRS 16

Purchase Price Allocations

During the fiscal year ended March 31, 2020, the Corporation completed its final assessment of the fair value of assets acquired and liabilities assumed of CESA and of Tekalia. Adjustments and reclassifications mainly relate to the final assessment of costs and liabilities associated to specific Aerospace programs of the CESA purchase price allocation and are presented below as follows:

	CESA - Originally reported	Adjustments	CESA - Final	Beaver	Tekalia	Total
Accounts receivable	$ 28,293	$ —	$ 28,293	$ 6,787	$ 2,406	$ 37,486
Inventories	36,692	—	36,692	10,165	1,105	47,962
Income tax receivable	505	—	505	—	—	505
Other current assets	596	—	596	50	182	828
	66,086	—	66,086	17,002	3,693	86,781
Property, plant and equipment	44,923	—	44,923	3,635	8,566	57,124
Finite-life intangible assets	40,407	—	40,407	4,050	176	44,633
Deferred income tax assets	—	—	—	2,774	—	2,774
Other long-term assets - Tax credits receivable	7,843	—	7,843	—	—	7,843
Total identifiable assets	$ 159,259	$ —	$ 159,259	$ 27,461	$ 12,435	$ 199,155
Accounts payable and accrued liabilities	16,773	—	16,773	2,588	4,833	24,194
Provisions	11,897	4,506	16,403	2,118	—	18,521
Customer advances and progress billings	4,188	—	4,188	450	—	4,638
	32,858	4,506	37,364	5,156	4,833	47,353
Provisions	4,308	—	4,308	8,549	—	12,857
Deferred income tax liabilities	3,465	(1,126)	2,339	—	—	2,339
Other liabilities - long-term accounts payable	4,365	—	4,365	—	—	4,365
Total identifiable liabilities	$ 44,996	$ 3,380	$ 48,376	$ 13,705	$ 4,833	$ 66,914
Net identifiable assets and liabilities	114,263	(3,380)	110,883	13,756	7,602	132,241
Goodwill	81,553	3,380	84,933	14,710	1,292	100,935
Total purchase price	$ 195,816	$ —	$ 195,816	$ 28,466	$ 8,894	$ 233,176

NOTE 6. SALES AND BACKLOG

The amount of sales recognized in the following sectors was as follow for fiscal year:

	2020	2019
Commercial	$ 283,737	$ 236,283
Defense	329,259	247,594
Total sales	$ 612,996	$ 483,877

The Corporation's funded backlog represents the aggregate amount of the revenues expected to be realized within a period of 24 months, from partially or fully unsatisfied performance obligations as at March 31, 2020 as we perform under contracts at delivery. The amounts in funded backlog include only the value of firm orders. Such orders may be subject to future modifications that might impact the amount and/or timing of revenue recognition. At March 31, 2020, the Corporation had a funded backlog of $810,283.

NOTE 7. GOVERNMENT ASSISTANCE

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

	2020	2019
Finite-life intangible assets (note 16)	$ 833	$ 1,125
Property, plant and equipment (note 15)	30	497
Cost of sales and, selling and administrative expenses	4,065	3,903

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

NOTE 8. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows, for fiscal year:

	2020	2019
Raw materials and purchased parts	$ 221,456	$ 179,395
Employee costs	201,675	154,406
Amortization of property, plant and equipment and finite-life intangible assets (notes 15, 16)	43,643	32,650
Others	93,674	75,863
	$ 560,448	$ 442,314
Included in cost of sales, selling and administrative expenses:		
Foreign exchange gains resulting from the conversion of net monetary items denominated in foreign currencies	478	718

NOTE 9. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2020	2019
Interest accretion on governmental authorities loans	$ 2,380	$ 2,361
Revision of governmental authorities loans repayment estimates (note 20)	(3,153)	(1,036)
Amortization of deferred financing costs	756	505
Interest on net defined benefit obligations (note 25)	238	150
Net losses on certain derivative financial instruments (note 10)	—	391
Other non-cash financial expenses	820	326
Non-cash net financial expenses	1,041	2,697
Interest expense	6,327	4,461
Standby fees	578	453
Interest income on cash and cash equivalents	(100)	(800)
	$ 7,846	$ 6,811

NOTE 10. NON-RECURRING ITEMS

Non-recurring items comprise the following, for fiscal year:

	2020	2019
Non-recurring items in operating income		
Goodwill impairment (note 17)	$ 79,736	$ —
Write-down of investment tax credits receivable (note 14)	2,267	—
Acquisition-related costs (note 5)	615	4,323
	$ 82,618	$ 4,323
Non-recurring items in net financial expenses		
Net losses on certain derivative financial instruments	$ —	$ 391
	$ —	$ 391
Non-recurring items in income tax expense		
Write-down of deferred income tax assets (note 24)	$ 3,805	$ —
	$ 3,805	$ —

Goodwill impairment and write-down of investment tax credits receivable and deferred income tax assets

Management evaluates the recoverability of assets using the budget and strategic plan which covers a five-year period. The budget and strategic plan is prepared based on the published production rates of aircraft manufacturers, aerospace industry forecasts, general economic forecasts, and past experience.

The significant decrease in expected demand for commercial aerospace products caused by the ongoing COVID-19 pandemic was quantified in these estimates, including production rate cuts such as the 40% reduction in large commercial aircraft volume already announced by Airbus and Boeing.

The downward revision of these forecasts resulted in non-cash impairment charges of goodwill, investment tax credits receivable and deferred income tax assets.

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisition of Alta this fiscal year and the acquisitions of CESA, Beaver and Tekalia last fiscal year.

Net losses on certain derivative financial instruments (note 9)

These losses relate to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks arising from the purchase price and financing related to the acquisition of CESA. Refer to the *Derivatives* section under *Additional Information* below for further details.

NOTE 11. EARNINGS PER SHARE

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

	2020	2019
Weighted-average number of common shares outstanding	36,362,702	36,307,708
Effect of dilutive stock options of the Corporation	—	129,344
Weighted-average number of common diluted shares outstanding	36,362,702	36,437,052
Options excluded from diluted earnings per share calculation(1)	1,497,595	526,500

(1) *Excluded from diluted earnings per share calculation due to anti-dilutive impact.*

NOTE 12. INVENTORIES

As at	March 31, 2020	March 31, 2019
Raw materials and purchased parts	$ 121,528	$ 97,976
Work-in-progress	116,627	84,752
Finished goods	2,964	1,307
	$ 241,119	$ 184,035

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2020 is $397,614 ($333,917 in 2019).

Reserves related to inventories are as follows, for fiscal year:

	2020	2019
Reserves recognized as cost of sales	$ 9,113	$ 8,118
Reversal of prior-period reserves	4,205	9,116

For fiscal year 2020, the reversal of prior-period reserves includes charges of $3,951 ($1,705 in 2019) for products delivered or written-off during the year for which a net realizable value reserve was recorded in prior years with no effect on income. It also includes the results from the revaluation, at each reporting date, of the net realizable value of inventories, based on related sales contracts, future demand and production costs. The revaluation takes into consideration the variations in selling price and number of units to deliver for contracts signed and also the reduction in production costs resulting from improvements in manufacturing processes.

NOTE 13. DERIVATIVE FINANCIAL INSTRUMENTS

As at	March 31, 2020	March 31, 2019
Current Assets		
Forward foreign exchange contracts	$ 28	$ 399
Cross-currency interest rate swap agreements	—	384
	$ 28	$ 783
Long-term Assets		
Forward foreign exchange contracts	$ —	$ 190
Cross-currency interest rate swap agreements	3,498	1,735
Equity swap agreements	—	3,891
	$ 3,498	$ 5,816
Current Liabilities		
Forward foreign exchange contracts	$ 9,321	$ 2,134
	$ 9,321	$ 2,134
Long-term Liabilities		
Forward foreign exchange contracts	$ 12,540	$ 1,317
Cross-currency interest-rate swap agreements	1,211	—
Equity swap agreements	916	—
	$ 14,667	$ 1,317

NOTE 14. OTHER ASSETS

As at	March 31, 2020	March 31, 2019
Working capital adjustment receivable (note 5)	$ 3,595	$ 5,347
Investment and other tax credits receivable	7,371	6,366
Prepaid expenses	5,904	5,171
Sales tax receivable	2,629	3,415
Others	1,714	1,050
Other current assets	$ 21,213	$ 21,349
Tax credits receivable (note 10)	5,737	6,914
Long-term receivable	3,404	—
Other long-term assets	$ 9,141	$ 6,914

NOTE 15. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2019	$ 19,029	$ 115,756	$ 268,685	$ 18,221	$ 2,133	$ 423,824
Adoption of IFRS 16 (note 3)	—	12,969	652	1,271	—	14,892
As at April 1, 2019	19,029	128,725	269,337	19,492	2,133	438,716
Additions	30	9,302	16,245	2,699	772	29,048
Business acquisitions	—	7,036	12,316	194	—	19,546
Government assistance (note 7)	—	—	(30)	—	—	(30)
Retirements and disposals	(1,975)	(2,620)	(642)	(28)	—	(5,265)
Effect of changes in exchange rates	488	2,358	8,227	443	135	11,651
As at March 31, 2020	$ 17,572	$ 144,801	$ 305,453	$ 22,800	$ 3,040	$ 493,666
Accumulated amortization:						
As at March 31, 2019	$ —	$ 34,349	$ 150,511	$ 11,010	$ —	$ 195,870
Amortization expense	—	7,975	21,889	3,269	—	33,133
Retirements and disposals	—	(352)	(631)	(370)	—	(1,353)
Effect of changes in exchange rates	—	1,306	4,802	267	—	6,375
As at March 31, 2020	$ —	$ 43,278	$ 176,571	$ 14,176	$ —	$ 234,025
Net book value as at March 31, 2020	$ 17,572	$ 101,523	$ 128,882	$ 8,624	$ 3,040	$ 259,641

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 2018	$ 6,500	$ 90,089	$ 235,411	$ 14,574	$ 2,308	$ 348,882
Additions	124	1,981	10,845	2,127	(1,201)	13,876
Business acquisitions	12,487	22,622	19,380	1,568	1,067	57,124
Government assistance (note 7)	—	(23)	(420)	(54)	—	(497)
Retirements and disposals	—	(10)	(1,157)	(94)	7	(1,254)
Effect of changes in exchange rates	(82)	1,097	4,626	100	(48)	5,693
As at March 31, 2019	$ 19,029	$ 115,756	$ 268,685	$ 18,221	$ 2,133	$ 423,824
Accumulated amortization:						
As at March 31, 2018	$ —	$ 29,432	$ 130,981	$ 8,966	$ —	$ 169,379
Amortization expense	—	4,638	17,636	2,079	—	24,353
Retirements and disposals	—	(6)	(1,128)	(93)	—	(1,227)
Effect of changes in exchange rates	—	285	3,022	58	—	3,365
As at March 31, 2019	$ —	$ 34,349	$ 150,511	$ 11,010	$ —	$ 195,870
Net book value as at March 31, 2019	$ 19,029	$ 81,407	$ 118,174	$ 7,211	$ 2,133	$ 227,954

Right of use assets:

The following tables reconciles the right-of-use assets for the Company as at March 31, 2020 that is included in Property, Plant and Equipment:

	Building and leasehold improvements	Machinery, equipment and tooling (1)	Other	Total
Cost:				
At April 1, 2019	$ 12,969	$ 41,368	$ 1,271	$ 55,608
Additions	6,498	3,454	206	10,158
Business acquisition	6,844	—	—	6,844
Effect of changes in exchange rates	418	5	49	472
As at March 31, 2020	$ 26,729	$ 44,827	$ 1,526	$ 73,082
Accumulated amortization:				
At April 1, 2019	$ —	$ (10,006)	$ —	$ (10,006)
Amortization expense	(2,201)	(5,741)	(513)	(8,455)
Effect of changes in exchange rates	(49)	(1)	(19)	(69)
As at March 31, 2020	$ (2,250)	$ (15,748)	$ (532)	$ (18,530)
Net book value as at March 31, 2020	$ 24,479	$ 29,079	$ 994	$ 54,552

(1) Includes the pre-existing assets under capital leases (net book value of $30,710 as at April 1, 2019)

Additions to property, plant and equipment shown above can be reconciled as follows, for fiscal year:

	2020	2019
Gross additions	$ 29,048	$ 13,876
Government assistance (note 7)	(30)	(497)
Additions to property, plant and equipment	29,018	13,379
Non-cash additions to right-of-use assets	(10,158)	—
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	1,785	(521)
Additions, as per statements of cash flows	$ 20,645	$ 12,858

As at March 31, 2020 and 2019, construction in progress included mainly the cost related to machinery and equipment. As at March 31, 2020, the cost of property, plant and equipment still in use and fully depreciated is $110,782 ($91,109 as at March 31, 2019).

NOTE 16. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2019	$ 26,356	$ 21,912	$ 68,086	$ 116,354
Additions	5,740	2,090	—	7,830
Business acquisitions	—	431	2,366	2,797
Customers funding	(5,399)	—	—	(5,399)
Government assistance (note 7)	(833)	—	—	(833)
Retirements and disposals	—	(321)	—	(321)
Effect of changes in exchange rates	91	232	1,651	1,974
As at March 31, 2020	$ 25,955	$ 24,344	$ 72,103	$ 122,402
Accumulated amortization:				
As at March 31, 2019	$ 12,466	$ 15,778	$ 18,733	$ 46,977
Amortization expense	808	2,513	7,189	10,510
Retirements and disposals	—	(321)	—	(321)
Effect of changes in exchange rates	135	584	470	1,189
As at March 31, 2020	$ 13,409	$ 18,554	$ 26,392	$ 58,355
Net book value as at March 31, 2020	$ 12,546	$ 5,790	$ 45,711	$ 64,047

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2018	$ 31,160	$ 18,641	$ 25,404	$ 75,205
Additions	3,165	2,749	—	5,914
Business acquisitions	—	1,693	42,940	44,633
Customers funding	(7,142)	—	—	(7,142)
Government assistance (note 7)	(1,046)	(79)	—	(1,125)
Retirements and disposals	—	(480)	—	(480)
Effect of changes in exchange rates	219	(612)	(258)	(651)
As at March 31, 2019	$ 26,356	$ 21,912	$ 68,086	$ 116,354
Accumulated amortization:				
As at March 31, 2018	$ 11,493	$ 14,152	$ 13,704	$ 39,349
Amortization expense	948	2,226	5,124	8,298
Retirements and disposals	—	(480)	—	(480)
Effect of changes in exchange rates	25	(120)	(95)	(190)
As at March 31, 2019	$ 12,466	$ 15,778	$ 18,733	$ 46,977
Net book value as at March 31, 2019	$ 13,890	$ 6,134	$ 49,353	$ 69,377

NOTE 17. GOODWILL

Goodwill varied as follows, during fiscal year:

	2020	2019
Balance at beginning of the year	$ 189,012	$ 91,137
Business acquisitions (note 5)	3,408	100,930
Impairment	(79,736)	—
Effect of changes in exchange rates	8,089	(3,055)
Balance, end of year	$ 120,773	$ 189,012

The net carrying amount of goodwill was allocated to the following CGUs, as at:

	March 31, 2020
North America	$ 24,799
U.K.	65,735
Spain	30,239
Goodwill	$ 120,773

The following assumptions were used to measure recoverable amounts (value in use) for the impairment tests performed as at March 31, 2020:

	Pre-tax discount rate	**Perpetual growth rate**
North America	13.8%	2.3%
U.K.	13.8%	2.3%
Spain	14.9%	2.3%

Impairment testing of goodwill performed as at March 31, 2020 resulted in impairment charges of $53,035 and $26,701, respectively, for the North America and Spain CGUs.

The recoverable amount is determined using management's budget and strategic plan which covers a five-year period. Management prepares the budget and strategic plan based on the published production rates of aircraft manufacturers, aerospace industry forecasts, general economic forecasts, and past experience.

The significant decrease in expected demand for commercial aerospace products caused by the ongoing COVID-19 pandemic was quantified in these estimates, including production rate cuts such as the 40% reduction in large commercial aircraft volume already announced by Airbus and Boeing. The downward revision of these forecasts is the main contributing factor to the impairment charges.

The immediate and long-term impacts of the pandemic including related government and central bank interventions are unknown at this time, and any estimate thereof is subject to significant uncertainty. The effects of the COVID-19 pandemic may therefore differ from those used in the impairment calculation.

Sensitivity of recoverable amounts

Given the impairment charge at March 31, 2020, any unfavourable deviation from assumptions could result in further impairment. The following table presents, for each CGU, the change in the discount rate or in the perpetual growth rate used in the most recently performed tests that would have been required to recover the carrying amount of the CGU as at March 31, 2020:

	Incremental increase in pre-tax discount rate	**Incremental decrease in perpetual growth rate**
North America	N/A	N/A
U.K.	1.0%	1.4%
Spain	N/A	N/A

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2020	March 31, 2019
Trade payables [1]	$ 81,771	$ 76,749
Accrued liabilities [2]	41,007	37,403
Other	3,710	3,838
Accounts payable and accrued liabilities	$ 126,488	$ 117,990

[1] *Trade payables are normally settled on 30 to 60 day terms.*

[2] *Accrued liabilities mainly include employees-related liabilities.*

NOTE 19. PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Other (note 26)	Total
As at March 31, 2019	$ 12,076	$ 6,096	$ 16,199	$ 9,391	$ 43,762
Arising during the year	285	—	3,607	3,130	7,022
Business acquisitions (note 5)	5,680	—	—	1,238	6,918
Interest accretion expense	—	157	—	—	157
Utilized	(3,974)	(59)	(1,251)	(2,574)	(7,858)
Reversed	—	(56)	(2,966)	(1,167)	(4,189)
Discount rate adjustment	—	305	(190)	(5)	110
Effect of changes in exchange rates	822	—	379	83	1,284
As at March 31, 2020	$ 14,889	$ 6,443	$ 15,778	$ 10,096	$ 47,206
Less: current portion	4,352	867	12,597	9,863	27,679
Long-term portion	$ 10,537	$ 5,576	$ 3,181	$ 233	$ 19,527

NOTE 20. LONG-TERM DEBT

As at	March 31, 2020	March 31, 2019
Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility“)	$ 96,472	$ 94,877
Governmental authorities loans	88,590	89,701
Unsecured Subordinated Term Loan Facility ("Term Loan")	60,000	50,000
Lease liabilities (note 3)	44,665	20,411
Balance of sale - Acquisitions (note 5)	2,983	4,677
Secured loans - Tekalia	—	3,592
Deferred financing costs, net	(3,093)	(2,952)
	289,617	260,306
Less: current portion	16,857	15,066
Long-term debt	$ 272,760	$ 245,240

Senior Secured Syndicated Revolving Credit Facility

The relevant terms and drawings on the Credit Facility are as follows:

As at	March 31, 2020	March 31, 2019
Limit, in Canadian, US$, Euro or British Pound equivalent [1]	$ 250,000	$ 250,000
US$ Drawings		
Amount	US$ 68,000	US$ 71,000
Rate	Libor + 1.5%	Libor + 2.0%
Effective rate	2.5%	4.5%

[1] *Includes an accordion feature to increase the Credit Facility up to $350 million during the term of the credit agreement, subject to lenders’ approval.*

In December 2019, the Corporation reached an agreement with its syndicate of banks to extend the term of its Revolving Facility through December 2024. Most of the other terms remained unchanged. Financing costs totaling $897 ($1,699 in fiscal 2019) were deferred and will be amortized over the term of the Revolving Facility using the effective interest rate method. The Credit Facility is secured by essentially all assets of the Corporation and its subsidiaries.

Governmental authorities loans

Governmental authorities loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under Canadian federal and provincial or Spanish industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be refund. Repayments, when not on a fixed schedule, are either based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines and bear no or below-market interest rate.

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as financial expense.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2020, the Corporation updated the estimated repayment schedule of its government authorities loans, taking into account revised assumptions mainly related to the reduced sales forecasts. This resulted in a non-cash gain of $3,153 ($1,036 in fiscal 2019), which was included in Net financial expenses (see note 9).

The effective interest rates for these loans were in the range of 0.0% to 6.8% as at March 31, 2020 (0.0% to 6.6% as at March 31, 2019).

Unsecured Subordinated Term Loan Facility

The Corporation has a Term Loan Facility provided by the Fonds de solidarité FTQ ("FSTQ") for an amount of up to $75,000. A first tranche of $50,000 was drawn to finance the acquisition of CESA in October 2018 and a second of $10,000 was drawn in June 2019 for the acquisition of Alta Précision.

The initial $50,000 loan bears interest at 5.70% and the second tranche of $10,000 bears interest at 4.73%. All the tranches are repayable at maturity on September 30, 2025, and starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees. In fiscal 2019, financing costs totaling $835 were incurred and are amortized over the term of the related loans using the effective interest rate method.

Subsequent to year-end, on April 1, 2020, the Corporation has drawn an additional $45,000 tranche on its Revolving Facility and an additional $15,000 tranche on its Term Loan Facility with FSTQ as a preventive measure to secure additional liquidities and prevent from unfavorable market effects related to bank liquidities.

Lease liabilities

The incremental borrowing rate applied to lease liabilities recognized at the date of initial application and at March 31, 2020 ranged between 2.8% and 7.0% for leases. Refer to note 3 for further details about the adoption of IFRS 16.

The following table presents the reconciliation between the opening and the closing balances of the lease liabilities:

		Lease liabilities
Balance as at March 31, 2019	$	20,411
Adoption of IFRS 16 (Notes 3 and 15)		14,892
Balance at April 1, 2019	$	35,303
Additions		10,158
Business acquisition		6,844
Lease payments		(9,566)
Interest expense on lease liabilities		1,819
Effect of changes in exchange rates		107
Balance as at March 31, 2020	$	44,665

The expense related to short-term leases and low-value assets leases during the year ended March 31, 2020 was immaterial.

Covenants

Long-term debt is subject to certain general and financial covenants related, among others, indebtedness, cash flows and equity of the Corporation and/or certain of its subsidiaries. The Corporation complied with all covenants as at March 31, 2020.

Minimum repayments

Minimum repayments of long-term debt during the next five years are as follows:

Fiscal years	Revolving Facility	Governmental authorities loans	Term Loan	Lease liabilities	Other (2)	Total
2021	$ 2,411	$ 5,785	$ 3,323	$ 10,173	$ 3,057	$ 24,749
2022	2,411	7,969	3,323	9,460	—	23,163
2023	2,411	11,184	3,323	7,055	—	23,973
2024	2,411	10,173	3,323	4,528	—	20,435
2025	98,280	9,704	3,323	3,179	—	114,486
Beyond 5 years	—	67,926	61,662	24,259	—	153,847
Sub-Total	107,924	112,741	78,277	58,654	3,057	360,653
Less: Interest	11,452	24,151	18,277	13,989	74	67,943
Debt balance (1)	$ 96,472	$ 88,590	$ 60,000	$ 44,665	$ 2,983	$ 292,710

(1) *Before net deferred financing costs.*

(2) *Includes the balance of sales related to a business acquisition.*

The following table presents reconciliation between the opening and closing balances for the Long-term debt.

	March 31, 2020	March 31, 2019
Long-term debt, at beginning of the fiscal year	$ 260,306	$ 131,041
Adoption of IFRS 16 (note 3)	14,892	—
Increase in long-term debt	41,085	117,883
Repayment of long-term debt	(38,024)	(36,198)
Debt acquired through business acquisitions (note 5)	8,247	43,758
Amortization of deferred financing costs (note 9)	756	505
Fees incurred to amend or renew the Credit Facility	(897)	(2,534)
Interest accretion and adjustments on governmental authorities loans (note 9)	(773)	1,325
Effects of fluctuations in exchange rates	4,025	4,526
Long-term debt, at end of the fiscal year	$ 289,617	$ 260,306

NOTE 21. OTHER LIABILITIES

As at	**March 31, 2020**	**March 31, 2019**
Net defined benefit obligations (note 25)	$ 10,079	$ 6,650
Customer advances and progress billings	3,890	2,913
Deferred revenue	1,019	1,468
Other	2,013	1,946
Other Liabilities	$ 17,001	$ 12,977

NOTE 22. ISSUED CAPITAL

Authorized	
Voting common shares, without par value	Unlimited
First preferred shares, issuable in series, without par value	Unlimited
Second preferred shares, issuable in series, without par value	Unlimited

No preferred shares are outstanding.

Variations in common shares issued and fully paid were as follows, for fiscal year:

		2020		**2019**
	Number	**Issued capital**	**Number**	**Issued capital**
Balance at the beginning of the year	36,362,210	$ 79,676	36,218,572	$ 78,105
Issued for cash on exercise of stock options	5,000	81	107,450	1,101
Issued for cash under the stock purchase and ownership incentive plan	—	—	36,188	470
Balance at the end of the year	36,367,210	$ 79,757	36,362,210	$ 79,676

Stock-based compensation

A. Stock option plan

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

Variations in stock options outstanding and related compensation expense were as follows, for fiscal year:

		2020		2019
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance at the beginning of the year	1,167,095	$ 13.23	1,105,295	$ 12.09
Granted	341,500	16.03	207,500	16.21
Exercised	(5,000)	11.71	(107,450)	6.50
Cancelled / forfeited	(6,000)	16.03	(38,250)	15.24
Balance at the end of the year	1,497,595	$ 13.86	1,167,095	$ 13.23
Stock-based compensation expense		$ 1,108		$ 882

The weighted-average share price at the date of exercise of stock options in fiscal 2020 was $18.10 ($15.86 in 2019).

Details of stock options granted were as follows, for fiscal year:

	2020	2019
Number of stock options granted	341,500	207,500
Weighted average fair value per stock option	$ 4.33	$ 4.25
Total fair value	$ 1,479	$ 882
Expected life	5.4 years	4.8 years
Expected volatility	25%	24%
Expected forfeiture	3.5%	4.2%
Expected dividend distribution	None	None
Compounded risk-free interest rate	1.6%	2.3%

As at March 31, 2020, 2,808,257 common shares are reserved for issuance upon exercise of stock options, of which 2,757,507 remained to be issued, compared to 2,762,507 as at March 31, 2019.

As at March 31, 2020, 1,497,595 stock options were issued and outstanding and can be detailed as follows:

	Outstanding options			Vested options	
Exercisable price	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$10.71 to $11.71	635,595	1.26	$11.43	635,595	$11.43
$14.93 to $16.22	862,000	5.25	15.66	297,625	15.16
	1,497,595	3.58	$13.86	933,220	$12.62

B. Stock purchase and ownership incentive plan

Movements in common shares and related expenses related to the stock purchase and ownership incentive plan were as follows, for fiscal year:

	2020	2019
In number of common shares		
Issued	—	36,188
Attributed to participating employees	58,019	24,622
Expense related to common shares attributed	$ 364	$ 227

As at March 31, 2020 and 2019, 340,000 shares are reserved for issuance under the stock purchase and ownership incentive plan, of which 22,678 remained to be issued.

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

Movements in outstanding DSUs and related expense were as follows, for fiscal year:

	2020	2019
In number of DSUs		
Balance, beginning of year	166,334	136,170
Issued	21,671	36,008
Settled	(33,055)	(4,512)
Cancelled/Forfeited	—	(1,332)
Closing balance of DSUs outstanding	154,950	166,334
DSU (income) expense	$ (325)	$ 640
Fair value of outstanding DSUs, end of year	$ 1,599	$ 2,534

Movements in outstanding PSUs and related expense were as follows, for fiscal year:

	2020	2019
In number of PSUs		
Balance, beginning of year	212,450	187,948
Issued	119,300	81,350
Settled	(16,100)	(38,392)
Cancelled/forfeited	(37,200)	(18,456)
Closing balance of PSUs outstanding	278,450	212,450
PSU expense	$ 764	$ 1,505
Fair value of vested outstanding PSUs, end of year	$ 2,316	$ 1,850

Liabilities related to PSUs and DSUs plans are presented under the *Accounts payable and accrued liabilities* caption on the Consolidated Balance Sheets.

NOTE 23. 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 March 31, 2019	$ 19,266	$ (1,772)	$ (6,992)	$ 10,502
Other comprehensive loss	15,579	(12,130)	(6,791)	(3,342)
Balance as at March 31, 2020	$ 34,845	$ (13,902)	$ (13,783)	$ 7,160

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at March 31, 2018	$ 20,116	$ 24	$ (5,923)	$ 14,217
Other comprehensive loss	(850)	(1,796)	(1,069)	(3,715)
Balance as at March 31, 2019	$ 19,266	$ (1,772)	$ (6,992)	$ 10,502

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2020	2019
Consolidated statements of (loss) income		
Current income tax expense	$ 7,637	$ 6,254
Deferred income tax expense (recovery)	5,105	(2,019)
Income tax expense reported in the consolidated statements of income	$ 12,742	$ 4,235
Consolidated statements of changes in shareholders' equity		
Recovery related to items charged or credited directly to retained earnings	$ (631)	$ (656)
Recovery related to items charged or credited directly to other comprehensive income	(5,808)	(557)
Income tax recovery reported directly in shareholders' equity	$ (6,439)	$ (1,213)

The computation of income tax expense is as follows, for fiscal year:

	2020	2019
Income taxes at combined Federal and Provincial statutory tax rates of 26.5% (26.6% in fiscal 2019)	$ (10,030)	$ 8,124
Income tax rate differential – foreign subsidiaries	(3,733)	(4,788)
Non deductible goodwill impairment	21,130	—
Write-down of deferred tax asset	3,805	—
Permanent differences	1,227	1,018
Other items	343	(119)
Income tax expense	$ 12,742	$ 4,235

Significant deferred income tax assets and liabilities arising from the effect of temporary differences are as follows:

As at	March 31, 2020	March 31, 2019
Deferred income tax assets		
Non-deductible reserves	$ 10,785	$ 10,975
Inventories	5,625	5,345
Receivables	14	20
Derivative financial instruments	4,707	113
Lease liabilities	3,837	—
Governmental authorities loans	15	10
Deferred tax benefits from tax losses and deductible expenses carried forward	23,538	22,185
Total deferred income tax assets	$ 48,521	$ 38,648
Deferred income tax liabilities		
Investment and other tax credits	(59)	(729)
Property, plant and equipment	(25,793)	(16,903)
Customer relationships and contracts	(11,783)	(12,795)
Total deferred income tax liabilities	$ (37,635)	$ (30,427)
Net deferred income tax assets	10,886	8,221

The net deferred income tax assets are included under the following captions on the consolidated balance sheets:

As at	March 31, 2020	March 31, 2019
Deferred income tax assets	$ 19,698	$ 14,575
Deferred income tax liabilities	(8,812)	(6,354)
Net deferred income tax assets	$ 10,886	$ 8,221

As at March 31, 2020, net deferred income tax assets of $12,162 were recognized ($13,330 as at March 31, 2019) in jurisdictions that incurred losses in current and prior fiscal years. Based upon the level of historical taxable income and projections for future taxable income, the Corporation's management believes it is probable that the Corporation will realize the full benefits of these deductible temporary differences and non-capital losses carried forward.

As at March 31, 2020, operating losses carried forward or other temporary differences for which related deferred income tax assets have not been recognized in the consolidated financial statements amounted to $28,354 ($3,329 as at March 31, 2019).

The Corporation had the following non-capital losses and undeducted interest expenses available for carry-forward:

As at	March 31, 2020	March 31, 2019
Canada	$ 26,094	$ 19,520
United States	73,198	64,219
United Kingdom	1,802	1,456
Spain	24,357	18,874
	$ 125,451	$ 104,069

As at March 31, 2020, deferred income tax assets of $12,526 and deferred income tax liabilities of $1,644 are expected to be recovered or settled in less than one year.

Deferred income tax is not recognized on the unremitted earnings of subsidiaries where the Corporation is able to control the timing of the remittance and it is probable that there will be no remittance in the foreseeable future. As at March 31, 2020, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $28,850 ($21,614 in 2019).

NOTE 25. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Description of benefit plans

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

Benefits provided by the post-retirement benefit plans are set out by individual agreements, which mostly provide for life insurance coverage and health care benefits. Since their amount is not significant, they are not included in the figures below.

Total cash payments

For fiscal year 2020, total cash payments for employee future benefits, consisting of cash contributed by the Corporation to its funded defined benefit pension plans and cash payments directly to beneficiaries for its unfunded defined benefit pension plans amounted to $1,417 ($1,335 in 2019) while the cash contributed to its defined contribution plans amounted to $3,425 ($3,492 in 2019).

Defined benefit plans

The Corporation measures the fair value of plan assets for accounting purposes as at March 31 of each year while its defined benefit obligations are valued as at December 31 of each year and projected to March 31 for all plans, except one plan for which the valuation is made as at March 31.

The defined benefit plans expose the Corporation to actuarial risks such as:

- Life expectancy risk
  - The present value of defined benefit obligations is calculated in part by reference to the estimated life expectancy of plan members. An increase in life expectancy increases the Corporation's obligations.
- Currency risk
  - As a significant portion of plan assets are invested in foreign equities, an increase in the value of the Canadian dollar in comparison to the denomination of these foreign equities would result in an increase in the Corporation's obligations.
- Interest rate risk
  - A decrease in market rates of interest would decrease the discount rate used to calculate the present value of defined benefit obligations, thus increasing it. This would be partially offset by the resulting increase in the value of the plans' bond holdings.
- Investment risk
  - Investment risk is the risk that the return on plan assets is lower than the corporate bond interest rate used to determine the discount rate. Currently, the plans have an investment mix of 58% in equity funds, 41% in debt securities and 1% in other funds. Due to the long-term nature of the plans' defined benefit obligations, the Corporation considers it appropriate that a reasonable portion of the plans' assets is invested in equity securities and other funds in order to generate additional long-term return on plan assets.

The reconciliation of the present value of the defined benefit obligations and the fair value of plan assets to the amounts recognized in the consolidated balance sheets is as follows:

As at	March 31, 2020	March 31, 2019
Present value of defined benefit obligations of funded plans	$ 64,234	$ 65,962
Fair value of plan assets	55,117	60,710
Funded status of the plans – deficit	(9,117)	(5,252)
Present value of defined benefit obligations of unfunded plan	(962)	(1,398)
Amount recognized in other long-term liabilities (note 21)	$ (10,079)	$ (6,650)

Defined benefit pension expense recognized in the consolidated statements of income is as follows, for fiscal year:

	2020	2019
Current service cost	$ 1,408	$ 1,192
Interest on net defined benefit obligations (note 9)	238	150
Past service cost	543	—
Administrative cost	259	198
Defined benefit pension expense recognized in the consolidated statements of income	$ 2,448	$ 1,540

The total amount recognized in other comprehensive income is as follows, for fiscal year:

	2020	2019
Remeasurements		
Losses from changes in demographic assumptions	$ (59)	$ (326)
Gains (losses) from changes in financial assumptions	4,494	(2,855)
Experience (losses) gains	(486)	255
Return on plan assets, excluding interest income on plan assets	(6,347)	439
Other comprehensive loss	$ (2,398)	$ (2,487)

The actual return on the fair value of plan assets is as follows, for fiscal year:

	2020	2019
Actual return on the fair value of plan assets	$ (4,364)	$ 2,547

The variation in present value of the defined benefit obligations were as follows, for fiscal year:

As at	March 31, 2020	March 31, 2019
Defined benefit obligations at the beginning of the year	$ 67,360	$ 62,932
Current service cost	1,408	1,192
Interest expense	2,221	2,258
Contributions by plans' participants	694	675
Losses from changes in demographic assumptions	59	326
(Gains) losses from changes in financial assumptions	(4,494)	2,855
Experience losses (gains)	486	(255)
Benefits paid	(3,081)	(2,623)
Past service benefits	543	—
Defined benefit obligations at the end of the year	$ 65,196	$ 67,360

The fair value of plan assets is as follows:

As at	March 31, 2020	March 31, 2019
Fair value of plans' assets at the beginning of the year	$ 60,710	$ 58,974
Interest income on plans' assets	1,983	2,108
Return on plans' assets, excluding interest income on plans' assets	(6,347)	439
Contributions by the employer	1,417	1,335
Contributions by plans' participants	694	675
Benefits paid	(3,081)	(2,623)
Administrative costs	(259)	(198)
Fair value of plans' assets at the end of the year	$ 55,117	$ 60,710

The plans' assets consist of:

As at	March 31, 2020	March 31, 2019
Equity securities	58%	61%
Debt securities	41%	31%
Other	1%	8%
Total	100%	100%

Significant assumptions

The significant weighted-average assumptions used at the reporting date are as follows, for fiscal year:

	2020	2019
Defined benefit obligations as at March 31:		
Discount rate	3.80%	3.30%
Rate of compensation increase	3.50%	3.50%
Average life expectancies based on a pension at 65 years of age:		
Male, 45 years of age at reporting date	87	86
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	88	87
Female, 65 years of age at reporting date	90	90

The following table summarizes the effects of the changes in these actuarial assumptions on the defined benefit obligations for the fiscal year ended and as at March 31, 2020:

Increase (Decrease)	**Defined benefit obligations**
	%
Discount rate	
Increase of 0.5%	(6.3)
Decrease of 0.5%	7.2
Rate of compensation	
Increase of 0.5%	—
Decrease of 0.5%	—
Average life expectancies	
Increase of 1 year	2.2
Decrease of 1 year	(2.3)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2021 amount to $1,358.

The duration of the defined benefit obligations at March 31, 2020 is 14.7 years (14.8 years in 2019). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2020	March 31, 2019
Less than a year	$ 1,860	$ 1,783
Between 1-2 years	2,096	1,834
Between 2-5 years	7,071	6,125
Over 5 years	150,545	168,987
Total	$ 161,572	$ 178,729

Defined contribution pension plans

The defined contribution pension plans' costs are as follows, for fiscal year:

	2020	2019
Defined contribution pension plan costs	$ 3,425	$ 3,492

NOTE 26. COMMITMENTS

Commitments

The Corporation has commitments for outstanding purchases orders relating to machinery and equipment which have not been delivered yet to the Corporation's facilities. The minimum payments over the next five years are as follows:

	2021	2022	2023	2024	2025	Thereafter	Total 2020	Total 2019
Building, machinery and equipment acquisition commitments	$ 5,975	$ 1,466	—	—	—	—	$ 7,441	$ 6,796

Guarantees

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business disposition and the sale of assets.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs or losses incurred as a result of various events including breaches of representations and warranties, intellectual property right infringement, loss of or damage to property, environmental liabilities, changes in or in the interpretation of laws and regulations (including tax legislations), valuation differences or as a result of litigations that may be suffered by the counterparties.

In the sale of all or a part of a business or assets, in addition to possible indemnification relating to failure to perform covenants and breach of representations and warranties, the Corporation may have to indemnify against claims related to past conduct of the business. The nature of these indemnification agreements prevents the Corporation from estimating the maximum potential liability that could be required under guarantees, since these events have not occurred yet. As at March 31, 2020, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2020, an amount of $4,804 ($5,012 in 2019) was provided for in the Corporation's provisions in respect to these items and is classified as short-term provision (note 19) given the undetermined date of settlement.

Letters of credit

As at March 31, 2020, the Corporation has outstanding letters of credit amounting to $22,590 ($26,153 in 2019).

NOTE 27. CONTINGENCIES

The Corporation is involved in litigations and claims in the normal course of business. Management is of the opinion that any resulting settlements would not materially affect the Corporation's consolidated financial position and operating results.

NOTE 28. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items is detailed as follows, for fiscal year:

	2020	2019
Accounts receivable	$ 4,328	$ (5,624)
Income tax receivable	1,102	(385)
Inventories	(45,517)	(1,746)
Other current and long-term assets	116	(2,245)
Accounts payable and accrued liabilities and other liabilities	3,320	20,013
Provisions	(8,822)	(5,377)
Customers advances and progress billings	11,072	4,655
Income tax payable	(508)	(2,404)
Effect of changes in exchange rates[1]	5,381	2,686
	$ (29,528)	$ 9,573

[1] *Reflects the total impact of changes in exchange rates during the period on non-cash items listed above for the Corporation's foreign subsidiaries.*

NOTE 29. GEOGRAPHIC INFORMATION

The geographic segmentation of the Corporation's assets is as follows:

As at					March 31, 2020
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	$ 115,058	$ 80,245	$ 20,873	$ 43,465	$ 259,641
Finite-life intangible assets, net	15,802	4,225	6,119	37,901	64,047
Goodwill	5,404	19,395	65,735	30,239	120,773
As at					**March 31, 2019**
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	$ 97,210	$ 72,872	$ 13,987	$ 43,885	$ 227,954
Finite-life intangible assets, net	14,785	6,433	9,254	38,905	69,377
Goodwill	14,344	53,217	65,041	56,410	189,012

Geographic sales based on the customers' location are detailed as follows, for fiscal year:

	2020	2019
United States	$ 326,860	$ 260,397
United Kingdom	62,734	53,589
Spain	48,049	26,036
Rest of Europe	67,647	58,837
Canada	57,472	39,668
Other countries	50,234	45,350
	$ 612,996	$ 483,877

NOTE 30. EXECUTIVE COMPENSATION

Key management includes directors (executive and non-executive) and members of the Executive Committee. The executive compensation expense to key management is as follows, for fiscal year:

	2020	2019
Short-term employee benefits and other benefits	$ 4,019	$ 3,622
Pension and other post-retirement benefits	173	84
Share-based payments	1,301	1,421
Total compensation to key management personnel	$ 5,493	$ 5,127

NOTE 31. FINANCIAL INSTRUMENTS

Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the consolidated balance sheets are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, and
Level 3: unobservable inputs for the asset or liability.

The classifications of financial instruments as well as their carrying amounts and fair values are summarized as follows:

As at	March 31, 2020			March 31, 2019		
	Fair value hierarchy	**Carrying amount**	**Fair Value**	**Fair value hierarchy**	**Carrying amount**	**Fair Value**
Financial assets						
Cash and cash equivalents	Level 1	$ 45,841	$ 45,841	Level 1	$ 35,128	$ 35,128
Derivative financial instruments	Level 2	3,526	3,526	Level 2	6,599	6,599
		$ 49,367	$ 49,367		$ 41,727	$ 41,727
Financial liabilities						
Derivative financial instruments	Level 2	$ 23,988	$ 23,988	Level 2	$ 3,451	$ 3,451
Long-term debt, including current portion	Level 2	292,710	318,456	Level 2	263,258	270,716
		$ 316,698	$ 342,444		$ 266,709	$ 274,167

Derivative financial instruments - The fair value of derivative financial instruments recognized in the consolidated balance sheets has been determined using the Corporation's valuation models and compared to the fair value information provided by the financial institutions using exchange rates or interest rates quoted in the active market and adjusted for the credit risk added by the financial institution. These models project future cash flows and discount the future amounts to a present value using the contractual terms of the derivative financial instruments and factors observable in external markets data, such as period-end interest-rate swap and foreign exchange rates.

Long-term debt – The fair value of long-term debt has been determined by calculating the present value of long-term debt using the rate that would be negotiated under the economic conditions at year-end.

NOTE 32. FINANCIAL RISK MANAGEMENT

The Corporation is exposed primarily to market risk, credit and credit concentration risks, and liquidity risk as a result of holding financial instruments.

Market Risk

Market risk is the risk of fluctuations in the fair value or future cash flows of financial instruments following changes in market prices, whether those changes are caused by factors specific to the individual financial instruments or its issuer, or factors affecting all similar financial instruments traded in the market. The Corporation is primarily exposed to the following market risks:

Foreign exchange risk
The Corporation is exposed to risks resulting from foreign currency fluctuations arising either from carrying on business in Canada in foreign currencies or through operations in the United States of America, Spain and the United Kingdom.

In an effort to mitigate the foreign currency fluctuation exposures, the Corporation makes use of derivative contracts to hedge this exposure, essentially to the U.S. currency and arising from its Canadian, Spanish and United Kingdom operations.

The Corporation's foreign exchange policy requires the hedging of 50% to 100% of the identified foreign currency exposure, mainly over the next two fiscal years, of the forecasted cash inflows generated by sales in U.S. currency made by its Canadian, Spanish and United Kingdom operations and related to sales contracts, net of the forecasted cash outflows in U.S. currency made by its Canadian, Spanish and United Kingdom operations and related essentially to raw materials and certain other material costs.

As at March 31, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $404,728 denominated in USD, EUR and GBP. This amount includes mainly contracts with nominal value of US$266,355 convertible into Canadian dollars at an average rate of 1.3243. These contracts mature at various dates between April 2020 and March 2025, with the majority maturing fiscal years 2021 and 2022.

As at March 31, 2020, a 1% strengthening of the Canadian dollar over foreign currencies, while all other variables would remain fixed, would have impacted the consolidated net income and the other comprehensive income as follows:

	U.S. dollar impact	British pound impact	Euro impact
	$	$	$
Increase in net loss	(275)	(122)	(138)
Increase (decrease) in other comprehensive income (loss)	448	(1,755)	(766)

The foreign exchange rate sensitivity analysis shown above is calculated by aggregation of the net foreign exchange rate exposure of the Corporation's financial instruments including the forward foreign exchange contracts as at the consolidated balance sheet date.

Interest-rate risk

The Corporation is exposed to interest rate fluctuations primarily due to its variable interest rate on its long-term debt's Credit Facility (see note 20). In addition, interest rate fluctuations could also have an impact on the Corporation's interest income which is derived from its cash and cash equivalents.

The Corporation's interest rate policy requires maintaining an appropriate mix of fixed and variable interest rates debt to mitigate the net impact of fluctuating interest rates. Management as such may use derivatives to maintain a fixed debt ratio of between 40% and 80% of long-term debt, excluding lease liabilities and government loans.

Cross-currency interest rate swaps

The acquisition of CESA (see note 5) exposed the Corporation to foreign currency and interest rate risks related to the investment in Euros. A decrease in value of the Euro compared to the Canadian dollar would decrease the value of the foreign investment, and an increase in interest rates underlying debt would increase related net financial expenses.

In order to mitigate these risks, as at March 31, 2020, the Corporation had entered into the following cross-currency interest rate swap agreements in order to manage foreign exchange and interest rate risks:

Notional		Fixed EUR equivalent		Interest rate	Inception	Maturity
US$	29,370	€	25,000	1.86 %	October 2017	May 2022
C$	50,000	€	34,110	3.40 %	October 2017	September 2025
US$	17,523	€	15,000	Euribor 1 month + 1.74%	September 2018	May 2022
C$	10,000	€	6,658	2.68 %	June 2019	September 2025

A 100 basis point variation in interest rates would have affected the Corporation's financial results for fiscal 2020 as follows:

	100 bps increase	100 bps decrease
	$	$
Impact on net income related to floating rate long-term debt	(116)	116
Impact on comprehensive income related to cross-currency interest-rate swap agreements	846	(846)

The interest rate sensitivity analysis shown above is calculated on the floating-rate liability at the end of the fiscal year and assumes all other variables remain fixed.

Other price risk

The Corporation's net income is exposed to fluctuations of its share price through its DSUs and PSUs (see note 22). In order to mitigate this exposure, the Corporation has entered into an equity swap agreement with a financial institution.

Pursuant to this agreement, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impacts the expense of the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2020, the equity swap agreement covered 300,000 common shares of the Corporation at a price of $13.52. This agreement is a derivative instrument that is not part of a designated hedging relationship and matures in June 2021.

Credit and credit concentration risks

The credit and credit concentration risks represent counterparty risks where the parties with which the Corporation enters into agreements or contracts could be unable to fulfill their commitments.

Credit risks are primarily related to the potential inability of customers to discharge their obligations with regards to the Corporation's accounts receivable and of financial institutions with regards to the Corporation's cash and cash equivalents and derivative financial instruments.

Credit concentration risks are related to the fact that approximately 60% of the Corporation's fiscal 2020 sales are made to only nine customers (61% to nine customers in 2019). More specifically, in fiscal 2020, the Corporation had one customer representing 22% of its consolidated sales (one customer representing 22% in 2019).

Accounts receivable

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals generally with large corporations and Government agencies, with the exception of sales made to private small businesses which represent together approximately 3.7% in fiscal 2020 (4.2% in 2019) of the Corporation's consolidated sales.

As at March 31, 2020, the Corporation has historically not made any significant write-off of accounts receivable and the number of days in accounts receivable was at acceptable levels in the industry in which the Corporation operates.

In response to the COVID-19 pandemic, the Corporation has increased the frequency of its close monitoring of the credit quality of the accounts receivable. In certain circumstances, cash-on-delivery arrangements were made with certain customers. There were no material increases in allowance for doubtful accounts following the COVID-19 pandemic as the quality of the accounts receivable based on the Corporation's assessment until this date has not materially decreased. The effects of COVID-19 pandemic are still evolving and certain customers' credit situation is difficult to assess given the immaterial bad debt experience with these customers.

Changes in the allowance for doubtful accounts were as follows for the fiscal year ended March 31, 2020:

	2020
Balance, beginning of year	$ 192
Arising during the year	996
Balance at the end of the year	$ 1,188

The details of the Corporation's trade receivables are the following:

As at	March 31, 2020	March 31, 2019
Not past due	$ 103,099	$ 105,402
Past due less than 90 days	7,820	8,866
Past due more than 90 days	2,264	1,163
Impaired	563	192
	113,746	115,623
Allowance for doubtful accounts	(1,188)	(192)
Balance at the end of the year	$ 112,558	$ 115,431

Estimated credit losses based on expected loss rates were insignificant as at March 31, 2020 and 2019.

Cash and cash equivalents and derivative financial instruments

The credit and credit concentration risks related to these financial instruments are limited due to the fact that the Corporation deals mainly with high-grade financial institutions such as Canadian chartered banks and their U.S. subsidiaries or branches or with a Canadian branch of a U.S. bank, based on the Corporation's investment policy. On that basis, the Corporation does not anticipate any breach of agreements by counterparties.

As at March 31, 2020, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 31):

	FVTPL	FVTOCI [(1)]	A.C.
Cash and cash equivalents	$ —	$ —	$ 45,841
Accounts receivable	—	—	112,558
Derivative financial instruments	—	3,526	—

[(1)] *Represents the fair value of derivative financial instruments designated in a hedging relationship.*

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set, under the terms of such commitments and at a reasonable price. The Corporation manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of long-term sales contracts and planned capital expenditures.

As at March 31, 2020, the maturity analysis of financial liabilities represented the following:

	< 1 year	1 to 3 years	4 to 5 years	> 5 years	Total
Accounts payable and accrued liabilities	$ 126,488	$ —	$ —	$ —	$ 126,488
Customer advances	14,501	—	—	—	14,501
Long-term debt, including current portion (note 20)	24,749	47,136	134,921	153,847	360,653
Derivative financial instruments	9,321	10,921	2,535	1,211	23,988

NOTE 33. CAPITAL RISK MANAGEMENT

The general objectives of the Corporation's management, in terms of capital management, reside in the preservation of the Corporation's capacity to continue operating, providing benefits to its stakeholders and in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can, for example:

- Issue new common shares;
- Repurchase common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders.

The net debt-to-equity ratio, represented by net debt divided by shareholders' equity, is the overriding factor in the Corporation's capital management and monitoring practices.

During fiscal year ended March 31, 2020, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows:

As at	March 31, 2020	March 31, 2019
Current portion of long-term debt	$ 16,857	$ 15,066
Long-term debt	272,760	245,240
Deferred financing costs, net	3,093	2,952
Less: Cash and cash equivalents	45,841	35,128
Net debt	$ 246,869	$ 228,130
Shareholders' equity	349,448	404,098
Net debt-to-equity ratio	0.71:1	0.56:1

The Corporation is not subject to any regulatory capital requirements.

NOTE 34. SUBSEQUENT EVENT

On May 5, 2020, the Corporation announced restructuring initiatives driven by lower production rates in the commercial aerospace market due to the ongoing COVID-19 pandemic. These initiatives will result in a 10% workforce reduction or approximately 225 employees which include the closing of Alta facilities. These initiatives will be competed over the current fiscal year and will result in a non-recurring charges of up to $12,000 before taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2020

TABLE OF CONTENTS

OVERVIEW 53

Forward-looking Statements 53

Highlights of the Year 54

Overview of the Business 55

Impact of COVID-19 56

Economic Outlook 57

Guidance 59

OPERATING RESULTS 60

Non-IFRS Financial Measures 64

LIQUIDITY AND CAPITAL RESOURCES 66

Credit Facility and Cash and Cash Equivalents 66

Government Authorities Loans 67

Variations in Cash and Cash Equivalents 68

Free Cash Flow 70

Liquidity Requirements 71

FINANCIAL POSITION 72

Capital Structure 72

Issued Capital 72

Consolidated Balance Sheets 73

Pension Plans 74

ADDITIONAL INFORMATION 75

Business Acquisition 75

Foreign Exchange 78

Risk Management 79

Key Performance Indicators 84

Derivative Financial Instruments 84

Internal Controls and Procedures 85

Critical Accounting Estimates 86

New Accounting Standards 87

Selected Financial Information 90

Shareholder Information 91

Additional Information and Continuous Disclosure 91

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, 2019 and March 31, 2020. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2020 to those of the same periods of the prior fiscal year.

This MD&A is based on the audited consolidated financial statements for fiscal year ended March 31, 2020, which are prepared in accordance with International Financial Reporting Standards ("IFRS"), and should be read in conjunction with them. All amounts in this MD&A are in thousands of Canadian dollars, the Corporation's functional and presentation currency for all periods referred to herein, unless otherwise indicated. Financial data for the quarters ended March 31, 2020 and 2019 has not been audited.

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

This MD&A contains forward-looking statements which are mainly about, but may not be limited to, Héroux-Devtek's future financial performance, expectations, objectives or possible events. These statements are mainly, but may not be exclusively, contained in the *Guidance* and *Economic Outlook* sections and are usually identifiable by the use of such terms as: "aim", "anticipate, "assumption", "believe", "continue", "expect", "foresee", "forecast", "guidance", "intend", "may", "plan", "predict", "should" or "will". The predictive nature of such statements makes them subject to risks, uncertainties and other important factors that could cause the actual performance or events to differ materially from those expressed in or implied by such statements.

Such factors include, but are 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 more details, please see the *Impact of COVID-19* section under *Overview* and the *Risk Management* section under *Additional Information*. 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.

Héroux-Devtek provides such forward-looking statements 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.

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

HIGHLIGHTS OF THE YEAR

Fiscal year	2020	2019
Sales	$ 612,996	$ 483,877
Operating (loss) income	(30,070)	37,240
Adjusted operating income (1)	52,548	41,563
Adjusted EBITDA (1)	96,191	74,213
Net (loss) income	(50,658)	26,194
Adjusted net income (1)	35,666	30,352
Cash flows related to operating activities	52,573	69,969
Free cash flow (1)	30,330	58,642
In dollars per share		
(Loss) Earnings per share - basic and diluted	$ (1.38)	$ 0.73
Adjusted EPS (1)	1.00	0.84
As at	March 31, 2020	March 31, 2019
Funded backlog (2)	$ 810,000	$ 624,000

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

Key Events

- The Corporation generated sales of $613.0 million resulting in an operating loss of $30.1 million, mainly due to the impairment charges mentioned below, and Adjusted EBITDA of $96.2 million in fiscal 2020. These results compared to sales of $483.9 million, operating income of $37.2 million and Adjusted EBITDA of $74.2 million in fiscal 2019.
- Héroux-Devtek generated cash flows related to operating activities of $52.6 million and free cash flow of $30.3 million during fiscal 2020, compared to $70.0 million and $58.6 million in fiscal 2019.
- Funded backlog increased to $810.0 million, compared to $624.0 million as at March 31, 2019, mainly due to increased demand for defence products under long-term contracts.
- Héroux-Devtek's operations are being affected by the ongoing COVID-19 pandemic:
    * All of our facilities remain operational and the Corporation continues to have a strong financial position with available liquidity totaling $193 million as at March 31, 2020. Refer to *Liquidity and Capital Resources* for more information.
    * Significant reduction in expected demand for commercial aerospace products, causing the Corporation to record non-cash impairment charges totaling $85.8 million, $79.7 million of which related to goodwill. Refer to *Non-recurring Items* under *Operating Results* for further details.
    * Subsequent to the end of the fiscal year, on May 5, 2020, Héroux-Devtek announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will be completed over the remainder of the fiscal year, will affect 10% of the workforce, or approximately 225 employees, and will include the closure of the business unit formerly known as Alta Precision. These measures will result in a non-recurring charge of up to $12.0 million before taxes.

  Refer to the *Impact of COVID-19* section for more information on the effects of the pandemic on Héroux-Devtek.
- On May 21, 2019, the Corporation announced the extension of the scope of the F-18 agreement with Boeing to include the manufacturing of the nose and main landing gears for the Advanced F-15 program.
- On December 5, 2019 the Corporation reached an agreement to extend the term of its Revolving Facility from May 2022 to December 2024.

OVERVIEW OF THE BUSINESS

Profile

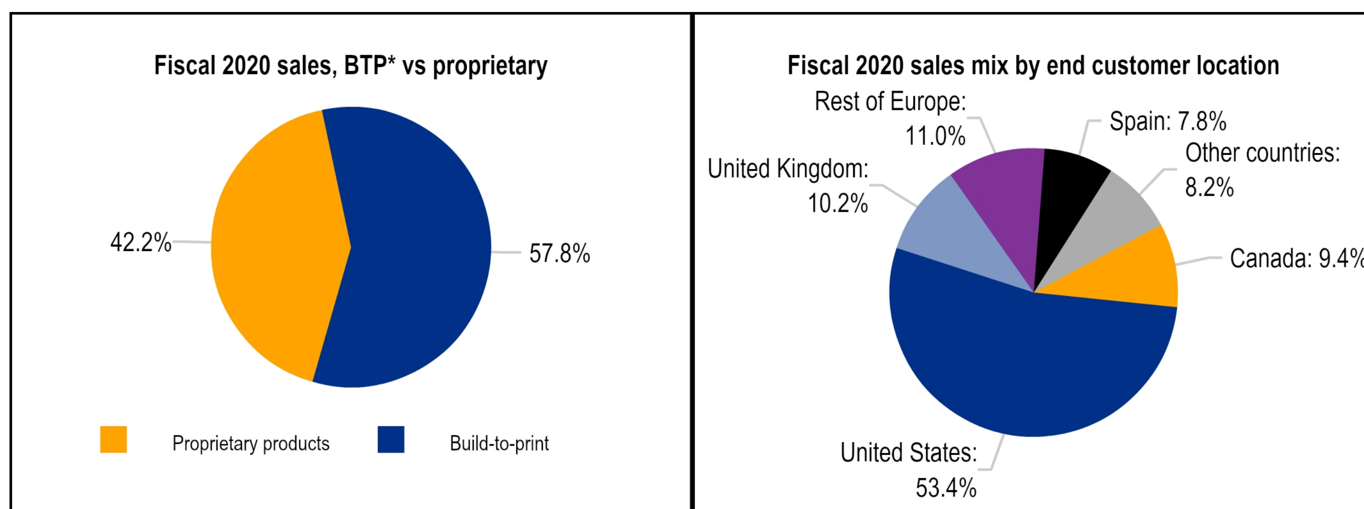
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul (R&O) of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a strong, well-recognized design engineering team. Héroux-Devtek is the third largest landing gear company in the world based on sales, supplying both the commercial and defence sectors.

In the commercial sector, the Corporation is active in the large commercial and business jet, regional aircraft and helicopter markets. On the defence side, the Corporation provides parts and services for major military aircraft in the United States and Europe. As a result, a significant portion of the Corporation's sales are made to a limited number of customers located in Canada, the United States and Europe.

The Corporation's head office is located in Longueuil, Québec while operating facilities are located in the Greater Montreal area (Longueuil, Laval, St-Hubert and Montreal); Kitchener, Cambridge and Toronto, Ontario; Springfield and Cleveland, Ohio; Wichita, Kansas; Everett, Washington; Livonia, Michigan; Seville and Madrid, Spain; as well as Bolton, Runcorn and Nottingham in the United Kingdom.

Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Airbus, Lockheed Martin, Leonardo, Embraer and BAE Systems; to Tier 1 suppliers such as Safran Landing Systems and AAR; and to end users in the aftermarket where its largest customer is the U.S. Air Force ("USAF"). In fiscal 2020, sales to these nine customers represented approximately 60% of total consolidated sales. More specifically, the Corporation has one customer representing 22% of its consolidated sales.

The following charts describe Héroux-Devtek's revenue segmentation in terms of intellectual property and destination:



** BTP: Build to Print*

IMPACT OF COVID-19

The COVID-19 pandemic is having an unprecedented impact on the aviation and aerospace industry, particularly for commercial air travel. Global flights were down 80% in early April 2020, and the fallout of global lockdowns is widely expected to result in the worst economic downturn since the Great Depression.

Airlines facing travel bans, grounded fleets and negative demand outlooks are delaying deliveries and canceling orders of new commercial aircraft, which in turn is pushing OEMs to reduce production rates. Worldwide, supply chains are also disrupted by varying degrees of government-imposed lockdowns as well as the direct impact on manufacturing facilities of virus outbreaks.

These conditions combine for a rarely-before-seen degree of uncertainty in any financial projections as it is almost impossible to estimate the length or severity of either the pandemic or the economic disruption caused by the efforts to contain it. For a detailed review of potential risks and mitigation strategies implemented, refer to the *Risk Management* section under *Additional Information*.

The impact on Héroux-Devtek so far

The Corporation's operations in Spain were the first to be affected by the pandemic given its East-to-West progression. As the virus began to spread at the end of February, our Spanish operations developed protocols to prevent the spread of the disease within Héroux-Devtek's facilities. These measures were implemented across all of our business units (U.K., U.S.A. and Canada) in order to create a safe working environment and have proven to be very effective. To date, there has not been a single case of transmission within any of our offices or factories.

Héroux-Devtek's operations were deemed essential in whole or in part in all jurisdictions where we operate since we are an aerospace manufacturer supplying both the defence and commercial sectors. The protocols that we put in place have largely allowed our team to work normally during this extraordinary period. All of our facilities have remained open and, including people working from home, we have maintained a physical attendance rate of approximately 85% throughout the crisis. Under the exceptional circumstances, this allowed us to remain relatively efficient.

We also enhanced communication with our supply chain in order to assess the pandemic's effects on our critical suppliers and share our best practices with them. While some suppliers have temporarily suspended operations and several will be impacted financially, our operations on the supply side have only been affected minimally to date. We will continue to monitor developments closely in order to respond quickly to any perceived disruptions.

To date, the pandemic has had a larger operational impact on our clients than our suppliers, with several OEMs such as Boeing, Airbus and Embraer temporarily shutting down facilities, delaying some deliveries.

In spite of these obstacles, our employees' extraordinary response and hard work allowed us to achieve strong financial results. We exceeded the sales guidance that we had revised upwards in the third quarter, delivered strong margins, and generated cash flows that will help us weather the storm.

Looking Ahead

Airbus and Boeing announced production rate cuts totaling approximately 40% of their large commercial aircraft volume. Industry analysts do not expect rates to increase over the next two or three years. This decrease and the uncertainty of its duration have led us to withdraw our long-term sales guidance and to record a non-cash impairment charge of $79.7 million on goodwill.

In response to the significant downward revision of market perspectives over the medium-term, we needed to adjust our cost structure and manufacturing capacity rapidly. As a result, on May 5 2020, in order to reduce our fixed and variable cost base, we announced a restructuring plan including the closure of our Alta Precision business unit in addition to a reduction of our workforce of approximately 10% or 225 employees. We also revised our budgeted capital expenditures downwards and realigned our manufacturing resources towards the defence sector. We believe these measures will help us remain competitive and profitable during this challenging period.

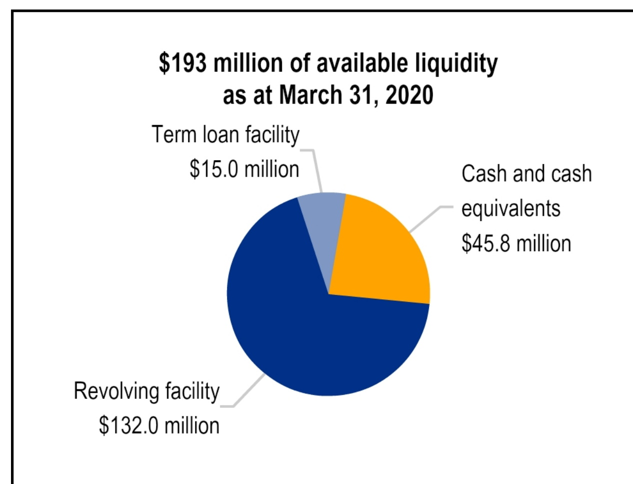
Equipped to weather turbulence

Despite these very challenging conditions, the good news for us is that the diversification of our business should provide us with some degree of protection from the impact of the pandemic and economic downturn. More than two thirds of our $810 million funded backlog as at March 31, 2020 is comprised of orders for defence programs and, so far, we expect that it should see only minimal disruption. This should allow us to avoid what could otherwise have been a greater reduction in business volume.

Furthermore, we are entering fiscal 2021 in a strong financial position. We closed fiscal 2020 with just over $45 million of cash-on-hand and almost $150 million in combined borrowing capacity on our Revolving and Term loan facilities. We drew an amount of $60 million on these facilities in early April as a precautionary measure.

We have no capital repayment requirements on these facilities until December 2024, following the extension of our credit facility in December 2019. We also sit well below our bank covenants and we expect them to remain stable over the next twelve months, in spite of the expected decrease in our commercial volume, given positive free cash flow.

The flexibility of our operations to focus on defence products, prudent management of capital, the dedication of our workforce and our strong balance sheet all make us well-equipped to weather the turbulence.



ECONOMIC OUTLOOK

The following is the latest update of the economic outlook presented annually in Corporation's fourth quarter and fiscal year-end MD&A. This section is intended to present some of the primary industry and macroeconomic trends or indicators monitored by the Corporation.

After having recorded continued growth over an 18-year super cycle, the aerospace industry has been severely impacted by the ongoing COVID-19 global pandemic[1, 2]. Specifically, while defence spending is expected to remain relatively immune to the pandemic, the negative impact on the commercial market - particularly on passenger travel - should continue to be felt at all levels of the supply chain throughout Fiscal 2021.

In accordance with the forecasts presented below, drawn from recent reports issued by key industry associations and analysts, the Corporation expects a slow, yet gradual recovery of passenger demand beginning in the quarters ahead. Héroux-Devtek does not expect that pre-COVID-19 levels of passenger demand will be met before calendar 2023.

Sudden, Steep Decline in Commercial Aerospace Activity Expected to Only Resume Gradually

Revenue passenger kilometers ("RPK") fell by a steep 52.9% year-over-year in March at the height of the COVID-19 pandemic, the largest decline in recent history according to the International Air Transport Association ("IATA")[3].

Indeed, after recording double-digit growth in the month of January and being flat in February, the number of flights has decreased almost 80% by early April vs. the prior year, also according to IATA[2]. Airlines have continued to operate domestic flights in the USA, some European markets and Asia, but international passenger travel has yet to resume meaningfully at this time.

IATA forecasts a 48% decline in RPKs in 2020 over 2019, on the basis that domestic travel gradually starts resuming in calendar Q3 and that international travel gradually starts resuming in calendar Q4[2]. The latest IATA projections for 2021 forecast a global RPK level 32-42% below the pre-COVID-19 growth trajectory[4]

In addition to generating delays in the delivery of new aircrafts from manufacturers to airlines, the Company expects a significant decrease in the demand for aftermarket (lower ASMs, de-stocking, deferred maintenance/upgrades), due to the high percentage of grounded fleet - estimated at 80% at the peak of the pandemic.[2]

While it remains early to determine the speed and extent of the full recovery, most industry analysts expect to see air travel start resuming gradually in some Asian markets by the end of calendar Q2, with a more substantial recovery - perhaps to 30-50% of historic levels in calendar Q3. The latest Teal Group forecast calls for a 24% contraction of the overall civil aviation market in 2020[4].

A More Modest Contraction of Air Cargo Volumes

Air cargo volume, measured in cargo tonne kilometers ("CTK"), contracted 15.2% year-over-year in March 2020[5], marking the twelfth consecutive month of year-over-year decline, due to the recent COVID-19 impact and exacerbated by the ongoing trade disputes and other geopolitical factors.

According to IATA, air cargo capacity has trended at approximately 70-90% of historic levels across regions[6] and should remain relatively immune to COVID-19 going forward[4]. However, as it had customarily been the case in prior recessions, air cargo activity should reflect the more modest economic activity and overall reduced consumer spending forecasted in the quarters ahead. The most recent IATA forecasts, which are based on the WTO's latest world trade scenarios, call for a decline of 14 to 31% of cargo volumes (CTK) for 2020[6].

Although supported in part by a surge in the transportation of medical and pharmaceutical supplies, the air cargo market is expected to continue to face a somewhat challenging business environment with significant regional performance differences[6] driven by the timing at which economies re-open and depending namely on the potential for future COVID-19 waves of epidemic resurgence[5].

Customers' Commercial Order Backlogs Remain Relatively Strong

Meanwhile, in the large commercial aircraft sector, Boeing's commercial airplanes order backlog stood at nearly 5,000 airplanes in the first quarter of 2020, down approximately 9% over pre-COVID-19 levels[7].

Airbus' commercial aircraft order book stood at 7,650 aircrafts at the end of the first quarter of 2020, up 4% year-over-year[8].

Defence Seen as Strongest Market Amid COVID-19 and Upcoming Recession

According to the Stockholm International Peace Research Institute (Sipri), global defence expenditures reached over US$1.9 trillion in 2019, the single largest year-over-year increase in over a decade[9]. Also according to Sipri, defence spending by the United States grew by 5.3 % to a total of US$732 billion in 2019[9].

The Teal Group forecasts that fighter jets, which account for a key portion of the Corporation's defence sales, is the defence aerospace subcategory that is expected to grow the fastest in 2020, with a 2.9% growth target year-over-year[10]. Overall, the Teal Group expects the entire defence aerospace market to be flat in 2020 and notes that it remains a "relatively stable" market due to the rising global tensions and an aging fleet.[10] Additionally, the defence aftermarket is expected to remain strong in 2020, with de-stocking, combat missions, training programs and humanitarian missions all unlikely to decline[11].

Refer to *Forward-Looking Statements* for further information regarding forward-looking statements and related risks.

(1) Source: Commercial Aerospace Faces Turbulence, Boston Consulting Group, November 18, 2019.
(2) Source: COVID-19 Updated Impact Assessment, IATA, report issued April 14, 2020.
(3) Source: Air Passenger Monthly Market Analysis, IATA, March 2020, issued April 29, 2020.
(4) Source: COVID-19 Outlook for air travel in the next 5 years, IATA, May 13, 2020.
(5) Source: Air Cargo Market Analysis, IATA, March 2020, published April 28, 2020.
(6) Source: COVID-19 Assessing prospects for air cargo, IATA, April 28, 2020
(7) Source: Boeing Reports First Quarter Results press releases issued April 24, 2020 and April 24, 2019.
(8) Source: Airbus Key Figures on www.airbus.com/investors for Q1 2020 and Q1 2019.
(9) Source: Stockholm International Peace Institute, World Military Expenditures, press release issued April 27, 2020.
(10) Source: COVID-19 And Civil Aviation Markets, Teal Group, May 4, 2020.
(11) Source: COVID-19 And Military Aerospace Markets, Teal Group, March 2020.

GUIDANCE

See *Forward-Looking Statements* for cautionary notice regarding Guidance and *Risk Management* under *Additional Information* for discussion of certain factors which may cause future results to differ from guidance included in this section.

Fiscal 2020 financial performance as compared to guidance

Management revised guidance for fiscal 2020 sales twice throughout the year, from an initial projection of $560-$580 million to $600-$610 million, to reflect the acquisition of Alta as well as stronger than expected growth.

Long-term sales guidance for fiscal 2022 was withdrawn in April 2020 as a result of limited visibility over the long-term impact that the COVID-19 pandemic will have on the commercial aerospace sector.

As such, initial and revised financial guidance stands as follows:

Metric	Initial guidance	Revised guidance
Fiscal 2020 sales	Sales of $560 to $580 million	Sales of $600 to $610 million
Long-term sales growth	Fiscal 2022 sales of $620 to $650 million	Withdrawn

Fiscal 2020 sales totaling $613 million exceeded guidance slightly and resulted from a strong year of deliveries.

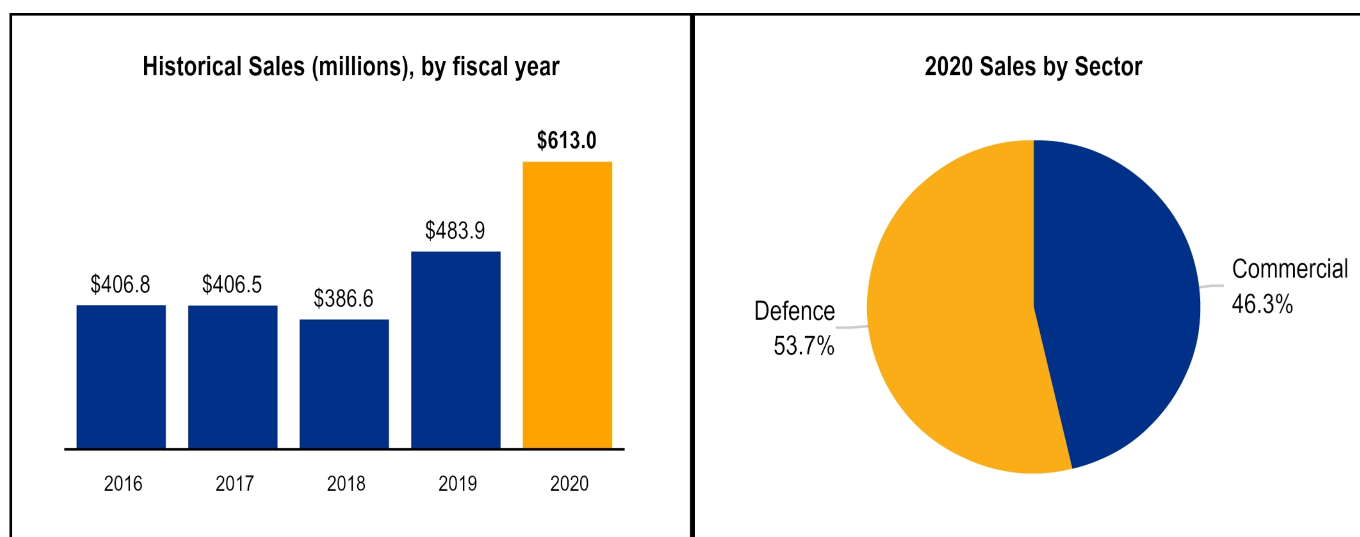
As a result of the unprecedented volatility brought to the global aerospace market, management is not issuing any financial guidance for fiscal 2021.

OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2020	2019	*Variance*	2020	2019	*Variance*
Sales	$ 166,800	$ 157,914	*$ 8,886*	$ 612,996	$ 483,877	*$ 129,119*
Gross profit	29,852	29,730	*122*	103,120	83,196	*19,924*
Selling and administrative expenses	12,275	13,522	*(1,247)*	50,572	41,633	*8,939*
Adjusted operating income[1]	17,577	16,208	*1,369*	52,548	41,563	*10,985*
Non-recurring items	82,003	1,018	*80,985*	82,618	4,323	*78,295*
Operating (loss) income	(64,426)	15,190	*(79,616)*	(30,070)	37,240	*(67,310)*
Net financial (gains) expenses[2]	(533)	1,402	*(1,935)*	7,846	6,811	*1,035*
Income tax expense[2]	8,220	1,830	*6,390*	12,742	4,235	*8,507*
Net (loss) income	$ (72,113)	$ 11,958	*$ (84,071)*	$ (50,658)	$ 26,194	*$ (76,852)*
Adjusted net income[1]	$ 13,695	$ 12,794	*$ 901*	$ 35,666	$ 30,352	*$ 5,314*
As a percentage of sales						
Gross profit	17.9 %	18.8%	*-90 bps*	16.8 %	17.2%	*-40 bps*
Selling and administrative expenses	7.4 %	8.6%	*-120 bps*	8.2 %	8.6%	*-40 bps*
Operating (loss) income	(38.6)%	9.6%	*-4820 bps*	(4.9)%	7.7%	*-1260 bps*
Adjusted operating income[1]	10.5 %	10.3%	*20 bps*	8.6 %	8.6%	*0 bps*
In dollars per share						
(Loss) Earnings per share[3]	$ (1.98)	$ 0.34	*$ (2.32)*	$ (1.38)	$ 0.73	*$ (2.11)*
Adjusted EPS[1]	$ 0.38	$ 0.36	*$ 0.02*	$ 1.00	$ 0.84	*$ 0.16*

[1] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section for definitions and reconciliations to the most comparable IFRS measures.*
[2] *Refer to the* Non-Recurring Items *section for more details*
[3] *Basic and diluted*

Sales



Sales can be broken down by sector as follows:

					Quarters ended March 31,
	2020	2019	Acquisitions	FX impact	Net variance	
Commercial	$ 71,955	$ 78,004	$ 6,830	$ 37	$ (12,916)	(16.6)%
Defence[1]	94,845	79,910	1,277	128	13,530	16.9 %
Total	$ 166,800	$ 157,914	$ 8,107	$ 165	$ 614	0.4 %

					Fiscal years ended March 31,
	2020	2019	Acquisitions	FX impact	Net variance	
Commercial	$ 283,737	$ 236,283	$49,957	$ 1,634	$ (4,137)	(1.8)%
Defence[1]	329,259	247,594	49,670	1,896	30,099	12.2 %
Total	$ 612,996	$ 483,877	$99,627	$ 3,530	$ 25,962	5.4 %

[1] *Includes defence sales to civil customers and governments.*

The following analysis excludes the impact of acquisitions and foreign exchange which are itemized in the table above.

Commercial

Over the fiscal year, organic commercial sales were relatively stable as a decrease in aftermarket requirements for regional aircraft programs and lower deliveries for certain business jets was mostly offset by higher deliveries for the Boeing 777 and 777X programs.

The $12.9 million decrease in commercial sales during the fourth quarter this year compared to the last is mainly the result of lower deliveries of components for large commercial programs, namely for the Boeing 787 following the expiry of a contract, as well as lower aftermarket requirements for regional aircraft programs.

Defence

The $30.1 million and $13.5 million respective net increases in defence sales for the fiscal year and fourth quarter were mainly driven by:

- Increased aftermarket demand for the C-130, KC-135 and Sikorsky H-60 programs;
- The production rate increase of the Lockheed Martin F-35 program; and,
- Higher spares demand for the Northrop Grumman Global Hawk program.

Gross Profit

The decrease in gross profit from 17.2% to 16.8% this fiscal year was mainly driven by inefficiencies and delayed deliveries brought on by the impact of COVID-19 as well as higher manufacturing costs at our Longueuil facility over the first six months of this fiscal year compared to last.

The decrease in gross profit from 18.8% to 17.9% for the quarter compared to the same period last fiscal year was mainly driven by inefficiencies and delayed deliveries caused by the impact of COVID-19.

The net impact of Foreign exchange fluctuations had a positive net impact of 0.2% of sales on the quarter ended March 31, 2020, while having a negligible impact (less than 0.1% of sales) on the fiscal year.

Selling and Administrative Expenses

When excluding gains on translation of net monetary items, selling and administrative expenses represented 8.3% and 8.0% of sales for the fiscal year and the quarter, respectively, compared to 8.8% and 8.5% for the same periods last fiscal year, mainly as a result of higher volume without a corresponding increase in fixed costs.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Non-recurring items in operating income				
Acquisition-related costs	$ —	$ 1,018	$ 615	$ 4,323
Goodwill impairment	79,736	—	79,736	—
Write-down of investment tax credits receivable	2,267	—	2,267	—
Impairment of finite-life intangible assets	—	—	—	—
	$ 82,003	$ 1,018	$ 82,618	$ 4,323
Non-recurring items in financial expenses				
Net losses on certain derivative financial instruments	$ —	$ —	$ —	$ 391
	$ —	$ —	$ —	$ 391
Non-recurring items in income tax expense				
Write-down of deferred income tax assets	$ 3,805	$ —	$ 3,805	$ —
	$ 3,805	$ —	$ 3,805	$ —
Total	**$ 85,808**	**$ 1,018**	**$ 86,423**	**$ 4,714**

Goodwill impairment and write-down of investment tax credits receivable and deferred income tax assets

Management evaluates the recoverability of assets using the budget and strategic plan which covers a five-year period. The budget and strategic plan are prepared based on the published production rates of aircraft manufacturers, aerospace industry forecasts, general economic forecasts, and past experience.

The significant decrease in expected demand for commercial aerospace products caused by the ongoing COVID-19 pandemic was quantified in these estimates, including production rate cuts such as the 40% reduction in large commercial aircraft volume already announced by Airbus and Boeing.

The downward revision of these forecasts resulted in non-cash impairment charges of goodwill, investment tax credits receivable and deferred income tax assets.

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisition of Alta Precision this fiscal year and the acquisitions of CESA, Beaver and Tekalia last fiscal year.

Net losses on certain derivative financial instruments

These losses relate to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks arising from the purchase price and financing related to the acquisition of CESA.

Operating Income

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Operating (loss) income	$ (64,426)	$ 15,190	$ (30,070)	$ 37,240
Non-recurring items	82,003	1,018	82,618	4,323
Adjusted operating income	$ 17,577	$ 16,208	$ 52,548	$ 41,563
As a percentage of sales				
Operating (loss) income	(38.6)%	9.6%	(4.9)%	7.7%
Adjusted operating income[1]	10.5 %	10.3%	8.6 %	8.6%

[1] *Non-IFRS financial measure. Refer to the* Non-IFRS financial measures *section for definitions and reconciliations to the most comparable IFRS measures.*

During the quarter, the Corporation recorded $82.0 million of non-cash impairment charges, driving operating losses to 38.6% and 4.9% of sales for the quarter and fiscal year respectively, compared to operating income of 9.6% and 7.7% last year.

Excluding non-recurring charges, adjusted operating income stood at 10.5% and 8.6% for the quarter and fiscal year, compared to 10.3% and 8.6% last fiscal year.

Year over year, foreign exchange had positive impacts of $0.6 million and $2.2 million on operating income, respectively, for the fiscal year and fourth quarter.

Net financial Expenses

	Quarters ended March 31,			Fiscal years ended March 31,		
	2020	2019	*Variance*	2020	2019	*Variance*
Interest on long-term debt	$ 1,909	$ 1,644	*$ 265*	$ 6,905	$ 4,914	*$ 1,991*
Net interest expense (income) related to government loans	(2,999)	(549)	*(2,450)*	(773)	1,325	*(2,098)*
Interest income	(26)	(46)	*20*	(100)	(409)	*309*
Other interest expense	583	353	*230*	1,814	981	*833*
	$ (533)	$ 1,402	*$ (1,935)*	$ 7,846	$ 6,811	*$ 1,035*

The $2.0 million increase in interest on long-term debt this fiscal year compared to the last mainly reflects the impact of the adoption of *IFRS 16 Leases* on April 1, 2019 ($1.3 million for the fiscal year). Refer to *New accounting standards* under *Additional Information* for further details. It also includes higher interest charges on new debt incurred to finance four acquisitions completed since June 30, 2018.

For the fourth quarter and fiscal year, the respective $2.5 million and $2.1 million decreases in interest income related to government loans results from gains on revision of repayment calendar estimates. Refer to *Government Authorities Loans* under *Liquidity and Capital Resources* for further details.

The increases in other interest expense for the fourth quarter and fiscal year mainly relate to lower rates used to discount provisions at the end of the period.

Income Tax Expense

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
(Loss) income before income tax expense	$ (63,893)	$ 13,788	$ (37,916)	$ 30,429
Income tax expense	8,220	1,830	12,742	4,235
Effective tax rate	(12.9)%	13.3%	(33.6)%	13.9%
Canadian blended statutory income tax rate	26.5 %	26.6%	26.5 %	26.6%

During the fourth quarter and fiscal year, the Corporation accounted for impairment of goodwill and a write-down of tax credits receivable totaling $82.0 million, as well as a write-down of deferred income tax assets totaling $3.8 million. The following analysis excludes the impact of these factors, in order to simplify analysis of the effective tax rate as compared to the Canadian blended statutory income tax rate.

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
(Loss) income before income tax expense	$ (63,893)	$ 13,788	$ (37,916)	$ 30,429
Impairment of goodwill and write-down of tax credits receivable	82,003	—	82,003	—
Income before income tax expense and impairment	18,110	13,788	44,087	30,429
Income tax expense	8,220	1,830	12,742	4,235
Write-down of deferred tax asset	(3,805)	—	(3,805)	—
Income tax expense excluding write down of deferred tax asset	4,415	1,830	8,937	4,235
Effective tax rate excluding impairment and write-downs	24.4%	13.3%	20.3%	13.9%
Canadian blended statutory income tax rate	26.5%	26.6%	26.5%	26.6%

For fiscal 2020, the Corporation's effective income tax rate excluding impairment is lower than the Canadian blended statutory rate by 6.2% primarily due to the favourable impact of earnings in lower tax rate jurisdictions of $3.7 million ($4.8 million in fiscal 2019), partially offset by permanent differences of $1.2 million ($0.5 million in fiscal 2019). The effective tax rate of fiscal 2019 was also negatively impacted by non-deductible acquisition-related costs totaling $0.7 million.

The effective income tax rate for the quarter mainly reflects the $1.2 million favourable impact of earnings in lower tax rate jurisdictions ($1.7 million in fiscal 2019), partially offset by permanent differences totaling $0.9 million ($0.1 million in fiscal 2019).

Net Income

Earnings decreased from $26.2 million to a loss of $50.7 million (or increased from $30.4 million to $35.7 million excluding non-recurring items net of taxes) this fiscal year compared to last and decreased from earnings of $12.0 million to a loss of $72.1 million (or increased from $12.8 million to $13.7 million excluding non-recurring items net of taxes) during the quarter compared to the same quarter last fiscal year mainly as a result of the factors described above.

During the fiscal year, earnings per share decreased from $0.73 to a loss of $1.38 per share (or increased from $0.84 to $1.00 per share excluding non-recurring items net of taxes), while they decreased from $0.34 to a loss of $1.98 per share (or increased from $0.36 to $0.38 excluding non-recurring items net of taxes) during the quarter compared to the same quarter last fiscal year.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income: Operating income excluding non-recurring items.
Adjusted EBITDA: Earnings before financial expenses, income tax expense and amortization expense, excluding 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 about 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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Operating (loss) income	$ (64,426)	$ 15,190	$ (30,070)	$ 37,240
Non-recurring items	82,003	1,018	82,618	4,323
Adjusted operating income	$ 17,577	$ 16,208	$ 52,548	$ 41,563

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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Operating income	$ (64,426)	$ 15,190	$ (30,070)	$ 37,240
Amortization expense	11,032	9,702	43,643	32,650
Non-recurring items in operating income	82,003	1,018	82,618	4,323
Adjusted EBITDA	$ 28,609	$ 25,910	$ 96,191	$ 74,213

Management believes adjusted EBITDA provide 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:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Net (loss) income	$ (72,113)	$ 11,958	$ (50,658)	$ 26,447
Non-recurring items net of taxes	85,808	836	86,324	4,158
Adjusted net income	$ 13,695	$ 12,794	$ 35,666	$ 30,352
Non-controlling interests	(88)	(253)	(545)	(253)
Adjusted net income attributable to the equity holders of the parent	$ 13,783	$ 13,047	$ 36,211	$ 30,605
In dollars per share				
(Loss) Earnings per share - basic and diluted	$ (1.98)	$ 0.34	$ (1.38)	$ 0.73
Non-recurring items net of taxes	2.36	0.02	2.38	0.11
Adjusted earnings per share	$ 0.38	$ 0.36	$ 1.00	$ 0.84

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. They are also a component of certain performance-based employee remuneration.

LIQUIDITY AND CAPITAL RESOURCES

CREDIT FACILITIES AND CASH AND CASH EQUIVALENTS

Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")

The Corporation has a Revolving Facility with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility allows the Corporation and its subsidiaries to borrow up to $250.0 million, either in Canadian dollars, US dollars, British Pounds, Euro or equivalent currencies. It also includes an accordion feature to increase available credit by an additional $100.0 million during the term of this agreement, subject to the approval of the lenders.

In December 2019, the Corporation reached an agreement with its syndicate of banks to extend the term of its Revolving Facility from May 2022 to December 2024.

As at March 31, 2020, the Corporation had $96.5 million drawn against the Revolving Facility, compared to $94.9 million as at March 31, 2019.

Unsecured Subordinated Term Loan Facility ("Term Loan Facility")

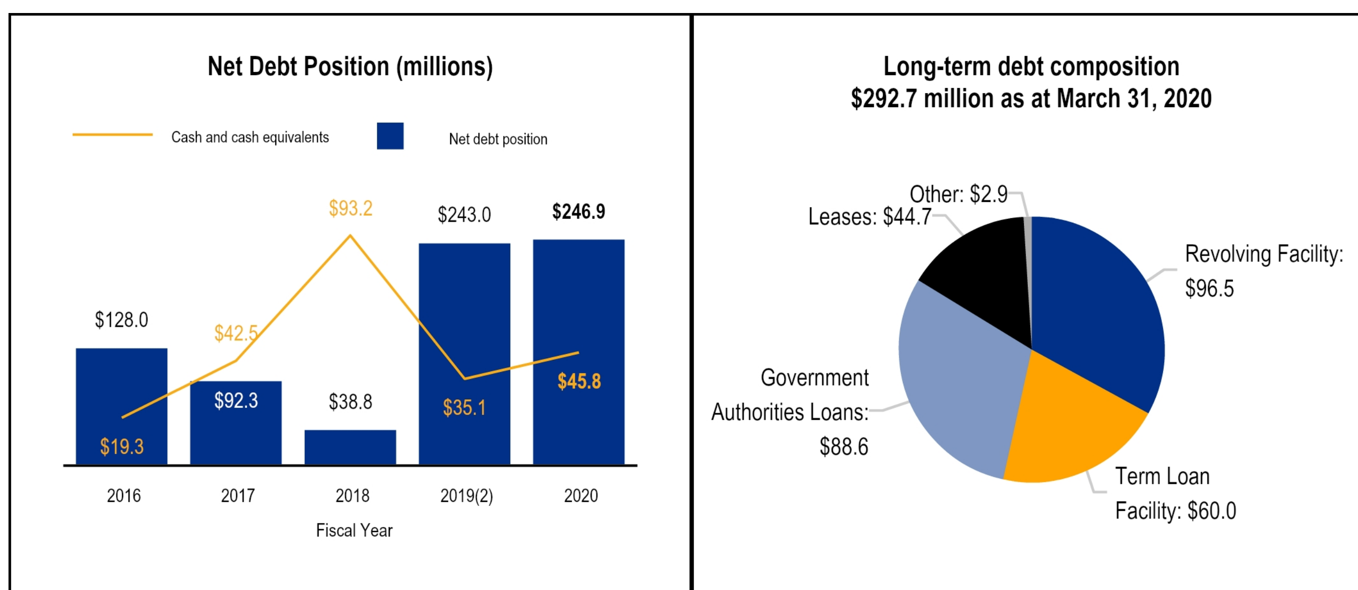
The Corporation has a Term Loan Facility provided by the Fonds de solidarité FTQ for an amount of up to $75.0 million. A first tranche of $50.0 million was drawn to finance the acquisition of CESA in October 2018 and a second of $10.0 million was drawn in June 2019 for the acquisition of Alta Precision.

The initial $50.0 million loan bears interest at 5.70% and the second tranche of $10.0 million bears interest at 4.73%. All the tranches are repayable at maturity on September 30, 2025, and starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees.

Net Debt Position

The Corporation's net debt position is calculated as follows, as at:

	March 31, 2020	April 1, 2019 (2)	March 31, 2019
Long-term debt, including current portion(1)	$ 292,710	$ 278,150	$ 263,258
Less: Cash and cash equivalents	45,841	35,128	35,128
Net debt position	$ 246,869	$ 243,022	$ 228,130

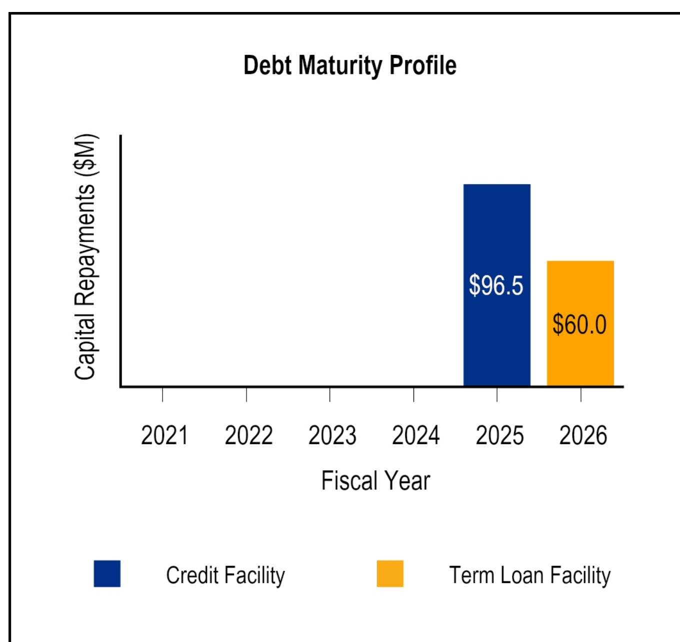


(1) *Excluding net deferred financing costs of $3.1 million as at* March 31, 2020 *and $3.0 million as at* March 31, 2019.
(2) *Pro-forma including the effect of the adoption of IFRS 16,* Leases.

Long-term debt is subject to certain general and financial covenants related to, among others, indebtedness, cash flows and equity of the Corporation and/or certain subsidiaries. The Corporation complied with all covenants during the fiscal year ended March 31, 2020 and expects to continue to comply with these restrictive financial covenants through the current fiscal year. In general terms, the Corporation has a healthy financial situation and is well positioned to face its financial needs.

In April 2020, the Corporation drew $60.0 million on its credit facilities, comprised of $45.0 million on the Revolving Facility and $15.0 million on the Term Loan Facility. These drawings were made as a precaution for potential liquidity requirements related to the COVID-19 pandemic and have not been utilized.

As shown in this graphic, the Corporation has no capital repayments required on its credit facilities until December of 2024.



GOVERNMENT AUTHORITIES LOANS

Governmental authorities' loans represent government assistance for the purchase of certain equipment or tooling, for the modernization or additions to the Corporation's facilities or for development costs capitalized or expensed for aerospace programs. They were granted as incentives under Canadian federal and provincial or Spanish industrial programs to promote industry development.

These loans have varying terms governing the timing and amount to be refund. Repayments, when not on a fixed schedule, are either based on sales of specific programs or the growth in sales of all or certain of Héroux-Devtek's product lines and bear no or below-market interest rates.

They are measured at a discounted value using a corresponding market rate of interest each time they are received, and the related discount is accreted to income using the effective interest rate method and included in the consolidated statements of income as financial expense.

Assumptions underlying loan repayments are reviewed at least annually. As at March 31, 2020, the Corporation updated the estimated repayment schedule of its government authorities' loans, taking into account revised assumptions mainly related to the reduced sales forecasts. As sales forecasts were negatively impacted by the ongoing pandemic, this resulted in a non-cash gain of $3,153 ($1,036 in fiscal 2019), which was included in net financial expenses.

As at March 31, 2020, the Corporation had a present value of $88.6 million outstanding under these agreements ($89.7 million as at March 31, 2019), bearing effective interest rates of 0.0% to 6.8% as at March 31, 2020 (0.0% to 6.6% as at March 31, 2019). These loans have repayment terms extending to fiscal 2035 at the latest.

VARIATIONS IN CASH AND CASH EQUIVALENTS

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Cash and cash equivalents at beginning of periods	$ 25,346	$ 28,639	$ 35,128	$ 93,209
Cash flows related to operating activities	26,710	37,181	52,573	69,969
Cash flows related to investing activities	(9,951)	(7,926)	(34,844)	(208,619)
Cash flows related to financing activities	2,128	(22,096)	(7,936)	80,320
Effect of changes in exchange rates on cash and cash equivalents	1,608	(670)	920	249
Cash and cash equivalents at end of periods	$ 45,841	$ 35,128	$ 45,841	$ 35,128

Operating Activities

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Cash flows from operations	$ 25,497	$ 19,116	$ 82,101	$ 60,396
Net change in non-cash items	1,213	18,065	(29,528)	9,573
Cash flows related to operating activities	$ 26,710	$ 37,181	$ 52,573	$ 69,969

The strong adjusted EBITDA generation of legacy activities as well as the contributions of Héroux-Devtek's recent acquisitions drove the respective $21.7 million and $6.4 million increases in cash flows from operations for the fiscal year and fourth quarter ended March 31, 2020 when compared to the same periods last fiscal year.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Accounts receivable	$ (9,616)	$ (5,546)	$ 4,328	$ (5,624)
Income tax receivable	2,040	(40)	1,102	(385)
Inventories	(10,153)	74	(45,517)	(1,746)
Other assets	(225)	(3,063)	116	(2,245)
Accounts payable and accrued liabilities and other liabilities	9,692	21,233	3,320	20,013
Provisions	(6,644)	(1,204)	(8,822)	(5,377)
Customer advance and progress billings	6,934	7,264	11,072	4,655
Income tax payable	94	(794)	(508)	(2,404)
Effect of changes in exchange rates	9,091	141	5,381	2,686
Net change in non-cash items	$ 1,213	$ 18,065	$ (29,528)	$ 9,573

For the fiscal year ended March 31, 2020, the negative net change in non-cash items mainly reflected:

- An increase in inventory due to the upcoming organic growth of defence programs, including the Boeing F-18 and MQ-25, as well as the effect of foreign exchange rate fluctuations; and
- A decrease in provisions following the utilization of provisions, including onerous contracts.

These negative elements were partially offset by an increase in customer advances and progress billings associated to defence contracts.

For the fiscal year ended March 31, 2019, the positive net change in non-cash items mainly reflected:

- An increase in accounts payable due to the higher level of activity in the fourth quarter and the timing of cash outflows; and,
- An increase in customer advances following cash receipt, offset by revenue recognition.

These positive elements were partially offset by an increase in accounts receivable due to higher deliveries in the fourth quarter and an increase in inventories mainly related to the ramp-up of the Boeing 777 and 777X contract and a decrease in provisions mainly due to utilization of the restructuring and product warranty provisions.

For the quarter ended March 31, 2020, the positive net change in non-cash items mainly reflected a higher volume of activity in the fourth quarter resulting increases in accounts payable and accounts receivable, as well as the increase in inventory driven by foreign exchange rate fluctuations.

For the quarter ended March 31, 2019, the positive net change in non-cash items mainly reflected:

- An increase in accounts payable due to timing of cash outflows; and,
- An increase in customer advances following cash receipt, offset by revenue recognition.

These positive elements were partially offset by the timing of receivable collections and by the negative effect of change in exchange rates.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Additions to property, plant and equipment	$ (7,338)	$ (4,513)	$ (20,645)	$ (12,858)
Cash payments for business acquisitions	—	(3,548)	(17,149)	(198,149)
Net (increase) decrease in finite-life intangible assets	(2,641)	130	(1,598)	2,353
Proceeds on disposal of property, plant and equipment	28	5	4,053	35
Net proceeds from sale of discontinued operations	—	—	495	—
Cash flows related to investing activities	$ (9,951)	$ (7,926)	$ (34,844)	$ (208,619)

Cash payments for business acquisitions in fiscal 2020 relate to the acquisition of Alta Precision, while in fiscal 2019 they were related to the $170.9 million payment for the acquisition of CESA and the $23.7 million payment made for the acquisition of Beaver, and $3.5 million for the acquisition of Tekalia.

Additions to property, plant and equipment shown above can be reconciled as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Gross additions to property, plant and equipment[(1)]	$ 5,553	$ 5,286	$ 18,890	$ 13,876
Government assistance	—	(497)	(30)	(497)
Additions to property, plant and equipment	$ 5,553	$ 4,789	$ 18,860	$ 13,379
Variation in unpaid additions included in Accounts payable	1,785	(276)	1,785	(521)
Additions, as per statements of cash flows	$ 7,338	$ 4,513	$ 20,645	$ 12,858

(1) Net of non-cash additions to right-of-use assets

The net (increase) decrease in finite-life intangible assets shown above can be reconciled as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Decrease (increase) in finite-life intangible assets	(2,641)	(692)	(1,598)	1,531
Variation in unpaid additions included in Accounts payable	—	822	—	822
Net (increase) decrease, as per statements of cash flows	$ (2,641)	$ 130	$ (1,598)	$ 2,353

Additions to finite-life intangible assets over the fiscal year mainly relate to capitalized product development costs.

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Increase in long-term debt	$ 4,977	$ 1,278	$ 30,927	$ 117,883
Repayment of long-term debt	(2,827)	(23,652)	(38,024)	(36,198)
Issuance of common shares	58	245	58	1,169
Increase in deferred financing cost	(80)	33	(897)	(2,534)
Cash flows related to financing activities	$ 2,128	$ (22,096)	$ (7,936)	$ 80,320

The increase in long-term debt during the fiscal year ended March 31, 2020 is mainly related to a US$9.0 million ($12.1 million) drawing on the Revolving Facility and a $10.0 million drawing on the Term Loan Facility, both used to finance the acquisition of Alta Precision. The balance is related to new lease agreements and government authorities loans.

In Fiscal 2019, the increase in long-term debt was mainly related to a US$50.0 million ($65.2 million) drawing on the Revolving facility and a $50.0 million drawing on the Term Loan Facility, both in order to finance the CESA acquisition.

Long-term debt repayments during the fourth quarter ended March 31, 2019 mainly relate to a US16.0 million ($21.3 million) repayment of the Revolving Facility, while no such capital repayments were made in the fourth quarter of fiscal 2020.

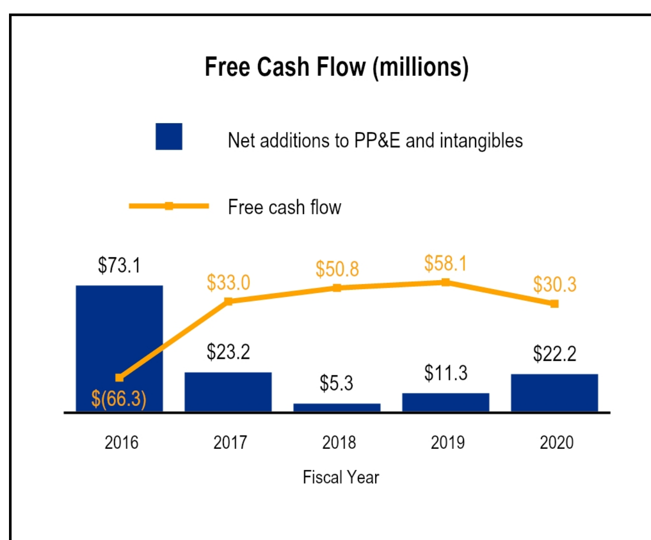
FREE CASH FLOW[(1)]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2020	2019	2020	2019
Cash flows related to operating activities	$ 26,710	$ 37,181	$ 52,573	$ 69,969
Additions to property, plant and equipment	(7,338)	(4,513)	(20,645)	(12,858)
Net decrease (increase) in finite-life intangible assets	(2,641)	(692)	(1,598)	1,531
Free cash flow[(1)]	$ 16,731	$ 31,976	$ 30,330	$ 58,642

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

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

The decreases in free cash flow over the fourth quarter and fiscal year compared to the same periods last fiscal year are mainly explained by investments in inventory related to organic growth in the defence sector.



LIQUIDITY REQUIREMENTS

The summary of the following contractual obligations of the Corporation includes payments due over the next five years and thereafter, as at March 31, 2020:

	Payments due by period				
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	$ 112,741	$ 5,785	$ 19,153	$ 19,877	$ 67,926
Lease liabilities	58,654	10,173	16,515	7,707	24,259
Revolving Facility	107,924	2,411	4,822	100,691	—
Term Loan Facility	78,277	3,323	6,646	6,646	61,662
Others	3,057	3,057	—	—	—
	360,653	24,749	47,136	134,921	153,847
Purchase obligations	275,707	215,081	56,684	3,908	34
Accounts payable	81,771	81,771	—	—	—
Building, machinery and equipment acquisition commitments	7,441	5,975	1,466	—	—
Total contractual obligations[1]	**$ 725,572**	**$ 327,576**	**$ 105,286**	**$ 138,829**	**$ 153,881**

[1] *Excluding defined benefit pension plan obligations presented in the* Pension Plans *section.*

FINANCIAL POSITION

CAPITAL STRUCTURE

The general objectives of the Corporation's management, in terms of capital management, reside in the preservation of the Corporation's capacity to continue operating, providing benefits to its stakeholders and in providing an adequate return on investment to its shareholders by selling its products and services at a price commensurate with the level of operating risk assumed by the Corporation.

The Corporation thus determines the total amount of capital required consistent with risk levels. This capital structure is adjusted on a timely basis depending on changes in the economic environment and risks of the underlying assets.

In order to maintain or adjust its capital structure, the Corporation can, for example:

- Issue new common shares;
- Repurchase common shares;
- Sell certain assets to reduce indebtedness;
- Return capital to shareholders.

The net debt-to-equity ratio, calculated as net debt divided by shareholders' equity, is the overriding factor in the Corporation's capital management and monitoring practices.

During fiscal year ended March 31, 2020, the Corporation pursued the same capital management strategy as last year, which consists in generally maintaining a sufficient net debt-to-equity ratio to allow access to financing at a reasonable or acceptable cost.

The Corporation's net debt-to-equity ratio was as follows, as at:

	March 31, 2020	April 1, 2019 (1)	March 31, 2019
Long-term debt	$ 289,617	$ 275,198	$ 260,306
Deferred financing costs, net	3,093	2,952	2,952
Less: Cash and cash equivalents	45,841	35,128	35,128
Net debt	$ 246,869	$ 243,022	$ 228,130
Shareholders' equity	349,448	404,098	404,098
Net debt-to-equity ratio	0.71:1	0.60:1	0.56:1

(1) *Pro-forma including the effect of the adoption of IFRS 16, Leases.*

The increase in net debt-to-equity ratio over the fiscal year mainly relates to the non-cash impairment charges recorded during the period. Excluding these charges, the net debt-to-equity ratio would have stood at 0.57:1.

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2020		Fiscal year ended March 31, 2020	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,362,210	$ 79,676	36,362,210	$ 79,676
Issued for cash on exercise of stock options	5,000	81	5,000	81
Ending balance	**36,367,210**	**$ 79,757**	**36,367,210**	**$ 79,757**

As at May 20, 2020, the number of common shares outstanding remained at 36,367,210.

Stock options varied as follows:

	Quarter ended March 31, 2020		Fiscal year ended March 31, 2020	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,508,595	$ 13.87	1,167,095	$ 13.23
Granted	—	—	341,500	16.03
Exercised	(5,000)	11.71	(5,000)	11.71
Cancelled / forfeited	(6,000)	16.03	(6,000)	16.03
Ending balance	**1,497,595**	**$ 13.86**	**1,497,595**	**$ 13.86**

As at March 31, 2020, 2,757,507 common shares remained reserved for issuance upon exercise of stock options compared to 2,762,507 at March 31, 2019. As a result, the Corporation may issue a further 1,259,912 stock options within the current reserve.

As at May 20, 2020, the number of stock options outstanding stood at 1,497,595.

For further information regarding the Corporation's outstanding issued capital and related compensation plans, refer to Note 22*, Issued Capital*, to the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

The acquisition of Alta Precision contributed assets and liabilities to the Corporation's balance sheet as at March 31, 2020 as detailed in the *Business Acquisitions* section under *Overview*.

Working Capital

The Corporation's working capital was as follows, as at:

	March 31, 2020	April 1, 2019 [(1)]	March 31, 2019	*Variance*	
Current assets	$ 422,050	$ 359,119	$ 359,119	*$ 62,931*	*17.5%*
Current liabilities	216,633	188,512	185,992	*28,121*	*14.9%*
Net working capital	$ 205,417	$ 170,607	$ 173,127	*$ 34,810*	*20.4%*
Working capital ratio	1.95	1.91	1.93		

[(1)] Pro-forma including the effect of the adoption of IFRS 16 Leases.

The $62.9 million increase in current assets is mainly due to:

- $13.4 million of current assets acquired through the acquisition of Alta Precision; and,
- $44.3 million of increase in inventory due to the upcoming organic growth of defence programs.

The $28.1 million increase in current liabilities is mainly due to $12.0 million assumed through the acquisition of Alta Precision and an increase of $13.0 million in progress billings following the receipt of funding for defence contracts.

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

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

	March 31, 2020	April 1, 2019 [(1)]	March 31, 2019	*Variance*	
Long-term assets	$ 476,798	$ 527,791	$ 513,648	*$ (50,993)*	*(9.7)%*
Long-term liabilities	332,767	295,049	282,677	*37,718*	*12.8 %*
Shareholder's equity	349,448	404,098	404,098	*(54,650)*	*(13.5)%*

[(1)] Pro-forma including the effect of the adoption of IFRS 16 Leases.

The decrease in long-term assets of $51.0 million over the fiscal year mainly related to the $79.7 million impairment charge of goodwill recorded during the fourth quarter as a result of the significant reduction in demand for commercial aerospace products caused by the ongoing COVID-19 pandemic. This negative factor was partially offset by $28.4 million of long-term assets acquired with Alta Precision.

The increase in long-term liabilities is mainly due to the financing of the acquisition of Alta Precision, including the assumption of $6.8 million of related lease liabilities.

PENSION PLANS

The Corporation has funded and unfunded defined benefit pension plans as well as defined contribution pension plans that provide pension benefits to its employees. Retirement benefits provided by the defined benefit pension plans are based on either years of service and flat amount, years of service and final average salary, or set out by individual agreements.

The net defined benefit obligations varied as follows, during fiscal year:

	2020	2019
Net defined benefit obligations, beginning of year	$ (6,650)	$ (3,958)
Net gains (losses) from remeasurement	(2,398)	(2,487)
Employer contributions	1,417	1,335
Current service cost	(1,408)	(1,192)
Interest on net defined benefit obligations	(238)	(150)
Other	(802)	(198)
Net defined benefit obligations, end of year	$ (10,079)	$ (6,650)

The funding status of the Corporation's pension plans was as follows, as at:

	March 31, 2020	March 31, 2019
Present value of defined benefit obligations of funded plans	$ 64,234	$ 65,962
Fair value of plan assets	55,117	60,710
Funding ratio	85.8%	92.0%

The Corporation made contributions of $1.4 million and $3.4 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2020, and expects to make respective contributions of $1.4 million and $3.5 million during fiscal 2021. The decrease in fair value of plan assets mainly resulted from the volatility cause in financial markets by the COVID-19 pandemic at the end of the fiscal year.

ADDITIONAL INFORMATION

BUSINESS ACQUISITIONS

Fiscal 2020 acquisition
Acquisition of Alta Precision

On June 7, 2019, the Corporation completed the acquisition of all of the shares of Alta Précision Inc. (“Alta”), for $18.6 million, including a $0.5 million balance of sale and the assumption of Alta’s net outstanding debt amounting to $0.9 million. Located in Montreal, Canada, Alta is a manufacturer of high-precision landing gear components. This acquisition expands the Corporation's portfolio of commercial products by providing both access to new programs and additional content on existing platforms. The acquisition was financed with the Corporation's available credit facilities and was treated as a business combination.

Alta was a minority shareholder of Tekalia. As a result of the acquisition, the Corporation increased its participation in Tekalia to 67% from 60% as at March 31, 2019.

Purchase Price
The preliminary purchase price allocation that reflects the fair value of the assets acquired and liabilities assumed during Fiscal 2020 with any excess allocated to goodwill was prepared using the acquisition method as follows:

Cash payment	$ 17,149
Long-term debt assumed [1]	903
Working capital adjustment receivable	—
Balance of purchase price payable	500
Total purchase price	**$ 18,552**

[1] *Excludes lease liabilities*

Purchase Price Allocation

	Purchase price allocation
Accounts receivable	$ 1,455
Inventories	11,567
Other current assets	376
	13,398
Property, plant and equipment, including right-of-use assets	19,546
Finite-life intangible assets	2,797
Deferred income tax assets	1,858
Other long-term assets	264
Investment in Tekalia	544
Total identifiable assets	**$ 38,407**
Accounts payable and accrued liabilities	6,629
Customer advances and progress billings	2,872
Provisions	6,918
Long-term debt [1]	6,844
Total identifiable liabilities	**$ 23,263**
Net identifiable assets and liabilities	**15,144**
Goodwill	3,408
Total purchase price	**$ 18,552**

[1] *Corresponds to lease liabilities*

Fiscal 2019 acquisitions

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all of the shares of Compañia Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE, for €130.4 million ($195.8 million). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition allows the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

- A $50.0 million, seven-year unsecured subordinated term loan provided by the *Fonds de solidarité FTQ*;
- A US$50.0 million ($65.2 million) drawing on the Corporation's credit facility; and,
- The Corporation's available cash balance.

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23.7 million ($35.6 million) upon closing. For the period between October 1, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included €42.1 million ($63.5 million) and €2.7 million ($4.0 million), respectively, generated by CESA. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of CESA would have amounted to $117.3 million and $2.8 million, respectively for the fiscal year ended March 31, 2019.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver") from Phillips Service Industries Inc. for a purchase price of US$21.6 million ($28.5 million). This price included a working capital adjustment received in April 2019 of US$0.3 million ($0.4 million) and a US$3.5 million ($4.6 million) balance of sale payable over the next two years which bears interests at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition allows the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and March 31, 2019, the Corporation's consolidated sales and net income included US$18.9 million ($24.8 million) and US$1.4 million ($1.8 million), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the consolidated sales and net income of Beaver would have amounted to $33.2 million and $2.2 million, respectively.

Acquisition of Tekalia

On January 23, 2019, the Corporation completed the acquisition of 60% of the shares of Tekalia Aeronautik (2010) Inc. ("Tekalia"), a supplier of surface treatment services to the aerospace sector, with annual sales of approximately $12.0 million, for a purchase price of $6.5 million. The transaction was financed through the Corporation's cash and was treated as a business combination. The acquisition of Tekalia allows the Corporation to further secure surface treatment capacity to support its North American customers' growth.

Purchase Prices

The purchase prices allocations that reflects the fair value of the assets acquired and liabilities assumed with any excess allocated to goodwill were determined using the acquisition method as follows:

	CESA	Beaver	Tekalia	Total
Cash payment	$ 170,930	$ 23,671	$ 3,548	$ 198,149
Long-term debt assumed [1]	35,594	574	2,981	39,149
Working capital adjustment receivable	(10,708)	(388)	—	(11,096)
Balance of purchase price payable	—	4,609	—	4,609
Total purchase price for the Corporation's interest	195,816	28,466	6,529	230,811
Non-controlling interests	—	—	2,365	2,365
	195,816	28,466	8,894	233,176

[1] *Excludes lease liability related to IFRS 16*

Purchase Price Allocations

During the fiscal year ended March 31, 2020, the Corporation completed its final assessment of the fair value of assets acquired and liabilities assumed of CESA and of Tekalia. Adjustments and reclassifications mainly relate to the final assessment of costs and liabilities associated to specific Aerospace programs of the CESA purchase price allocation and are presented below as follows:

	CESA - Originally reported	Adjustments	CESA - Final	Beaver	Tekalia	Total
Accounts receivable	$ 28,293	$ —	$ 28,293	$ 6,787	$ 2,406	$ 37,486
Inventories	36,692	—	36,692	10,165	1,105	47,962
Income tax receivable	505	—	505	—	—	505
Other current assets	596	—	596	50	182	828
	66,086	—	66,086	17,002	3,693	86,781
Property, plant and equipment	44,923	—	44,923	3,635	8,566	57,124
Finite-life intangible assets	40,407	—	40,407	4,050	176	44,633
Deferred income tax assets	—	—	—	2,774	—	2,774
Other long-term assets - Tax credits receivable	7,843	—	7,843	—	—	7,843
Total identifiable assets	$ 159,259	$ —	$ 159,259	$ 27,461	$ 12,435	$ 199,155
Accounts payable and accrued liabilities	16,773	—	16,773	2,588	4,833	24,194
Provisions	11,897	4,506	16,403	2,118	—	18,521
Customer advances and progress billings	4,188	—	4,188	450	—	4,638
	32,858	4,506	37,364	5,156	4,833	47,353
Provisions	4,308	—	4,308	8,549	—	12,857
Deferred income tax liabilities	3,465	(1,126)	2,339	—	—	2,339
Other liabilities - long-term accounts payable	4,365	—	4,365	—	—	4,365
Total identifiable liabilities	$ 44,996	$ 3,380	$ 48,376	$ 13,705	$ 4,833	$ 66,914
Net identifiable assets and liabilities	114,263	(3,380)	110,883	13,756	7,602	132,241
Goodwill	81,553	3,380	84,933	14,710	1,292	100,935
Total purchase price	$ 195,816	$ —	$ 195,816	$ 28,466	$ 8,894	$ 233,176

FOREIGN EXCHANGE

As a Corporation with operations in various countries which deals with customers from across the world, Héroux-Devtek's financial position and results of operations are partly influenced by movements in foreign exchange ("FX") rates. More specifically, the Corporation has operations in Canada, the United States, Spain and the United Kingdom, and thus incurs costs denominated in the respective currencies of these four countries, the Canadian dollar ("CAD"), United States dollar ("USD") Euros ("EUR") and British pound ("GBP"). In addition to costs denominated in their local currencies, a large portion of materials costs of the Canadian, Spanish and British operations are denominated in USD, as is a large portion of their sales.

The Corporation must convert foreign-denominated revenues, expenses, assets and liabilities into CAD for financial reporting purposes. Gains and losses occur as a result of the fluctuations of these foreign currencies against the CAD between balance sheet periods, or between the date of a transaction and the reporting date.

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. Balance sheet items are translated at the spot rate on the reporting date.

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

	March 31, 2020	March 31, 2019
USD (Canadian equivalent of US$1.0)	1.4187	1.3363
EUR (Canadian equivalent of €1.0)	1.5584	1.5002
GBP (Canadian equivalent of £1.0)	1.7604	1.7418

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

	Quarters ended March 31,		**Fiscal years ended March 31,**	
	2020	2019	2020	2019
USD (Canadian equivalent of US$1.0)	1.3442	1.3292	1.3306	1.3122
EUR (Canadian equivalent of €1.0)	1.4811	1.5094	1.4784	1.5192
GBP (Canadian equivalent of £1.0)	1.7185	1.7315	1.6915	1.7228

Héroux-Devtek is most exposed to the performance of the USD versus CAD, GBP and EUR due to the prevalence of USD in Aerospace market transactions and the geographical location of operations. Fiscal 2020 featured an increase in the value of the USD compared to CAD, EUR and GBP, the main impact of which was growth in the value of the Corporation's U.S. denominated sales and assets. Approximately 70% of the Corporation's sales are denominated in USD, compared to only a bit less than half of the related costs, which creates significant net inflows of USD.

In order to manage this risk, the Corporation has put in place a foreign currency hedging policy whereby Héroux-Devtek contracts FFEC to sell USD in amounts equivalent to expected net inflows. This policy requires that the Corporation hedge between 50% and 100% of the identified net exposure, mainly over the next two fiscal years. See the *Derivative Financial Instruments* section for further details.

As at March 31, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $404.7 million denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US$266.4 million convertible into Canadian dollars at an average rate of 1.3243. These contracts mature at various dates between April 2020 and March 2025, with the majority maturing in fiscal years 2021 and 2022.

Consistent with hedge accounting under IFRS, gains and losses on these FFEC are accounted for in other comprehensive income until settlement, at which point they are realized in the consolidated statement of income along with the opposing gain or loss on translation of the related financial instruments. As at March 31, 2020, a 1% strengthening of the CAD versus the USD would result in a 0.3 million decrease in the Corporation's fiscal 2020 net income.

RISK MANAGEMENT

Héroux-Devtek operates in an industry which exposes it to a variety of risk factors and uncertainties that may have a material adverse effect on the business, financial condition and results. The Corporation is also subject to more general economic or natural risks which could have widespread, cross-industry impacts.

Héroux-Devtek's general philosophy is to avoid unnecessary risk and to limit, to the extent practicable, any risk associated with business activities. Taking any risk unrelated to normal business activities is considered inappropriate.

It is ultimately the responsibility of the Board of Directors and its committees to identify material risks to the business and ensure management performs adequate risk management duties. Their role in this regard is largely one of high-level decisions, oversight and review. In order to succeed, the Board of Directors entrusts the bulk of risk prevention, detection and mitigation to management.

It is corporate management's responsibility to ensure that systems and procedures are in place to identify and assess risk exposures and manage them within tolerable limits. In order to do so, management has set out the following objectives:

- identify and evaluate risk exposures and, when practicable, reduce exposures to a tolerable level;
- use the most effective and efficient methods to eliminate, reduce or transfer risk exposures; and,
- consider risks associated with operating decisions and structure transactions in such a fashion as to avoid risks whenever possible.

The most significant risk management methods used by management have entity-wide impacts. Such entity-wide efforts include, but are not limited to:

- the establishment of a corporate culture which fosters responsible management and integrity by adhering to strict hiring policies and emitting strong tone from the top;
- the application of a code of ethical conduct and a whistleblower policy in order to assure the quality of the Corporation's corporate governance, and the integrity of the Corporation's functioning;
- the establishment and ongoing alignment of company-wide quality organizations and systems, including supply chain, quality assurance and continuous improvement; and,
- the company-wide establishment of a strong internal control environment in order to manage risks associated with financial reporting, fraud, treasury and operations.

The paragraphs and tables below include a selection of key risks identified by management as well as the related risk management approach. This list is not, nor is it intended to be, exhaustive. Other risks which may not yet have been identified by management could have an adverse effect on the Corporation's business, financial condition or results.

COVID-19 Pandemic Risks

The COVID-19 pandemic has created a period of unprecedented volatility and uncertainty in global economic conditions.

The spread of the virus has caused governments worldwide to enact wide-ranging methods in order to contain the spread of the virus, both locally and internationally, including travel bans, closure of borders, voluntary and compulsory quarantine, self-isolation and social distancing measures, closure of non-essential businesses and curfews.

These measures have resulted in an unprecedented decrease in commercial travel and significant disruption of commercial activity. This significant reduction in activity is resulting in financial market volatility and financial duress for companies and individuals. The duration and breadth of these effects is currently very difficult to predict.

The impact on the aerospace sector in particular is detailed in the *Economic Outlook* section under *Overview*, and the specific impacts on Héroux-Devtek are detailed in the *Impact of COVID-19* section under *Overview*.

The COVID-19 pandemic is a catalyst to many of the risk factors enumerated further below, and more specifically may cause:

- An isolated outbreak at one of Héroux-Devtek's facilities, disrupting operations, delaying deliveries, and causing financial losses;
- Operational inefficiencies and additional costs brought on by the effect of the pandemic and related mitigation methods on the workforce
- Closure or reduction of production of key suppliers, disrupting Héroux-Devtek's supply chain;
- Closure or reduction of production of customers, delaying deliveries;
- Financial duress for suppliers or customers, rendering key inputs unavailable or more costly or receivables uncollectible or subject to longer payment cycles;

- Global reduction in the demand for commercial aerospace products, resulting in production rate cuts by Airbus, Boeing and other OEMs;
- Significant volatility and weakness in global financial markets, resulting in a negative impact on our share price, our ability to access capital markets, our ability to complete business acquisitions as part of our growth strategy, and the value of our pension plan assets;
- Deferral of bid activities;
- Diversion of management attention.

Héroux-Devtek has put in place several measures in order to mitigate these risks, including:
- The creation of a steering committee to coordinate response;
- Local management teams at each of the Corporation's facilities;
- Restriction on all travel;
- Protocols at each location in order to mitigate transmission, including but not limited to:
  - Physical distancing measures;
  - Issuance of personal protective equipment;
  - Staggering of shifts;
  - Quarantine policies;
  - Hygiene reinforcement; and,
  - Work from home enhancements.
- Enhanced communication with customers in order to better forecast disruptions in demand;
- Enhanced communication with suppliers in order to secure the supply chain;
- Additional scrutiny of credit assessments, review of overdue accounts, and provisioning of inventory.

In spite of these measures, the immediate and long-term impacts of the pandemic including related government and central bank interventions are unknown at this time, and any estimate thereof is subject to significant uncertainty. The COVID-19 pandemic may therefore have negative consequences, either directly or indirectly, on the Corporation's operations, cash flows, financial condition or profitability in the future that are currently unforeseen.

Strategic Risks

Strategic risks have company-wide impacts and are typically related to the Corporation's overall direction.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Reliance on large customers	The top 9 of Héroux-Devtek's customers represent approximately 60% of consolidated sales, including one customer representing 22% of its consolidated sales. The loss of one of these customers would have a material adverse impact on current and forecasted financial results.	This risk is partly mitigated by entering into long-term sales agreements with customers as well as by actively seeking out new and diverse customers in order to diversify the sales portfolio. In addition, further diversification is achieved by diversifying sales by subsegment and product or service within sales to individual customers.
Acquisitions and integrations	As a growth strategy, the Corporation at times engages in business acquisitions. Such acquisitions increase the size and scale of the Corporation, and may expose it to new geographical, political, operational and financial risks. Acquisitions furthermore may place significant demand on management or cause subsequent difficulties related to the integration of new operations. The integration of new operations poses risks, which are difficult to forecast, that may adversely affect the Corporation's growth and profitability, and may include the inability to successfully integrate acquired operations.	Héroux-Devtek carefully selects acquisition targets within restrictive criteria and only goes forward when satisfactory fit is identified. Acquisition agreements, further, are thoroughly negotiated with the goal in mind to mitigate key acquisition risks via mutually agreeable conditions, warranties and contingent pricing agreements. The Corporation further manages risks associated with acquisitions and integrations via thorough due diligence work, internal experience and external assistance, as needed. Héroux-Devtek plans integration of acquisitions from the top down and dedicates resources over the long term in order to optimize integration and achieve strategic goals.

Financial Risks

Financial risks are related to the financial condition, results and liquidity of the corporation and/or relate to market conditions directly related to the Corporation.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Foreign currency fluctuations	Refer to the *Foreign exchange* section under *Overview* for details of Héroux-Devtek's exposure to foreign exchange rate fluctuations and related risk management practices.	
Liquidity, capital resources and related covenants	The Corporation requires continued access to capital markets to finance its activities. The long-term nature and up-front cost structure of certain programs can require significant amounts of start-up costs. Inability to access such capital could impede the Corporation's ability to bid on significant contracts, or negatively impact ongoing operations. Héroux-Devtek has access to such financing from its banking syndicate, unsecured subordinated term loan facility as well as from loans from government authorities and capital lease facilities. These agreements subject the Corporation to the financial covenants as described in the Liquidity and capital resources section. They furthermore restrict the Corporation's ability to sell all or substantially all of its assets, incur secured or certain other indebtedness, engage in mergers or consolidations or engage in transactions with affiliates. These restrictions and covenants could impede access to capital or prevent the Corporation from engaging in business activities that may be in its interest.	In order to maintain proper liquidity, Héroux-Devtek makes cash management a daily priority. Liquidity balances, receivables, cash projections and market rates of foreign exchange and interest are monitored constantly. In order to ensure stability and long-term financial viability, the Corporation also: - Ensures proper bid approval in order to ensure proper forecasting and risk assessment of revenue and costs; - Structures contracts in order to obtain customer advances and progress billings; - Develops long-term agreements with customers and suppliers which go through bid processes for key costs; - Performs long-term cash projections as part of the annual budget and strategic plan process; - Maintains positive relationships with all major creditors. Management also monitors covenants on an ongoing basis in order to ensure they are met and identifies trends which could indicate future risks.
Changing interest rates	The Corporation is exposed to fluctuations in interest rates through the floating rate of its credit facility as well as the impact on the cost of future capital requirements. Fluctuations in interest rates may also negatively impact profitability by their impact on rates used by Héroux-Devtek to discount provisions and pension obligations, among other balances. Lower interest rates would result in higher present obligations, with resulting adjustments impacting financial results.	Héroux-Devtek's risk management policies specifically address the management of interest rate risk by allowing the use of derivatives such as interest rate swaps. The goal of this policy is to obtain an overall fixed rate debt ratio between 40% and 70% of overall long-term debt. Outstanding derivatives are detailed in the Derivative Financial Instruments section under Additional Information. Risks associated with pensions are managed through investment policies put in place by the Corporation and pension committees.

Operational Risks

Operational risks are more specific to or result from Héroux-Devtek's operations than strategic risks.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Litigation	Héroux-Devtek is subject to possible litigation in the ordinary course of its business by, among others, customers, suppliers, competitors, shareholders or government agencies including specific import/export laws and regulations. Such litigation can vary both in terms of financial magnitude and in duration, either of which could remain unknown for substantial periods of time. Regardless of outcome, litigation could result in substantial costs to the Corporation in addition to potentially material losses, both of which would negatively impact financial results. Litigation, in addition, could divert management's attention and resources away from day-to-day operations and strategic objectives.	The Corporation employs legal professionals who advise senior management on the subject of ongoing legal and regulatory compliance and related risk management. The Corporation also subscribes to several forms of insurance coverage which may, in the event of liability of certain types, partially or entirely compensate for potential losses.
Collective bargaining agreements	The Corporation is party to certain collective bargaining agreements which govern the working relationship with certain employees. Failure to renew such agreements upon mutually agreeable terms could result in work stoppages or other labour disturbances which could have adverse effects on financial results, operational execution and customer satisfaction.	In order to minimize this risk, Héroux-Devtek endeavours to maintain cooperative and professional relationships with union leadership and plans the negotiation of renewals to allow reasonable time to achieve positive results.
Availability of skilled labour	The market for skilled labour in the aerospace industry is highly competitive and is expected to remain so in the future. Execution of key programs and customer satisfaction are heavily reliant on employing top talent. The Corporation relies on such labour, particularly engineers, machinists and programmers, for all levels of operations.	Héroux-Devtek targets top candidates for key roles and carefully evaluates hires for long-term fit and growth. Retention of employees is addressed through solid human resources practices, competitive remuneration and, in the case of key management, incentive-based pay such as bonuses, stock options, performance share units and stock purchase and ownership incentive plans.
Information technology	Information technology systems are essential to most of Héroux-Devtek's operations. These systems could be vulnerable to cyber-attacks or spying, viruses and any other form of hardware or software failures, intentional or not. The non-availability of these systems would directly and negatively affect the Corporation's operations. Unauthorized access to first or third-party confidential data in Héroux-Devtek's possession would also negatively affect the Corporation's reputation and, consequently, its business and results.	In order to reduce technology-related risks, Héroux-Devtek has implemented a variety of measures, including: - A security program based on the NIST framework, including frequent maturity assessments, audits and penetration tests; - 24/7 monitoring via a security operations center; - Intrusion detection and prevention solutions; - A global security committee, strict governances process and policies regarding information technology; - A cybersecurity awareness program and phishing campaigns; and, - Disaster recovery planning.
Warranty casualty claim losses	The complex and sophisticated nature of the Corporation's products creates a risk that defects may be found after they have been delivered to customers. Such defects may result in warranty claims or customer losses for which Héroux-Devtek may be liable. Furthermore, the primary use of these products being for air travel may compound the magnitude of such warranty claims or losses. Liability for such losses, or the inability to correct such errors, may have material adverse effect on the Corporation's business and results.	Héroux-Devtek's rigorous dedication to quality standards, systems and certifications in all stages of design, production or repair and overhaul partially mitigate the risk of product-related failure which could lead to warranty claims or litigation. The Corporation has in place a product support organization which monitors performance and reliability of products and also subscribes to product liability insurance which may mitigate potential losses.
Supplier performance	The increasing growth, integration and automation of the Corporation's business result in increased reliance on, and exposure to, the performance of its supply chain. Reductions in quality, reliability, availability of supply chain performance could result in material adverse effects on the Corporation's business and results.	Héroux-Devtek manages supplier-related risks through frequent supplier audits and maintaining high standards, such as requiring AS9100 and Nadcap certification. The Corporation also tracks and monitors supplier performance and mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management.

External Risks

External risks are generally outside of management's control and mostly result from external factors.

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
Competition and innovation	Héroux-Devtek operates in an industry that has faced ongoing consolidation, resulting in a smaller overall number of larger competitors, as well as constant innovation in technology and products. Larger competitors may have increased capabilities to compete for significant contracts, as would competitors who bring new technological innovation to market. Either could result in lost customers or opportunities for the Corporation, hindering growth and future profitability.	Héroux-Devtek manages risk from competition by maximizing customer satisfaction, on-time delivery, bidding competitively and maintaining high quality products. The Corporation also manages risk associated with innovation by monitoring technological developments and performing in-house research and development in order to remain at the forefront of technology in the industry.
Availability and cost of raw materials	The main raw materials purchased by the Corporation are steel, aluminum and titanium. Supply and cost of these materials can fluctuate due to factors outside of the Corporation's control. Difficulty in procuring raw materials in sufficient quantities and in a timely fashion or increases in the costs of these materials could have a material adverse effect on Héroux-Devtek's operations and financial results.	The Corporation mitigates this risk with the inclusion of clauses in certain long-term sales contracts which govern the sharing of risks related to the availability and cost of raw materials with customers. Héroux-Devtek also negotiates long-term supply agreements for certain raw materials and monitors the supply chain to ensure timely delivery.
General economic conditions	While the aerospace and defence industries have proven over the long-term to be relatively resilient in the face of economic turmoil, they are not immune to short-term downturns when market conditions take their toll on customers. Such market conditions may be caused by any number of factors, including but not limited to global pandemics, political instability, terrorist activity, or natural disasters. Such unfavourable conditions could negatively impact Héroux-Devtek through decreased sales in particular, which could lead the Corporation to incur significant costs associated with temporary layoffs and termination.	While such economic conditions are outside of the direct sphere of control of management, Héroux-Devtek indirectly manages this risk through maintaining a portfolio of customers and programs which is diversified both geographically and by market segment. This could decrease the overall impact of a downturn in any one of these segments on the Corporation as a whole. This risk is further mitigated by continuous effort on the part of Héroux-Devtek to manage costs, capital and profitability in such a fashion as to maintain a healthy financial position, allowing for more resiliency in the event of unexpected downturns.
Defence spending	Defence spending is approved by governments on a yearly basis and is subject to political climates and changing priorities. Austerity measures or shifts away from defence spending on the part of a government, particularly that of the United States, could lead to a significant downward trend in demand for the Corporation's defence products.	The Corporation's diversified sales portfolio, including a growing commercial product portfolio, defence programs outside of the United States and balance between manufacturing and aftermarket products and services reduces the impact that a downward trend in defence spending on the part of certain governments could have.
Environmental matters	The Corporation's activities are subject to environmental laws and regulations associated with risks to human health and the environment. These laws and regulations and potential related charges could have a significant adverse effect on the Corporation's operations and financial condition.	Héroux-Devtek manages this risk by putting in place management systems and policies in order to manage and monitor the environmental impact its operations may have. In the event of an environmental incident which could lead to a larger loss, the Corporation also subscribes to insurance policies which may partially mitigate such losses.

KEY PERFORMANCE INDICATORS

Héroux-Devtek measures its performance on a corporate-wide basis through the following elements:

- Profitability
- Liquidity
- Growth and competitive positioning
- Financial position

To do so, the Corporation developed key performance indicators ("KPI"). The following is a list of these indicators as well as the elements which they help measure:

PERFORMANCE ELEMENT	KPI	MEASURES
Profitability	Gross profit	Manufacturing performance
	Adjusted operating income[1]	Operating performance
	Adjusted net income[1]	Global profitability
	Adjusted EPS[1]	Global profitability and shareholder return
	Return on net assets ("RONA")	Return on investment
Liquidity	Adjusted EBITDA[1]	Overall liquidity generation
	Cash flow from operations	Operating liquidity generation
	Free cash flow[1]	Net liquidity generation
Growth and competitive positioning	Sales	Growth
	Funded backlog	Outstanding firm orders
Financial position	Working capital	Available liquidity
	Net debt to Adjusted EBITDA ratio	Indebtedness
	Net debt to equity ratio	Overall capital structure

[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.*

In addition to the above measures, on an internal basis, the Corporation uses such measures as manufacturing capacity utilization, as well as on-time deliveries and non-quality costs to measure customer satisfaction.

Héroux-Devtek's incentive-based pay for management varies partially based on reaching established global or divisional targets of certain of the metrics listed above, including operating income, RONA, adjusted EBITDA and adjusted net income. Incentive pay also relies on individual objectives and, in the case of stock-based compensation, share price performance.

DERIVATIVE FINANCIAL INSTRUMENTS

Héroux-Devtek makes use of certain derivative financial instruments as tools for risk management purposes in order to mitigate certain foreign exchange, interest rate or other price risks to which it is exposed. Management uses these derivatives within the guidelines laid out by the Corporation's risk management policy. See the *Risk Management* section under *Overview* for further details of Héroux-Devtek's risk management practices.

As at March 31, 2020, these derivative financial instruments are as follows:

Forward foreign exchange contracts

See *Foreign Exchange* under *Overview* for information about the Corporation's exposure to foreign exchange risks as well as the derivative financial instruments used to mitigate it. See also note 32 to the Consolidated financial statements.

Cross-currency interest rate swaps

The acquisition of CESA exposed the Corporation to new foreign currency and interest rate risks related to the investment in Euros. A decrease in value of the Euro compared to the Canadian dollar would decrease the value of the foreign investment, and an increase in the interest rates of the underlying debt would increase related the net financial expenses.

As at March 31, 2020, the Corporation had entered into the following cross-currency interest rate swap agreements in order to mitigate foreign exchange and interest rate risks:

	Notional		EURO equivalent	Interest rate	Inception	Maturity
US$	29,370	€	25,000	1.86 %	October 2017	May 2022
C$	50,000	€	34,110	3.40 %	October 2017	September 2025
US$	17,523	€	15,000	Euribor 1 month + 1.74%	September 2018	May 2022
C$	10,000	€	6,658	2.68 %	June 2019	September 2025

Equity swap agreement

The Corporation's net income is exposed to fluctuations of its share price through its DSUs and PSUs (see note 22 to the consolidated financial statements). In order to mitigate this exposure, the Corporation has entered into an equity swap agreement with a financial institution.

Pursuant to this agreement, upon settlement, the Corporation receives payment for any share price appreciation while providing payment to the financial institution for any share price depreciation. The net effect of the equity swap partly offsets movements in the Corporation's share price which impacts the expense resulting from the DSUs and PSUs included in the Corporation's selling and administrative expenses.

As at March 31, 2020, the equity swap agreement covered 300,000 common shares of the Corporation (245,000 at March 31, 2019) at a price of $13.52 ($12.68 at March 31, 2019). This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2021.

INTERNAL CONTROLS AND PROCEDURES

In compliance with *Regulation 52-109 respecting Certification of Disclosure in Issuer's Annual and Interim Filings* ("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.

Disclosure controls and procedures

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.

As at March 31, 2020, an evaluation of the design and effectiveness of the Corporation's disclosure controls and procedures was also carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and operation of these disclosure controls and procedures were effective. This evaluation took into account the Corporation's disclosure policy and its disclosure committee.

Internal controls over financial reporting

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.

As at March 31, 2020, an evaluation of the design and effectiveness of the Corporation's internal controls over financial reporting was carried out under the supervision of the CEO and CFO, as defined in Regulation 52-109. Based on this evaluation, the CEO and CFO concluded that the design and effectiveness of these internal controls over financial reporting were effective to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's consolidated financial statements were prepared in accordance with IFRS. However, a control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Changes in internal controls over financial reporting

No changes were made to the Corporation's internal controls over financial reporting during the fiscal year ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Corporation's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities at the reporting date. Uncertainty about these assumptions and estimates could result in outcomes that require material adjustments to the Corporation's financial results or the carrying amount of assets or liabilities.

Key estimates and assumptions are as follows:

Impact of COVID-19

The uncertainties around the outbreak of the COVID-19 pandemic required the use of significant judgments and estimates. As at March 31, 2020, the Corporation performed an assessment of the asset impairment risk including a detailed review of the credit risk over its accounts receivable, its inventory levels for risks over obsolescence or excess inventory, goodwill and other intangible assets. Following this assessment, the Corporation recorded a non-cash impairment charge of $ $85.8 million. The uncertain future impact of COVID-19 could generate, in future reporting periods, a significant risk of material adjustment to the carrying amounts of the following: accounts receivable, inventories, property, plant & equipment, finite-life intangible assets, deferred income tax assets, goodwill, provision for onerous contracts, government authorities loans and net defined benefit obligations. As an emerging risk, the duration and full financial effect of the COVID-19 pandemic is unknown at this time, and accordingly estimates of the extent to which the COVID-19 may materially and adversely affect the Corporation's consolidated financial condition, operations and consolidated financial results are subject to significant uncertainty.

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset or cash generating unit ("CGU") exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets and observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's five-year budget and strategic plan and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that may enhance the performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model, the expected future cash flows and the perpetual growth rate used for extrapolation. The key assumptions used to determine the recoverable amount of the CGUs, including sensitivity analysis, are further explained in note 17 to the Consolidated financial statements.

Deferred income tax assets

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The Corporation establishes provisions based on reasonable estimates for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for unused tax losses and deductible temporary differences to the extent it is probable that taxable income will be available against which the losses and deductible temporary differences can be utilized. Management's judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Pensions and other retirement benefits

The cost of defined benefit pension plans is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. In determining appropriate discount rates, management considers the interest rates of high-quality corporate bonds. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The significant assumptions used to determine the defined benefit obligations and the pension expense, including a sensitivity analysis, are further explained in note 25 to the Consolidated financial statements.

Capitalized development costs

Development costs are capitalized in accordance with the accounting policy described in note 3 to the Consolidated financial statements. In determining the amounts to be capitalized, management makes assumptions regarding the expected future cash generation of the assets, discount rates to be applied, the expected period of benefits and contract quantities. For purpose of impairment testing, the Corporation exercises judgment to identify the cash inflows and outflows. The recoverable amount is based on fair value less costs of disposal, generally determined using a discounted cash flow model. Other assumptions used to determine the recoverable amount include the applicable discount rate and the expected future cash flows which include costs to complete the development activities.

Provisions

The Corporation has recorded provisions to cover cost exposures that could materialize in future periods. In determining the amount of the provisions, assumptions and estimates are made in relation to discount rates and the expected cost to settle such liabilities.

Government Authorities Loans

The Corporation has outstanding loans with government authorities with variable repayment schedules. Annual repayments of these loans generally vary based on the sales of certain of the Corporation's programs or segments. In order to account for the present value of these loans under the effective interest method, or for government assistance upon initial recognition, management must estimate the future sales growth of these programs or segments over the expected duration of the loan. These forecasts are used to determine effective interest rates and expected repayment schedules. In determining these amounts, management must rely on market rates of interest and assumptions such as, but not limited to, current and future order intake, industry order backlogs, Original Equipment Manufacturer ("OEM") production rates, expected economic conditions, the stability of foreign exchange rates and the Corporation's ability to deliver on key contract initiatives.

Customer Relationships

Customer relationships acquired in business acquisitions are considered intangible assets with finite lives. Their value was estimated upon acquisition using valuation methodologies which rely on many underlying assumptions, including:

- Expected future order intake;
- Operational execution and cost management;
- Stability of economic conditions, including foreign exchange rates;
- Production rates;
- Government spending.

They are recorded at cost less accumulated impairment and amortization and are amortized on a straight-line basis over their useful lives without exceeding 15 years.

NEW ACCOUNTING STANDARDS

Effective April 1, 2019, the Corporation adopted IFRS 16, which replaces IAS 17, represents a major revision of the way in which companies account for leases. It sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease following a single model where previously leases were classified as either finance leases or operating leases. Most leases are recognized on the Corporation's consolidated balance sheet. Certain exemptions apply for short-term leases and leases of low-value assets.

Right-of-Use Assets

Right-of-use assets are measured at cost. The cost is based on the initial amount of the lease liability plus initial direct costs incurred and estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located adjusted for any lease payments made at or before the commencement date, less any lease incentives received, if any.

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 20 years for buildings and 1 to 6 years for machinery, equipment and tooling.

Lease Liabilities

At the commencement date of the lease, the Corporation recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments mainly include fixed payments less any lease incentives receivable and the exercise price of a purchase option reasonably certain to be exercised. Variable lease payments that do not depend on an index or a rate are recognized as an expense in the period during which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Corporation uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment of whether the underlying asset will be purchased.

The Corporation determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. After the commencement date, the Corporation reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Effect of adopting IFRS 16

The adoption of IFRS 16 had an impact on the consolidated balance sheet and statement of income as operating leases have been capitalized, corresponding lease liabilities have been recognized, rent expense has been replaced by the amortization expense of the right to use the related assets and the interest accretion expense from the liability recorded. In addition, the principal repayments of lease liabilities are now presented as financing activities in the consolidated statements of cash flows, whereas under the previous standard these payments were presented as operating activities prior to April 1, 2019.

The Corporation has applied this standard using the modified retrospective approach (without restating comparative figures) for the fiscal year beginning April 1, 2019. Certain leases were not brought on the Corporation's consolidated balance sheet as they are covered by practical expedients. The Corporation has elected to apply the following practical expedients:

- Account for leases for which the remaining lease term ends within 12 months of the effective date as short-term leases; and
- Recognize short-term leases and low value leases on a straight-line basis as part of operating expenses in the consolidated statements of income.

The adoption of IFRS 16 had the following impacts on the consolidated statement of income:

Increase (decrease)	**March 31, 2020**
Cost of sales, Selling and administrative expenses	
Depreciation and amortization	$ 3,098
Other (rent expense)	(3,679)
Operating income	581
Financial expenses	1,283
Deferred income tax expense	(175)
Net income and comprehensive income	$ (527)

Increase (decrease)	**As of April 1, 2019**
Property, plant and equipment, net	$ 14,892
Long-term debt [(1)]	14,892

[(1)] The current portion of long-term debt impact corresponds to $2,520 as at April 1, 2019

The following table presents the reconciliation between the operating leases commitments as of March 31, 2019 and the additional lease liabilities as of April 1, 2019:

Operating lease commitments as at March 31, 2019	$ 16,823
Discounting operating leases as at April 1, 2019 (1)	(1,068)
Commitments relating to the change in the lease term assumptions and inclusion of non-lease components	1,002
Leases committed but not yet commenced as at April 1, 2019	(1,865)
Additional lease liabilities as at April 1, 2019	$ 14,892
Pre-existing capital leases as at April 1, 2019	20,411
Total lease liabilities as at April 1, 2019	$ 35,303

(1) At the date of adoption of IFRS 16, the weighted average incremental borrowing rate was 4.2%

The following tables reconciles the right-of-use assets for the Company as at March 31, 2020:

	Building and leasehold improvements	Machinery, equipment and tooling (1)	Other	Total
Cost:				
At April 1, 2019	$ 12,969	$ 41,368	$ 1,271	$ 55,608
Additions	6,498	3,454	206	10,158
Business acquisition	6,844	—	—	6,844
Effect of changes in exchange rates	418	5	49	472
As at March 31, 2020	$ 26,729	$ 44,827	$ 1,526	$ 73,082
Accumulated amortization:				
At April 1, 2019	$ —	$ (10,006)	$ —	$ (10,006)
Amortization expense	(2,201)	(5,741)	(513)	(8,455)
Effect of changes in exchange rates	(49)	(1)	(19)	(69)
As at March 31, 2020	$ (2,250)	$ (15,748)	$ (532)	$ (18,530)
Net book value as at March 31, 2020	$ 24,479	$ 29,079	$ 994	$ 54,552

(1) Includes the pre-existing assets under capital leases (net book value of $30,710 as at April 1, 2019)

The following table presents the lease liabilities for the Company as at March 31, 2020:

	Lease liabilities
Balance as at March 31, 2019	$ 20,411
Adoption of IFRS 16 (Notes 3 and 26)	14,892
Balance at April 1, 2019	$ 35,303
Additions	10,158
Business acquisition	6,844
Lease payments	(9,566)
Interest expense on lease liabilities	1,819
Effect of changes in exchange rates	107
Balance as at March 31, 2020	$ 44,665

SELECTED FINANCIAL INFORMATION

Selected financial information is as follows, for the quarters ended:

Fiscal year				2020				2019
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	$166,800	$157,253	$145,516	$143,427	$157,914	$144,528	$ 95,665	$ 85,770
Operating (loss) income	(64,426)	13,466	10,519	10,371	15,190	11,904	5,289	4,857
Adjusted operating income (1)	17,577	13,466	10,519	10,986	16,208	13,973	6,165	5,217
Adjusted EBITDA (1)	28,609	24,563	21,510	21,509	25,910	22,883	13,176	12,244
Net (loss) Income	(72,113)	8,705	6,307	6,443	11,958	7,390	3,294	3,552
Adjusted Net Income (1)	13,695	8,705	6,307	6,959	12,794	9,367	4,405	3,786
In dollars per share								
(Loss) Earnings per share - basic and diluted	$ (1.98)	$ 0.24	$ 0.18	$ 0.18	$ 0.34	$ 0.20	$ 0.09	$ 0.10
Adjusted Earnings per share (1)	0.38	0.24	0.18	0.19	0.36	0.26	0.12	0.10
In millions of shares								
Weighted average number of common diluted shares outstanding	36.4	36.7	36.7	36.6	36.5	36.4	36.5	36.4
In millions, as at period end								
Funded backlog	$ 810	$ 839	$ 769	$ 747	$ 624	$ 629	$ 479	$ 454

(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.

Selected financial information is as follows, for fiscal years:

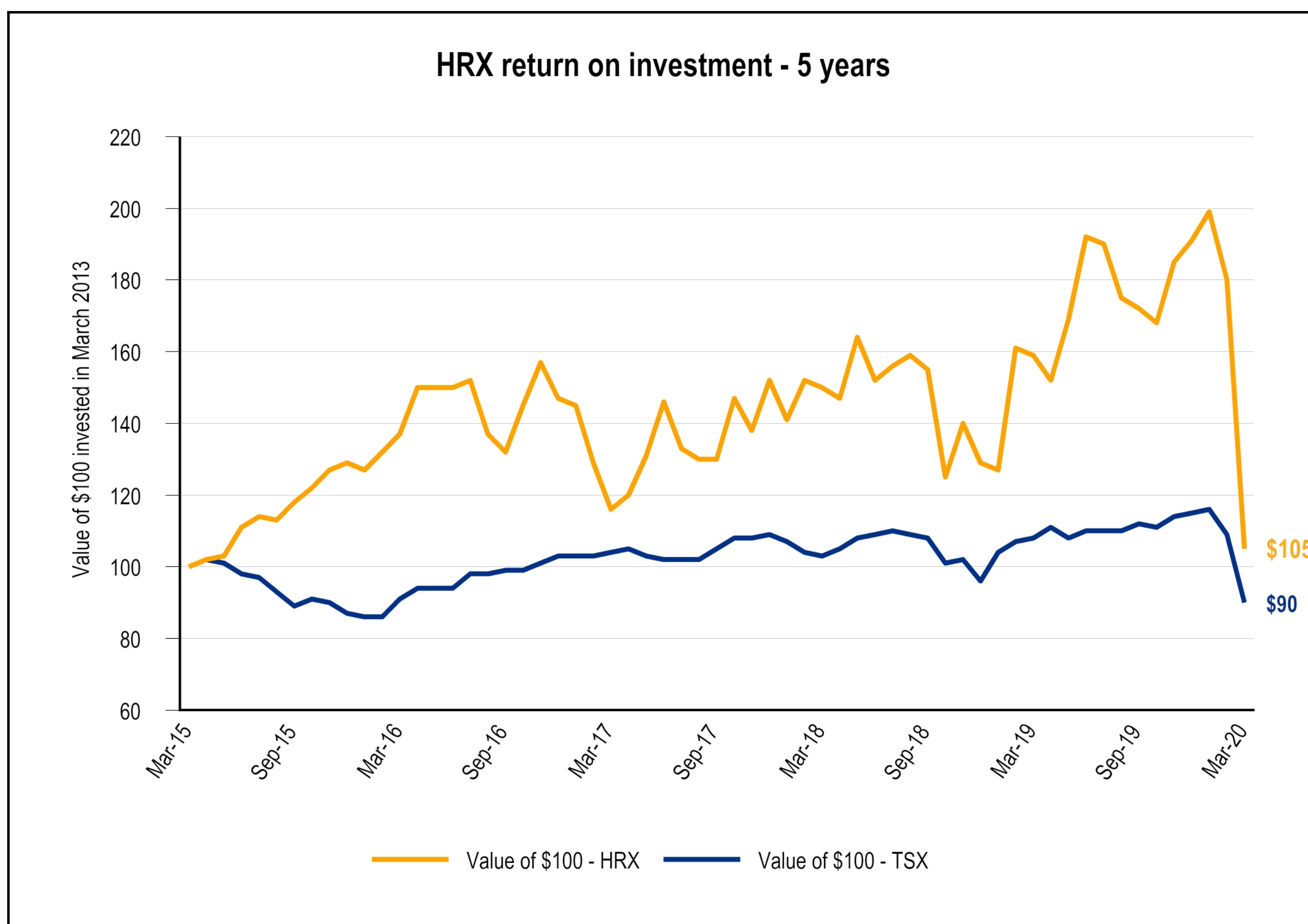
	2020	2019	2018
Sales	$ 612,996	$ 483,877	$ 386,564
Operating (loss) income	(30,070)	37,240	23,378
Adjusted operating income(1)	52,548	41,563	30,325
Adjusted EBITDA(1)	96,191	74,213	56,904
Net (loss) income	(50,658)	26,194	13,674
Adjusted net income(1)	35,666	30,352	24,213
(Loss) Earnings per share ($) - basic and diluted	(1.38)	0.73	0.38
Adjusted earnings per share(1) ($)	1.00	0.84	0.67
Cash and cash equivalents	45,841	35,128	93,209
Total assets	898,848	872,767	632,162
Long-term financial liabilities(2)	314,363	268,273	137,388

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

(2) *Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.*

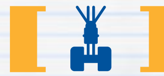
SHAREHOLDER INFORMATION

Expected issuance date of financial results	
Fiscal 2021	
First quarter	August 7, 2020
Second quarter	November 13, 2020
Third quarter	February 5, 2021
Fourth quarter	May 20, 2021



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 20, 2020. Additional information about the Corporation, including the Annual Information Form, can be found on SEDAR at www.sedar.com or on the Corporation's website at www.herouxdevtek.com.



HEROUXDEVTEK.COM

CONTACT INFORMATION

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