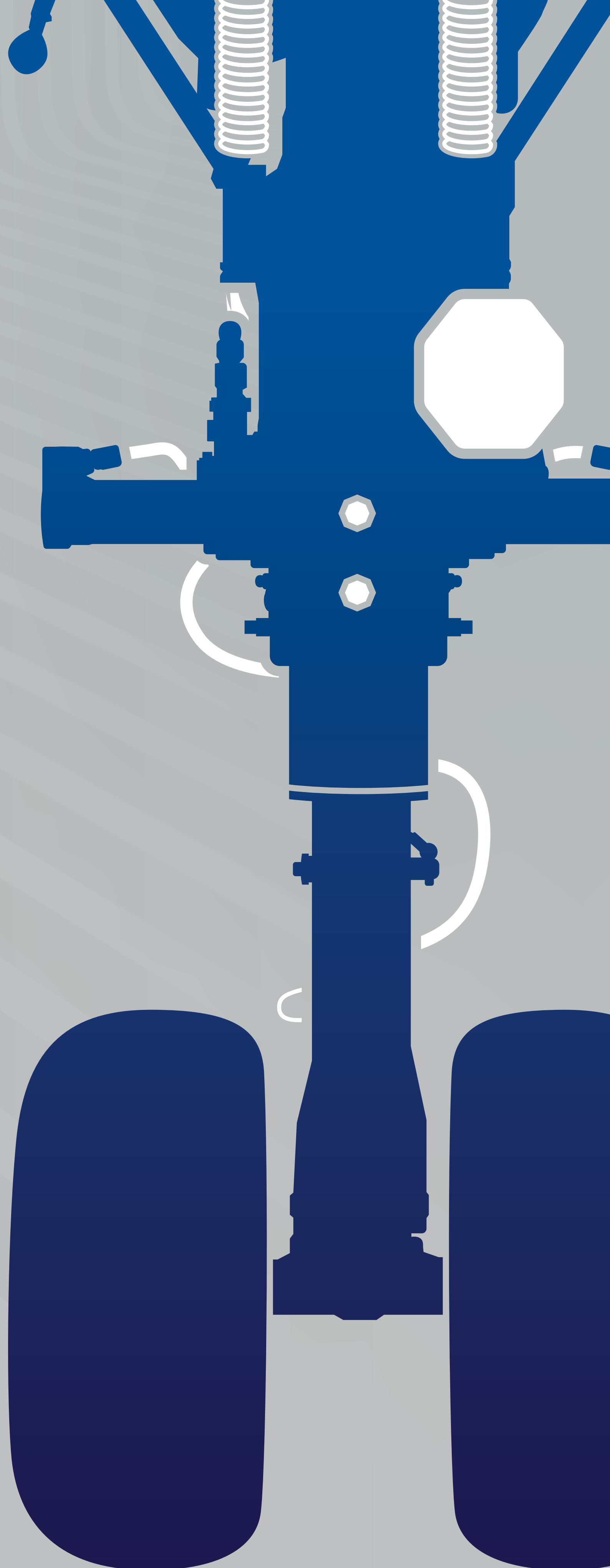
OUR PEOPLE,
OUR STRENGTH

2021 Annual Report



HÉROUX DEVTEK

LOOKING BACK AT FISCAL 2021

- Early roll-out of effective health and safety measurres
- Inventory levels have now returned to pre-pandemic turn rates
- Awarded entry to Boeing's Premier Bidder Program
- Selected by Dassault for the Falcon 10X program
- Took actions swiftly to maintain profitability
- Delivered on-time high quality products throughout the pandemic
- New long-term contract for CESA with Boeing
- Record $67.3 million free cash flow compared to $30.3 million a year before

HÉROUX-DEVTEK AT A GLANCE

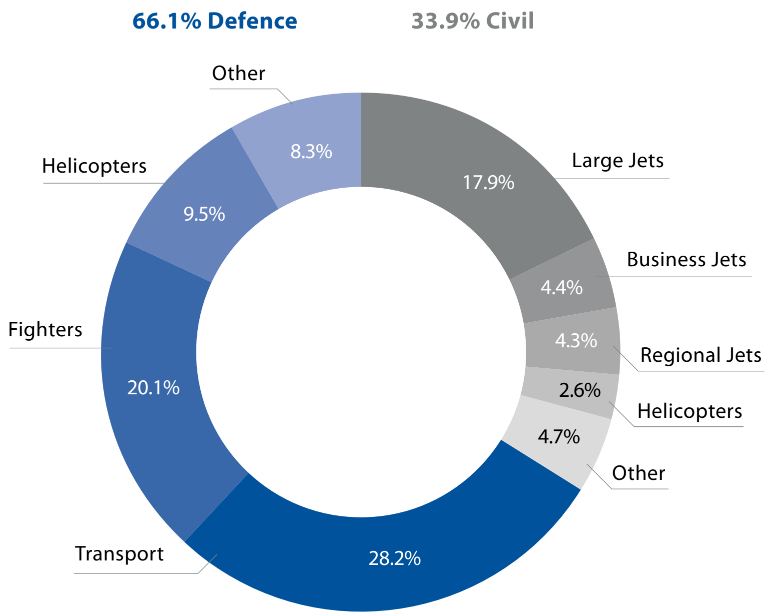
- Héroux-Devtek Inc. (traded on the Toronto Stock Exchange under the symbol "HRX") is an international aerospace provider specializing in the design, development, manufacture, repair and overhaul of aircraft landing gears, hydraulic and electromechanical flight control actuators, custom ball screws and 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 civil and defence sectors.
- In addition to its ability to design and manufacture complete landing gear and actuation systems to specification, Héroux-Devtek has built a strong reputation for its ability to support and service landing gear and actuation systems for a wide range of defence 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 1 800 dedicated people at its 15 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.

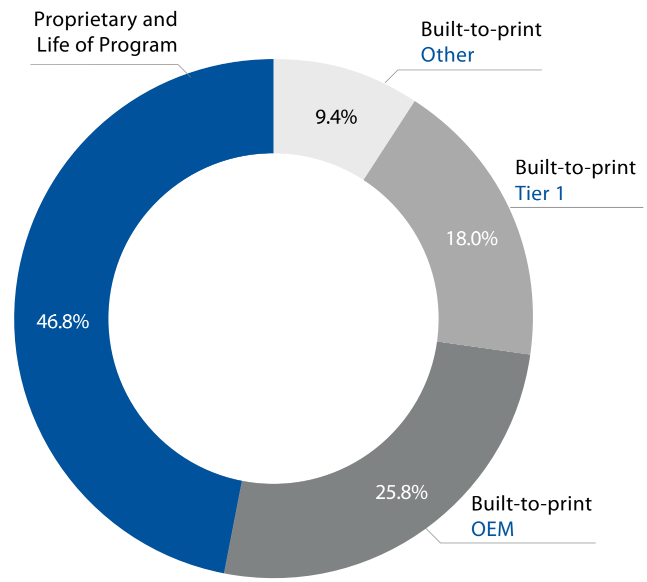
DIVERSIFIED AND BALANCED REVENUE MIX

(based on Fiscal 2021 sales)

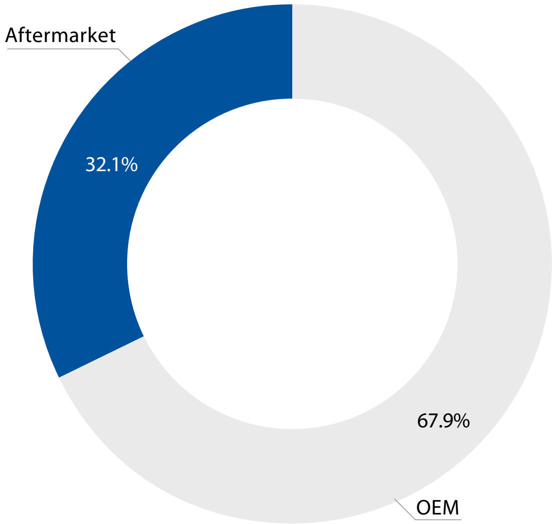
DEFENCE / CIVIL



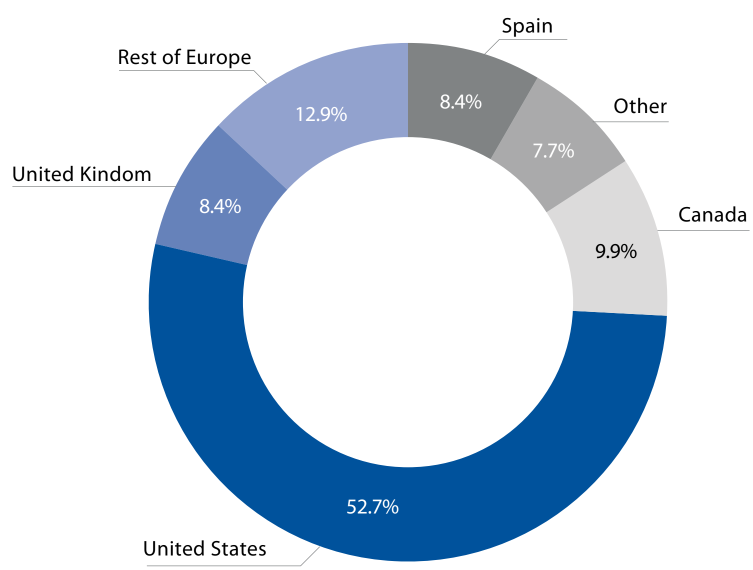
PROPRIETARY / BUILD-TO-PRINT



OEM/AFTERMARKET



FISCAL 2021 SALES MIX BY END CUSTOMER LOCATION

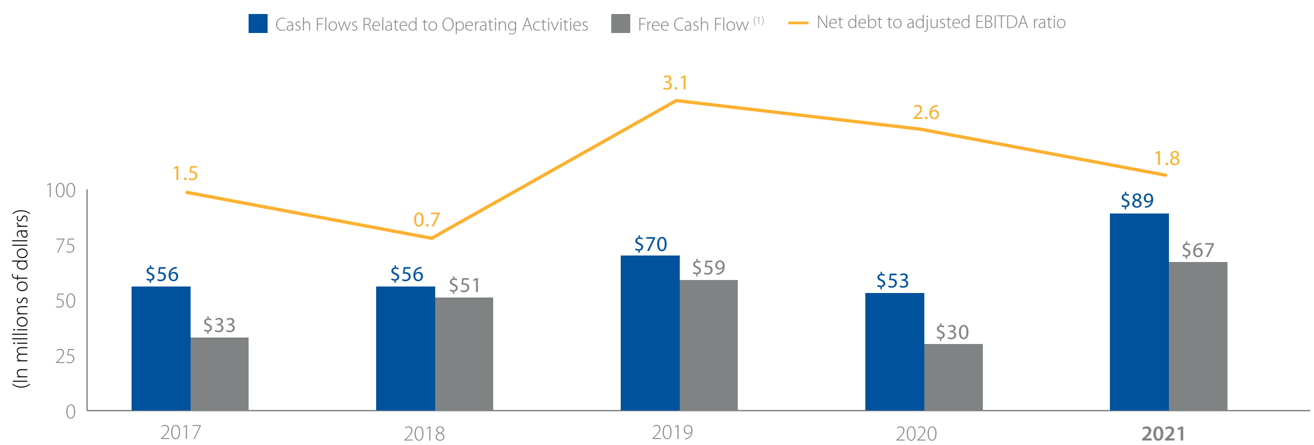


INVESTMENT HIGHLIGHTS

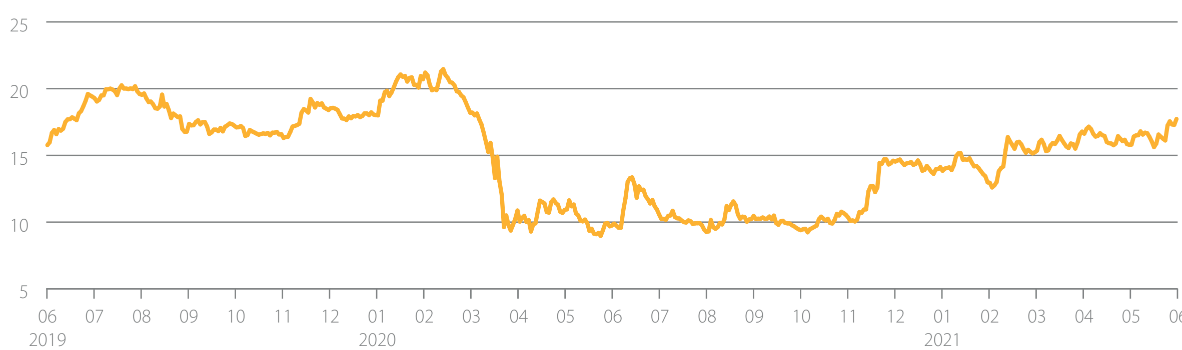
IMPROVED FINANCIAL POSITION SETS THE STAGE FOR OUR LONG-TERM DEVELOPMENT.
NET DEBT TO ADJUSTED EBITDA RATIO DOWN FROM 2.6X TO 1.8X. $89.3 M REDUCTION IN 2021.

RECORD YEAR FOR CASH FLOWS

(in millions of dollars)



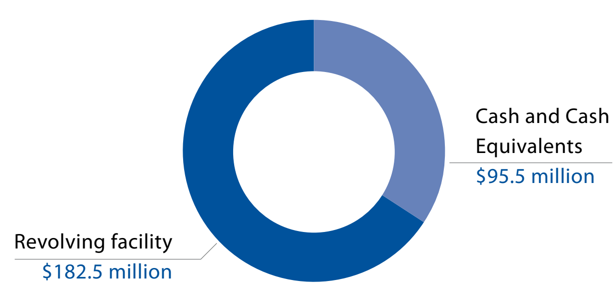
STOCK PERFORMANCE 24 MONTHS



Throughout the pandemic, we have remained vigilant, proactive, and resilient. This rational approach has enabled us to protect our liquidity and finish the year with an improved financial position.

MARTIN BRASSARD, PRESIDENT & CEO

$278 MILLION OF AVAILABLE LIQUIDITY AS AT MARCH 31, 2021



[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.

FINANCIAL HIGHLIGHTS

FISCAL YEARS ENDED MARCH 31	2021	2020	2019	2018	2017
OPERATING RESULTS	(in millions of dollars except per share data and ratios)				
Sales	**570.7**	613.0	483.9	386.6	406.5
Operating income (loss)	**34.1**	(30.1)	37.2	23.4	35.6
Adjusted operating income [(1)]	**45.2**	52.5	41.6	30.3	35.9
Adjusted EBITDA [(1)]	**88.3**	96.2	74.2	56.9	61.4
Adjusted EBITDA [(1)] margin	**15.5%**	15.7%	15.3%	14.7%	15.1%
Net income (loss)	**19.8**	(50.7)	26.2	13.7	31.8
Adjusted net income [(1)]	**29.0**	35.7	30.4	24.2	26.4
Cash flows related to operating activities	**89.2**	52.6	70.0	56.1	56.1
Free cash flow [(1)]	**67.3**	30.3	58.6	50.8	33.0
Funded backlog	**717.0**	810.0	624.0	466.0	405.0
PER SHARE DATA					
EPS – basic and diluted (loss)	**0.55**	(1.38)	0.73	0.38	0.88
Adjusted EPS [(1)]	**0.80**	1.00	0.84	0.67	0.73
Average number of shares outstanding (diluted, in 000's)	**36,523**	36,363	36,437	36,332	36,284
FINANCIAL POSITION					
Cash and cash equivalents	**95.5**	45.8	35.1	93.2	42.5
Working capital	**241.4**	205.4	173.1	201.9	165.1
Total assets	**853.3**	898.8	872.8	632.2	607.3
Long-term debt [(2)]	**253.0**	292.7	263.3	132.0	134.8
Net debt to adjusted EBITDA ratio	**1.8**	2.6	3.1	0.7	1.5
Shareholders' equity	**391.7**	349.4	404.1	379.0	355.9

[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.

SUPPLY CONTRACTS

1

2

3

4

5

6

DEFENCE

1 Lockheed Martin F-35 Lightning II
Production of the F-35 door uplock system designed and qualified by Héroux-Devtek's engineering team.

2 Boeing F-18 Super Hornet
Supply and assemble the main landing gear and side brace production and spares for the F/A-18E/F Super Hornet and EA-18G Growler.

3 Sikorsky CH-53K
Design, develop and supply the landing gear system and tail bumpers for production and spares for the CH-53K King Stallion heavy lift helicopter.

4 Boeing CH-47 Chinook
Supply and assemble the landing gear for the Boeing CH-47 Chinook for production and spares requirements.

5 Lockheed Martin C-130J Super Hercules
Supply and assemble the landing gear for the C-130J Super Hercules for production and spares requirements.

6 Boeing F-15EX / Advanced F-15
Supply and assemble the nose and main landing gear for the F-15EX / Advanced F-15 programs for production and spares requirements.

7 Saab Gripen E
Design, develop and supply the complete landing gear system for the Gripen E fighter aircraft for production and spares requirements.

8 Boeing MQ-25
Design, develop and supply the complete landing gear system for the MQ-25 Unmanned Aerial Refueler.

9 Airbus C295
Supply and assemble the landing gear system for the C-295 production and spares requirements.

10 Airbus A400M
Supply landing gear components and actuation systems for the A400M production and spares requirements.

11 Eurofighter Typhoon
Supply actuation systems and components for the Eurofighter production and spares requirements.

12 KAI KF-21 Boramae
Design, develop and supply the complete landing gear system for the Korean Fighter KF-21 Boramae.

Royal Canadian Air Force CC-295

© Oleg V. Belyakov - AirTeamImages

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CIVIL

13 Boeing 777 and 777X
Supply complete landing gear system and spare components for the 777 and 777X commercial large jet.

14 Dassault Falcon 6X
Design, develop and supply the complete landing gear system for the Falcon 6X.

15 Dassault Falcon 10X
Design, develop and supply the complete landing gear system for the Falcon 10X.

16 Embraer Praetor 500/600
Design, develop and supply the complete landing gear system for the Embraer Praetor.

© Dassault Aviation - V. Almansa

© Dassault Aviation

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COMBINING RESILIENCE AND PERFORMANCE

EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS MESSAGE TO SHAREHOLDERS

Dear Shareholders,

As you surely know, the aerospace industry has been significantly affected by the COVID-19 pandemic. Health measures imposed by local authorities have led to a dramatic reduction in passenger traffic and, in turn, affected aircraft demand. Nevertheless, Héroux-Devtek has been able to weather most of the storm and the future looks promising.

STRENGTH THROUGH DIVERSIFICATION

Last year, I highlighted how certain developments in Héroux-Devtek's recent evolution gave me confidence in the Corporation's position entering the pandemic. We now sell complete landing gear systems and actuators, which are harder to resource than components. We now sell in large part directly to OEMs and end users and own a growing percentage of intellectual property. Lastly, our product portfolio is diversified across all segments of the aerospace industry, both defence and civil.

These elements made it possible for us to deliver strong results this past fiscal year, both operationally for our clients and financially for our stakeholders, despite the current context. We generated a record $89.2 million of cash flows related to operating activities, which in large part drove the improvement in our net debt to adjusted EBITDA ratio from 2.6x last year down to 1.8x now.

Our strong financial position, along with our positive outlook, allow us to move forward with a normal course issuer bid (NCIB) to buy back up to 10% of our public float of 24,122,794 shares. This represents a more accretive way to deploy our capital over the coming year rather than continuing to deleverage, given our debt profile and its low cost. On the other hand, we do not believe that the market value of our stock properly reflects Héroux-Devtek's true value and expect the NCIB to provide immediate return for our shareholders.

This mechanism is a flexible means to optimize our capital structure, and we expect it to improve our position to seize opportunities that may arise in the global market, be they through acquisitions or contract wins.

OUR CORPORATE FOOTPRINT, A PRIORITY FOR HÉROUX-DEVTEK

In recent years, our industry has gradually adopted ambitious objectives when it comes to environmental, societal and governance factors. While we are proud of our leadership position in the landing gear market, it comes with important responsibilities and the duty to have a positive impact around us. Whether it is fostering a strong entrepreneurial spirit and culture for our 1 800 employees or our commitment to environmental sustainability, we are driven to achieve a prosperous future for all.

More specifically, all our employees adhere to a Code of Business Conduct that establishes the highest standards of ethical behaviour at all levels of the organization. We also rigorously apply our environmental policy by scrupulously complying with or exceeding all applicable standards, and actively contribute on academic and community levels in the countries in which we operate.

As Héroux-Devtek's stakeholders have expressed increasing interest in our policies and initiatives regarding Environmental, Social and Governance concerns, we're now providing more details about them in this annual report at page 14.

A MANAGEMENT TEAM THAT EMBODIES LEADERSHIP

I would like to sincerely thank our strong management team, lead by our CEO Martin Brassard, for their outstanding leadership, commitment, and dedication – without whom this exceptional year would hardly have been possible. The strategies deployed at crisis' onset, propelled by such leadership and dedication, clearly paid off and allowed us to steer this ship through a tumultuous period. The agility and ability to mobilize all the company's stakeholders will have left a lasting impression on this fiscal year.

I would also like to thank the members of the Board of Directors for their ongoing contribution, as well as our valued shareholders for their confidence. In this regard, I would like to acknowledge the departure of Paule Doré who did an exceptional job as a member of our Board of Directors and chair of the Human Resources and Corporate Governance Committee. We wish her good luck in her future endeavours. At the same time, we would like to highlight the arrival of Didier Evrard and Annie Thabet. We look forward to working with them. Of course, it is impossible to determine with certainty when civil aviation activities and the resulting passenger traffic will fully resume. That being said, with the strength of its expertise, its offering, its governance criteria, but above all its dedicated people, Héroux-Devtek has never been better equipped and positioned to face the challenges ahead.

GILLES LABBÉ
EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS

PRESIDENT & CEO
MESSAGE TO SHAREHOLDERS

A BRIGHT FUTURE FOR HÉROUX-DEVTEK

Dear Shareholders,

The fiscal year we just finished was full of challenges that we could never have imagined. The COVID-19 pandemic brought the whole world to a stop; all businesses and organisations struggled to forecast the short- and long-term effects the virus would have. As we entered January 2021, there was great hope on the horizon: pharmaceutical companies around the world developed vaccines in record time. Now, in early May 2021, we can start thinking of recovery with prudent optimism.

At Héroux-Devtek, everyone worked together to provide a safe working environment to ensure the health of all our employees as a priority. Right at the beginning of the crisis, we implemented rigorous security measures in all our plants and offices, and I am very proud to say that because of these measures and adherence to them, there was no transmission of the virus within our facilities, even though some of our employees were infected outside.

Since the severe reduction in commercial air travel was reflected in aircraft demand, we had to reduce deliveries to our key civil customers. As a result, we made rapid changes in order to adapt our business model to this new market environment. We closed some plants and relocated equipment to be more efficient and better utilize our manufacturing capacity. Unfortunately, we also had to part with some of our employees.

With a leaner but more efficient cost structure, we continued to deliver high-quality products to our civil and defence customers. Our results speak for themselves; we finished the year with $570.7 million in sales, down 6.9% from the year before. Our disciplined and focused approach to managing costs, working capital and capital expenditures enabled us, to achieve a record year in terms of free cash flow at $67.3 million compared to $30.3 million the year before.

We continued to put our customers first. Our dedication at doing our best for them, which is almost an obsession for us, has paid off; Boeing included us in its Premier Bidder Program, testifying to our sustained level of high performance in delivering quality products on time. This will provide us with more opportunities to expand our relationship with them. As well, our Spanish division CESA has signed an agreement for production and spare actuator requirements for the 787, 777, 777X, 767 and 747 programs. This illustrates the cross-selling potential that was one of the key objectives of this acquisition.

For business jets, we announced a major contract with Dassault to design, develop and manufacture the complete landing gear system for the new Falcon 10X. Dassault has a reputation for producing cutting-edge technology aircraft and, with the launch of this new Falcon, it will enter the Ultra-Large Business Jet market segment. Pundits are forecasting strong demand in the large business jet segment and this contract will expand our market share in an area where we had less presence.

Our defence revenues remained strong, increasing 14.6% compared to last year, which helped mitigate the impact of the pandemic on the civil sector. This growth mainly stemmed from the introduction of new programs to our product portfolio under long-term contract, such as the Saab Gripen E, the Lockheed Martin CH-53K, the Boeing F-18 and F-15. We expect further sales growth from these programs as the CH-53K and the Gripen E aircraft are entering their initial production phase and the aftermarket opportunities for the F-18 look promising.

MOVING FORWARD

Today, as we start on fiscal 2022, I am optimistic. Our company is well diversified; 66.1% defense and 33.9% civil; our revenues are derived 62.6% from North America, 29.7% from Europe and 7.7% from other countries. Our employees are engaged, and we see depth and breadth at all levels of the organisation. Travel will resume, and our clients will need our products. We are in a strong financial position, capable of investing both internally for new projects, and also for the right acquisition that will complement our product offering and strengthen our position as a world leader in the markets we serve.

THANK YOU

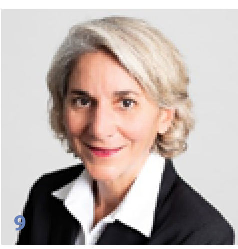
We will always remember the COVID-19 pandemic. It has brought out the best in our employees; their dedication, resilience and swift adaptation throughout have been remarkable. I want to thank them from the bottom of my heart. As well, I want to thank the members of our Board of Directors who have been very supportive in these dire times.

And finally, I want to express my appreciation to you, our shareholders for your unyielding and rightful confidence in our ability to overcome this crisis. The management team and I take great pride in managing our business to make it better and we are grateful for your support. We value your loyalty and belief in our Company, as it has inspired us to generate strong results during a difficult year.

MARTIN BRASSARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

Héroux-Devtek's Board of Directors is composed of 10 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 Director since 1985

2 **Nathalie Bourque**
Corporate Director and Consultant
Independent Director since 2015
Member of the Audit Committee

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

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

5 **Didier Evrard**
Corporate Director and Consultant
Independent Director since 2021
Member of the Audit Committee

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

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

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

9 **Annie Thabet**
Partner, Celtis Capital Inc.
Independent Director since 2021
Member of the Human Resources and Corporate Governance Committee

10 **Beverly Wyse**
Corporate Director and Consultant
Independent Director since 2019
Lead Director and Member of the Audit Committee

CORPORATE TEAM

1. **Gilles Labbé**
   Executive Chairman of the Board
2. **Martin Brassard**
   President and Chief Executive Officer
3. **Stéphane Arsenault**
   Vice-President and Chief Financial Officer
4. **Jean Gravel**
   Vice-President, Sales & Programs
5. **Stéphane Rainville**
   Vice-President, Human Resources
6. **Alexandre Verdon**
   Vice-President, Business Development, Mergers and Acquisitions
7. **Patrick Gagnon**
   Vice-President, Corporate Controller
8. **Julie Lapointe**
   Director, Financial Reporting
9. **Olivier Perron**
   Director, Tax
10. **Steve Plourde**
    Director, Internal Audit & Corporate Governance
11. **Jean-Philippe Sanche**
    Director, Legal Affairs
12. **Sylvie Hébert**
    Director, Human Resources

OPERATIONS MANAGEMENT TEAM

1. **Jack Curley**
   Vice-President, Central Region
2. **Dominique Dallaire**
   Vice-President, Eastern Region
3. **Marc-Olivier Gagnon**
   Vice-President Product Support
4. **José Leal**
   Vice-President, Spain
5. **Mike Meshay**
   Vice-President, Beaver, Magtron and Wichita
6. **Daniel Normandin**
   Vice-President Engineering, QA & Environment
7. **Duncan Whalley**
   Vice-President, UK

HÉROUX-DEVTEK IN THE COMMUNITY

TOWARDS A PROSPEROUS FUTURE FOR ALL

In recent years, stakeholders in the aerospace and defence industry have gradually shifted towards more ambitious environmental, social, and governance (ESG) objectives, directly benefitting the entire spectrum of activities and supply chain stages – from sourcing, aircraft manufacturing, and airport operations, to airline activities and cargo handling.

Héroux-Devtek is proud to be the world's third-largest landing gear manufacturer. We know that an industry leadership position comes both with a responsibility and the ability to stimulate positive impacts at scale.

As such, we have been pursuing more specific ESG commitments for over a decade, articulated through a set of diligently enforced corporate policies and the hiring of experts with responsibilities in the key areas of environmental compliance and sustainability, social impact, and community development, as well as in health and safety prevention and promotion.

A VALUES-DRIVEN APPROACH

Our ESG commitments and track record start with our organizational culture and team values. Héroux-Devtek fosters a strong entrepreneurial spirit and culture of innovation where continuous improvement, new practices, and change management are part of the daily reality of our 1,800 employees at each of our centers of excellence and at our corporate head office in Longueuil.

Our culture is defined by four fundamental values, internally referred to as the 4Rs: Respect, Responsibility, Recognition, and Resilience. Together, they imply a strong company-wide recognition that the sustainability of our success as an organization is defined by the well-being of our employees, the communities in which we operate, and the planet that we will leave to future generations.

4Rs OF SUCCESS
RECOGNITION · RESILIENCE · RESPONSIBILITY · RESPECT

ENVIRONMENTAL SUSTAINABILITY

Héroux-Devtek also has an environmental policy underscoring its respect for the environment and the communities where we operate as an integral part of the way we conduct our business activities.

The policy, under responsibility of the Company's President and CEO and adopted by the Board of Directors, confirms our commitment to maintaining compliance with all applicable standards, while continuously improving our control over the environmental aspects of managing and operating each manufacturing site with the objective of minimizing our environmental footprint.

Quarterly, the Corporation issues a CEO Environmental report. The report is submitted to the Human Resources and Corporate Governance Committee, which reports to the Board of Directors, and includes Héroux-Devtek's performance against its three primary environmental targets:

1. Zero regulatory non-compliance in its audits
2. Zero incidents, spills, or transgression of standards
3. Zero notice of violations

If these targets are not met, a set of immediate corrective actions are immediately implemented and action plans to address the root cause are being followed till completion.

As part of its environmental management system, the Corporation also carries out Environmental Compliance Audits either internally or with external environmental auditors. We value a risk based approach in regards to the frequency of those audits, all manufacturing sites shall at least be audited every three years. In particular, five of our manufacturing plants are considered to be of higher potential environmental risk, due to the nature of their operations, which include various plating and chemical processes, therefore those five plants are audited every year.

Finally, beyond our environmental compliance commitments, monitoring, and audit mechanisms, we continue to find additional ways to reduce our environmental footprint across all our operations. For instance, developing strong expertise in the maintenance, repair, and overhaul of landing gear and actuation system components allows us to enable our clients to extend the life of their equipment. We also work to encourage our suppliers to adopt more sustainable practices across their manufacturing and transportation undertakings.

SOCIAL IMPACT

FOSTERING A CULTURE OF COMMUNITY ENGAGEMENT

As an active corporate citizen in communities across Canada, the United States, Spain, and the United Kingdom, Héroux-Devtek is committed to making a positive difference through its support of community organizations, academic institutions, as well as the arts and cultural sectors.

This past year, Héroux-Devtek made financial donations in support of food banks, to promote a world free of sexual violence, as well as to accelerate heart disease research, to name a few – in addition to the long-time support of the annual Centraide of Greater Montreal campaign provided by our employees, unions and executives.

The professional development of future aerospace engineers and technicians as well as the advancement of intelligent manufacturing practices are also very important to us. We have a long-standing agreement to financially support the École nationale d'aérotechnique (ENA) at Cégep Édouard-Montpetit – North America's largest aero technical training institution. A partnership we value and cherish. We have also pledged a multi-year donation to support the construction of the new National Integrated Center of Intelligent Manufacturers Pavilion at the Université du Québec à Trois-Rivières.

Todd Blohm - UK
Frédéric Côté - Longueuil
Nicole Roy - St Hubert
Patrice Normandin - St Hubert
Miranda Quinnan - USA
John Machen - UK
Jeff Lee - USA
Cristina Del Vasto - St Hubert
Shagan Dhaliwal - Montréal

Additionally, we supported entrepreneurship programs in Canada, women in leadership initiatives, and provided funding to Aviation Connection, a charitable organization that promotes science, technology, engineering, and mathematics (STEM) career opportunities across high schools in Québec – namely through a unique Aeronautical Training Program.

Moreover, we devoted a lot of attention and resources to keep our employees and their families safe and healthy throughout the COVID-19 pandemic. Given that health and safety is an obsession for our teams globally, we entered the pandemic somewhat prepared and only required some adjustments, such as physical distancing and other specific sanitary protocols.

TAKING CARE OF OUR OWN TO BETTER TAKE CARE OF OTHERS

At Héroux-Devtek, protecting our employees is our single most important priority. While compliance with applicable legal requirements represents a minimum, we prefer to establish standards which may impose even more stringent obligations. We also believe that senior management plays a vital role in establishing a culture that supports occupational health and safety programs and initiatives.

Accordingly, we are committed to eliminating all work-related injuries and illnesses by providing a safe and healthy workspace and proactively identifying and addressing all inherent risks. Our health and safety programs combine clear leadership by management, the participation of all employees and functions, and the use of appropriate safety equipment and technology in all stages of our operations. We also encourage employees to play an active role in identifying hazards and to offer suggestions or ideas to improve the safety program.

This philosophy implies continuous improvement toward an accident-free workplace through effective supervision, hiring skilled employees, education, and training. We expect all supervisors and employees to be dedicated to the continuing objectives of workplace safety and eliminating "near misses", which will greatly reduce the risk of injuries. We have also implemented procedures and processes to record, report, and manage work-related injuries and illnesses.

Senior management and Board of Directors meetings include reports and discussions of notable workplace incidents and several key performance indicators and metrics. In addition to a dedicated health and safety team at each of our facilities, a team of safety and operations personnel from all our sites also meets monthly to share information related to health & safety such as best practices and reviews incidents to apply insights learned.

Finally, we leverage data and analytics to support our health and safety vision by maximizing the use of our global work safety management system, implemented enterprise wide.

GOVERNANCE

Héroux-Devtek is committed to staying at the forefront of corporate governance standards and all employees adhere to a Code of Business Conduct that establishes the highest standards of ethical behavior at all levels of the organization. It provides mandatory guidance and frameworks concerning all our business activities, and is divided into 12 sections:

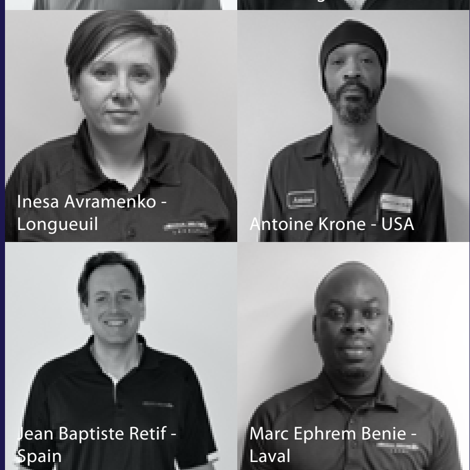
1. Employees and human rights
2. Environment, health & safety
3. Government business
4. Supplier relationships
5. Bribery and corruption
6. Conflicts of interest
7. Exports, imports, and trade compliance
8. Fair dealings with other people and organizations
9. Confidential information and other assets
10. Data privacy and digital ethics
11. Insider trading and dealing and stock tipping
12. Financial stewardship/controllership

In addition, a Whistleblower Policy is in place to encourage and enable employees to raise any serious concerns within the Corporation without fear of any reprisals or discrimination. Disclosure mechanisms are regularly reminded to employees, who may confidentially contact the Chairperson of the Audit Committee of the Board of Directors, if warranted.

We have also adopted formal mandates for each committee of our Board of Directors and roles, including a Board of Directors charter, an Audit committee mandate, and a charter for the Human Resources and Corporate Governance committee. As well, we have a description of the role of executive chairman of the board and of the lead director.

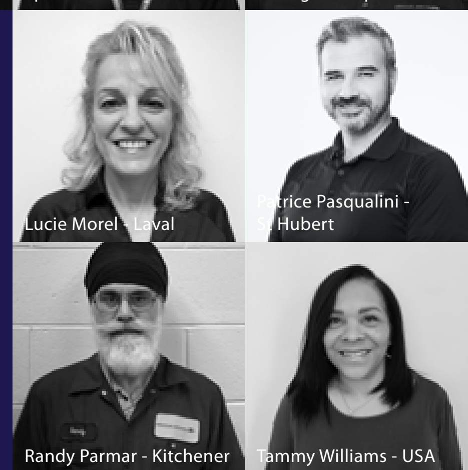
Today, four women are members of our Board out of a total of ten directors. Women hold the key functions of Chair of the Human Resources and Corporate Governance Committee and Lead Independent Director. We look forward to attracting and promoting more women and people from diverse cultural backgrounds to various roles across our organization in the years ahead.

Héroux-Devtek continues to closely monitor the changing business and regulatory environment and will adjust its governance and disclosure practices accordingly.



Loyal and dedicated employees are the foundation to any successful company.

Thank you for your contribution to our success!



GLOBAL CENTERS OF EXCELLENCE

CANADA

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

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

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

Montréal, Québec
Surface treatment services

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

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

Scarborough, Ontario
Electronic enclosures, heat exchangers and cabinets

We take pride in our 1 800 highly dedicated employees across our North American and European facilities who work hard to showcase our world-class expertise in the design, development, manufacture and support of landing gear and actuation systems.

USA

Strongsville, Ohio
Finishing and assembly of landing gear

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

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

Livonia, Michigan
Design and manufacturing of ball screws and electro-mechanical linear actuation systems

UNITED KINGDOM

Nottingham, Nottinghamshire
Manufacturing of small to medium landing gear components

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

SPAIN

Getafe
Design, engineering, assembly and support for landing gear and actuation systems

Seville
Assembly and installation of aircraft components at customer assembly lines

[i] SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

August 10, 2021 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/414790610.

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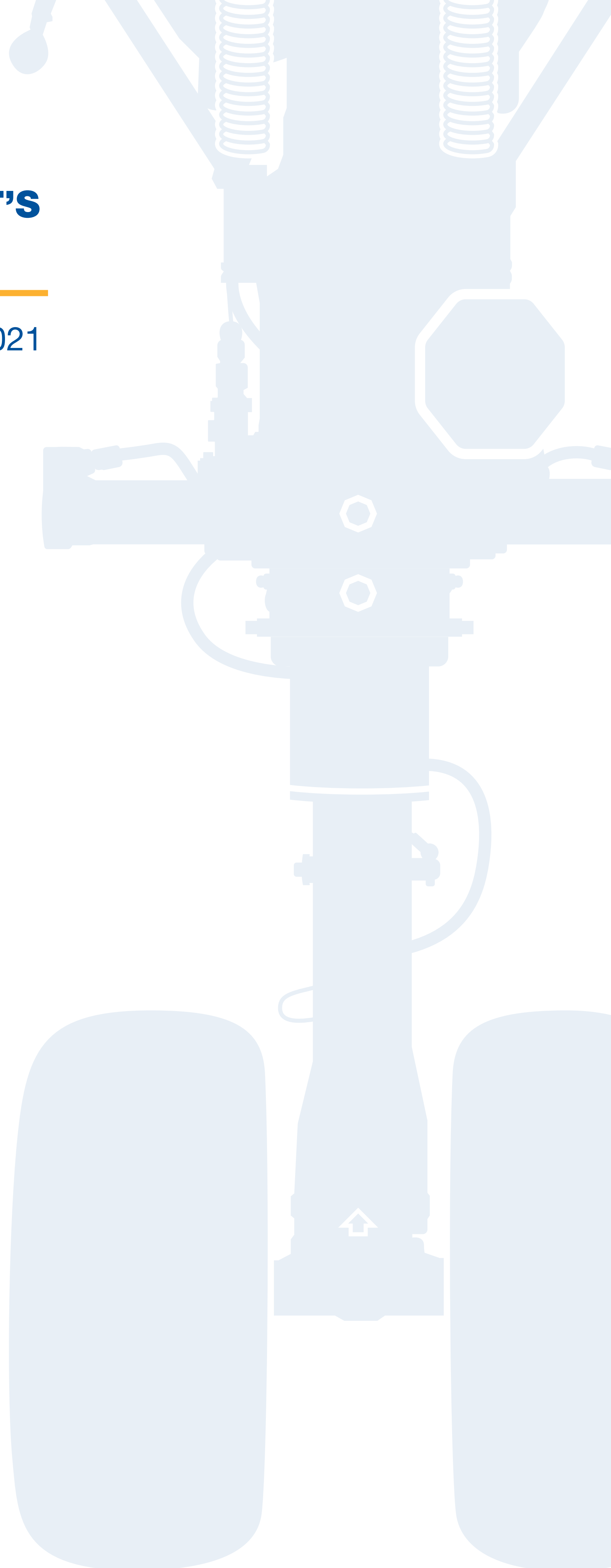
Hugo Delorme
514 700-5550, extension 555
hdelorme@mercureconseil.ca

CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2021



HÉROUX DEVTEK

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2021

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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 2021. As of March 31, 2021, 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 19, 2021

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, 2021 and 2020, 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, 2021 and 2020, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addresses the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill and other non-financial assets

Goodwill and other non-financial assets comprised of property, plant and equipment and, finite-life intangible assets amounted to $396 million on the consolidated balance sheet. As disclosed in Note 3, Significant Accounting Policies and Note 17, Goodwill, for each cash generating unit ("CGU"), management assesses at least annually, or at any time if an indicator of impairment exists, whether there has been an impairment loss in the carrying value of these assets. Management determined the recoverable amount under a value in use approach using a discounted cash flow calculation, which requires significant estimation on the part of management.

Recoverable amounts are based on management's estimates of key variables including sales projections, expected future growth rates in sales, and the discount rates. The existence of COVID-19 pandemic has added complexity and subjectivity to the sales projections prepared by management for the next 5 years and thereafter. The presence of commercial and defence programs impacted differently by the COVID-19 pandemic, affect the sales projections. This combined with the significance and sensitivity of other assumptions such as the discount rates and annual/perpetual growth rates led us to conclude that the goodwill and other non-financial assets impairment test for the Group's CGUs is a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included reviewing management's assumptions relating to the cash flow projections including overall sales projections and sales related to certain significant programs in comparison to publicly available data including analysts' reports covering aerospace and airlines and existing customers' contracts.

With the assistance of our internal valuation specialists, we evaluated the Group's discounted cash flow model, valuation methodology, and certain significant assumptions. We assessed the selection and application of the discount rates by evaluating the inputs and mathematical accuracy of the calculation. We assessed the historical accuracy of management's estimates on cash flow projections, revenue growth rate and earnings margins by comparing management's past projections to actual and historical performance. We compared management's revenue projections for each of the next 5 years to market data and analysts' expectation of the industry recovery timeframe from COVID, when available. We performed a sensitivity analysis on the key assumptions such as revenue projections, perpetual growth rate and discount rate to assess their effects on the determination of the recoverable amount.

We also assessed the adequacy of the Group's disclosures included in Note 17 of the accompanying consolidated financial statements in relation to this matter.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 19, 2021

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

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2021	March 31, 2020
Assets	20		
Current assets			
Cash and cash equivalents		$ 95,470	$ 45,841
Accounts receivable		99,724	112,558
Income tax receivable		1,708	1,291
Inventories	12	216,441	241,119
Derivative financial instruments	13	4,903	28
Other current assets	14	16,523	21,213
		434,769	422,050
Property, plant and equipment, net	15	227,621	259,641
Finite-life intangible assets, net	16	51,996	64,047
Derivative financial instruments	13	9,374	3,498
Deferred income tax assets	24	8,485	19,698
Goodwill	17	115,970	120,773
Other long-term assets	14	5,069	9,141
Total assets		$ 853,284	$ 898,848
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	18	$ 109,809	$ 126,488
Provisions	19	25,271	27,679
Customers advances and progress billings		40,867	34,885
Income tax payable		2,107	1,403
Derivative financial instruments	13	—	9,321
Current portion of long-term debt	20	15,315	16,857
		193,369	216,633
Long-term debt	20	235,384	272,760
Provisions	19	17,548	19,527
Derivative financial instruments	13	544	14,667
Deferred income tax liabilities	24	9,383	8,812
Other liabilities	21	5,324	17,001
		461,552	549,400
Shareholders' equity			
Issued capital	22	86,222	79,757
Contributed surplus		5,126	5,792
Accumulated other comprehensive income	23	16,279	7,160
Retained earnings		282,831	255,221
Total equity attributable to the equity holders of the parent		390,458	347,930
Non-controlling interests		1,274	1,518
		391,732	349,448
Total liability and shareholder's equity		$ 853,284	$ 898,848

Commitments and Contingencies (notes 26 and 27)

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 INCOME (LOSS)

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

For the fiscal years ended March 31,	Notes	2021	2020
Sales	6, 29	$ 570,685	$ 612,996
Cost of sales	7, 8, 12	475,768	509,876
Gross profit		94,917	103,120
Selling and administrative expenses	7, 8	49,706	50,572
Non-recurring items	9	11,115	82,618
Operating (loss) income		34,096	(30,070)
Net financial expenses	10	7,909	7,846
Income (loss) before income tax expense		26,187	(37,916)
Income tax expense	9, 24	6,374	12,742
Net income (loss)		$ 19,813	$ (50,658)
Attributable to:			
Equity holders of the parent		20,057	(50,113)
Non-controlling interests		(244)	(545)
		$ 19,813	$ (50,658)
Earnings (loss) per share – basic and diluted	11	$ 0.55	$ (1.38)

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2021	2020
Other comprehensive income (loss):			
Items that may be reclassified to net income (loss)			
Gains (losses) arising from conversion of the financial statements of foreign operations	23	$ (20,781)	$ 15,579
Cash flow hedges:	23		
Net gains (losses) on valuation of derivative financial instruments		29,197	(17,990)
Net losses on derivative financial instruments transferred to net income		1,425	1,376
Deferred income taxes		(8,189)	4,484
		22,433	(12,130)
Gains (losses) on hedges of net investments in foreign operations	23	8,547	(7,168)
Deferred income taxes		(1,080)	377
		7,467	(6,791)
Items that are never reclassified to net income (loss)			
Defined benefit pension plans:	25		
Gains (losses) from remeasurement		10,262	(2,398)
Deferred income taxes		(2,709)	631
		7,553	(1,767)
Other comprehensive income (loss)		$ 16,672	$ (5,109)
Comprehensive income (loss)			
Net income (loss)		$ 19,813	$ (50,658)
Other comprehensive income (loss)		16,672	(5,109)
Comprehensive income (loss)		$ 36,485	$ (55,767)
Attributable to:			
Equity holders of the parent		36,729	(55,222)
Non-controlling interests		(244)	(545)
		$ 36,485	$ (55,767)

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, 2020		$79,757	$5,792	$ 7,160	$255,221	$347,930	$ 1,518	$349,448
Common shares issued under the stock option plan	22	6,465	(1,811)	—	—	4,654	—	4,654
Stock-based compensation expense	22	—	1,145	—	—	1,145	—	1,145
Net income (loss)		—	—	—	20,057	20,057	(244)	19,813
Other comprehensive income	23	—	—	9,119	7,553	16,672	—	16,672
Balance as at March 31, 2021		$86,222	$5,126	$16,279	$282,831	$390,458	$ 1,274	$391,732

	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

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	2021	2020
Cash and cash equivalents provided by (used for):			
Operating activities			
Net income (loss)		$ 19,813	$ (50,658)
Items not requiring an outlay of cash:			
Amortization expense	15, 16	43,086	43,643
Deferred income taxes	24	225	1,300
Loss (gain) on sale of property, plant and equipment and software		492	(141)
Impairment of goodwill, deferred income tax assets and other long-term assets	9, 14, 17, 24	—	85,808
Non-cash net financial expenses	10	1,573	1,041
Stock-based compensation expense	22	1,145	1,108
Cash flows from operations		66,334	82,101
Net change in non-cash items	28	22,854	(29,528)
Cash flows related to operating activities		89,188	52,573
Investing activities			
Cash payment for business acquisitions	5	—	(17,149)
Additions to property, plant and equipment	15	(21,259)	(20,645)
Net increase in finite-life intangible assets	16	(643)	(1,598)
Capital contribution from a non-controlling interest in a subsidiary		—	495
Proceeds on disposal of property, plant and equipment		379	4,053
Cash flows related to investing activities		(21,523)	(34,844)
Financing activities			
Increase of long-term debt		68,113	30,927
Repayment of long-term debt		(89,616)	(38,024)
Issuance of common shares	22	4,654	58
Increase in deferred financing costs		—	(897)
Cash flows related to financing activities		(16,849)	(7,936)
Effect of changes in exchange rates on cash and cash equivalents		(1,187)	920
Change in cash and cash equivalents during the year		49,629	10,713
Cash and cash equivalents at beginning of year		45,841	35,128
Cash and cash equivalents at end of year		$ 95,470	$ 45,841
Interest and income taxes reflected in operating activities:			
Interest paid		$ 2,374	$ 6,905
Interest received		$ 761	$ 100
Income taxes paid		$ 5,861	$ 6,775

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, 2021 and 2020
(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.

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 19, 2021.

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
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 the 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 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.

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. Leases

The right-of-use asset and lease liability are recognized at the lease commencement date. Certain exemptions apply for short-term leases and leases of low-value assets.

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 7 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).

NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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, 2021, 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 non-financial assets. This assessment indicated no impairment charges were warranted at this time. Impairment charges totaling $85,808 affecting mainly goodwill were recorded at the end of fiscal 2020 at the onset of the pandemic. 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. 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

Acquisition of Alta Précision (Fiscal 2020)

On June 7, 2019, the Corporation completed the acquisition of all of the shares of Alta Précision Inc. ("Alta"), for $18,552. Located in Montreal, Canada, Alta is a manufacturer of high-precision landing gear components. 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 9.

On May 5, 2020, the Corporation announced the closing of Alta facilities as a result of the effect of the ongoing COVID-19 pandemic on the commercial aerospace market (see note 9). Activities related to Alta were transferred to other business units where certain contracts were continued, along with the related assets acquired and liabilities.

Divestiture of APPH Bolton

On May 4th, 2021, Héroux-Devtek concluded an agreement for the sale of its Bolton, UK operations to Ontic Engineering & Manufacturing UK Limited for a sale price of £2,700 ($4,614) excluding £900 ($1,538) which is subject to the achievement of certain commercial objectives. The transaction will be accounted for in the first quarter of Fiscal 2022 and is not expected to result in a material gain or loss on disposal of the business unit.

NOTE 6. SALES AND BACKLOG

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

		2021		2020
Civil	$	193,220	$	283,737
Defence		377,465		329,259
Total sales	$	570,685	$	612,996
Funded backlog as at March 31,		717,000		810,000

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.

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:

	2021	2020
Finite-life intangible assets (note 16)	$ 1,016	$ 833
Property, plant and equipment (note 15)	682	30
Cost of sales and, selling and administrative expenses	17,728	4,065

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

During Fiscal 2021, government assistance accounted for in cost of sales and selling and administrative expenses was largely comprised of the Canadian Emergency Wage Subsidy.

NOTE 8. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

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

	2021	2020
Raw materials and purchased parts	$ 223,626	$ 221,456
Employee costs	174,206	201,675
Amortization of property, plant and equipment and finite-life intangible assets (notes 15, 16)	43,086	43,643
Others	84,556	93,674
	$ 525,474	$ 560,448
Included in cost of sales, selling and administrative expenses:		
Foreign exchange (losses) gains upon conversion of net monetary items	(1,456)	1,196

NOTE 9. NON-RECURRING ITEMS

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

	2021	2020
Non-recurring items in operating income		
Restructuring charges	$ 11,115	$ —
Goodwill impairment (note 17)	—	79,736
Write-down of investment tax credits receivable (note 14)	—	2,267
Acquisition-related costs (note 5)	—	615
	$ 11,115	$ 82,618
Non-recurring items in income tax expense		
Write-down of deferred income tax assets (note 24)	$ —	$ 3,805
	$ —	$ 3,805

Restructuring charges

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

To date, $11,115 of related costs have been recorded compared to $12,000 initially announced, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. 85% of staff reductions have been completed, with the remainder to occur essentially after the closure of APPH Wichita, which is expected by the end of the present calendar year. The closure of Alta Précision is substantially complete. As at March 31, 2021, restructuring provisions of $3,607 remained on the consolidated balance sheet.

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 during fiscal 2020.

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisition of Alta Precision last fiscal year.

NOTE 10. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2021	2020
Interest accretion on governmental authorities loans	$ 3,018	$ 2,380
Revision of governmental authorities loans repayment estimates (note 20)	(1,649)	(3,153)
Amortization of deferred financing costs	794	756
Interest on net defined benefit obligations (note 25)	394	238
Other non-cash financial (income) expenses	(984)	820
Non-cash net financial expenses	1,573	1,041
Interest expense	7,097	6,905
Interest income on cash and cash equivalents	(761)	(100)
	$ 7,909	$ 7,846

NOTE 11. EARNINGS PER SHARE

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

	2021	2020
Weighted-average number of common shares outstanding	36,429,244	36,362,702
Effect of dilutive stock options of the Corporation	93,587	—
Weighted-average number of common diluted shares outstanding	36,522,831	36,362,702
Options excluded from diluted earnings per share calculation[1]	862,000	1,497,595

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

NOTE 12. INVENTORIES

As at	March 31, 2021	March 31, 2020
Raw materials and purchased parts	$ 106,528	$ 121,528
Work in progress	107,075	116,627
Finished goods	2,838	2,964
	$ 216,441	241,119

The amount of inventories recognized as cost of sales for the fiscal year ended March 31, 2021 is $366,432 ($397,614 in 2020).

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

	2021	2020
Reserves recognized as cost of sales	$ 11,469	$ 9,113
Reversal of prior-period reserves	4,002	4,205

For fiscal year 2021, the reversal of prior-period reserves includes charges of $3,147 ($3,951 in 2020) 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, 2021	March 31, 2020
Current Assets		
Forward foreign exchange contracts	$ 4,903	$ 28
	$ 4,903	$ 28
Long-term Assets		
Forward foreign exchange contracts	$ 6,423	$ —
Cross-currency interest rate swap agreements	1,863	3,498
Equity swap agreement	1,088	—
	$ 9,374	$ 3,498
Current Liabilities		
Forward foreign exchange contracts	$ —	$ 9,321
	$ —	$ 9,321
Long-term Liabilities		
Forward foreign exchange contracts	$ —	$ 12,540
Cross-currency interest-rate swap agreements	544	1,211
Equity swap agreement	—	916
	$ 544	$ 14,667

NOTE 14. OTHER ASSETS

As at	March 31, 2021	March 31, 2020
Investment and other tax credits receivable	$ 7,247	$ 7,371
Prepaid expenses	5,055	5,904
Sales tax receivable	3,010	2,629
Working capital adjustment receivable	—	3,595
Others	1,211	1,714
Other current assets	$ 16,523	$ 21,213
Tax credits receivable (note 9)	1,445	5,737
Long-term receivable	3,568	3,404
Net Pension plan asset (note 25)	56	—
Other long-term assets	$ 5,069	$ 9,141

The working capital adjustment receivable pertains to the fiscal 2019 acquisition of Compañia Española de Sistemas Aeronauticos S.A. which was received during fiscal 2021.

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, 2020	$ 17,572	$ 144,801	$ 305,453	$ 22,800	$ 3,040	$ 493,666
Additions	—	7,354	14,686	2,608	(1,166)	23,482
Government assistance (note 7)	—	(62)	(554)	(66)	—	(682)
Retirements and disposals	—	(9,537)	(3,741)	(205)	—	(13,483)
Effect of changes in exchange rates	(789)	(8,102)	(14,053)	(954)	(211)	(24,109)
As at March 31, 2021	$ 16,783	$ 134,454	$ 301,791	$ 24,183	$ 1,663	$ 478,874
Accumulated amortization:						
As at March 31, 2020	$ —	$ 43,278	$ 176,571	$ 14,176	$ —	$ 234,025
Amortization expense	—	7,728	22,794	3,136	—	33,658
Retirements and disposals	—	(925)	(4,841)	(72)	—	(5,838)
Effect of changes in exchange rates	—	(2,912)	(6,988)	(692)	—	(10,592)
As at March 31, 2021	$ —	$ 47,169	$ 187,536	$ 16,548	$ —	$ 251,253
Net book value as at March 31, 2021	$ 16,783	$ 87,285	$ 114,255	$ 7,635	$ 1,663	$ 227,621

	Land	Buildings and leasehold improvements	Machinery, equipment and tooling	Other	Construction in progress	Total
Cost:						
As at March 31, 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

Right of use assets:

The following tables reconciles the right-of-use assets for the Company as at March 31, 2021 and 2020 that is included in Property, Plant and Equipment:

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As at March 31, 2020	$ 26,729	$ 44,827	$ 1,526	$ 73,082
Additions	—	1,121	556	1,677
Retirements and disposals	(7,711)	—	—	(7,711)
Effect of changes in exchange rates	(717)	(6)	(100)	(823)
As at March 31, 2021	$ 18,301	$ 45,942	$ 1,982	$ 66,225
Accumulated amortization:				
As at March 31, 2020	$ 2,250	$ 15,748	$ 532	$ 18,530
Amortization expense	2,572	5,851	439	8,862
Retirements and disposals	(206)	—	—	(206)
Effect of changes in exchange rates	(166)	(1)	(53)	(220)
As at March 31, 2021	$ 4,450	$ 21,598	$ 918	$ 26,966
Net book value as at March 31, 2021	$ 13,851	$ 24,344	$ 1,064	$ 39,259

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As 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:				
As 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

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

	2021	2020
Gross additions	$ 23,482	$ 29,048
Government assistance (note 7)	(682)	(30)
Additions to property, plant and equipment	22,800	29,018
Non-cash additions to right-of-use assets	(1,677)	(10,158)
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	136	1,785
Additions, as per statements of cash flows	$ 21,259	$ 20,645

As at March 31, 2021, the cost of property, plant and equipment still in use and fully depreciated is $120,314 ($110,782 as at March 31, 2020).

NOTE 16. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2020	$ 25,955	$ 24,344	$ 72,103	$ 122,402
Additions	9,391	1,782	—	11,173
Customers funding	(9,514)	—	—	(9,514)
Government assistance (note 7)	(953)	(63)	—	(1,016)
Retirements and disposals	(76)	(369)	(484)	(929)
Effect of changes in exchange rates	(145)	(1,014)	(3,560)	(4,719)
As at March 31, 2021	$ 24,658	$ 24,680	$ 68,059	$ 117,397
Accumulated amortization:				
As at March 31, 2020	$ 13,409	$ 18,554	$ 26,392	$ 58,355
Amortization expense	600	2,574	6,254	9,428
Retirements and disposals	(76)	(3)	(119)	(198)
Effect of changes in exchange rates	(44)	(840)	(1,300)	(2,184)
As at March 31, 2021	$ 13,889	$ 20,285	$ 31,227	$ 65,401
Net book value as at March 31, 2021	$ 10,769	$ 4,395	$ 36,832	$ 51,996

	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

NOTE 17. GOODWILL

Goodwill varied as follows, during fiscal year:

	2021	2020
Balance at beginning of the year	$ 120,773	$ 189,012
Business acquisitions (note 5)	—	3,408
Impairment	—	(79,736)
Effect of changes in exchange rates	(4,803)	8,089
Balance, end of year	$ 115,970	$ 120,773

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

	March 31, 2021	March 31, 2020
North America	$ 22,594	$ 24,799
U.K.	64,738	65,735
Spain	28,638	30,239
Goodwill	$ 115,970	$ 120,773

The following assumptions were used to measure recoverable amounts (value in use), as at:

	March 31, 2021		March 31, 2020	
	Pre-tax discount rate	**Perpetual growth rate**	**Pre-tax discount rate**	**Perpetual growth rate**
North America	14.8 %	2.5 %	13.8 %	2.3 %
U.K.	14.6 %	2.5 %	13.8 %	2.3 %
Spain	15.0 %	2.5 %	14.9 %	2.3 %

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 announced by Airbus and Boeing early in the fiscal year. The downward revision of these forecasts is the main contributing factor to the impairment charges of $53,035 and $26,701 recorded during fiscal 2020, respectively, for the North America and Spain CGUs.

The impairment tests performed as at March 31, 2021 did not indicate any further impairment charges were warranted.

Sensitivity of recoverable amounts

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, 2021:

	Incremental increase in pre-tax discount rate	**Incremental decrease in perpetual growth rate**
North America	3.8 %	6.7 %
U.K.	1.0 %	1.5 %
Spain	3.2 %	5.4 %

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2021	March 31, 2020
Trade payables [1]	$ 57,508	$ 80,616
Accrued liabilities [2]	47,424	41,007
Other	4,877	4,865
Accounts payable and accrued liabilities	$ 109,809	$ 126,488

[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	Restructuring (note 9)	Other (note 26)	Total
As at March 31, 2020	$ 14,889	$ 6,443	$ 15,778	$ —	$ 10,096	$ 47,206
Arising during the year	202	51	3,208	8,239	2,554	14,254
Interest accretion expense	—	119	—	—	—	119
Utilized	(2,980)	(19)	(1,325)	(4,632)	(174)	(9,130)
Reversed	(1,772)	—	(4,731)	—	(844)	(7,347)
Discount rate adjustment	—	(289)	(194)	—	—	(483)
Effect of changes in exchange rates	(991)	—	(549)	—	(260)	(1,800)
As at March 31, 2021	$ 9,348	$ 6,305	$ 12,187	$ 3,607	$ 11,372	$ 42,819
Less: current portion	2,436	—	9,233	3,607	9,995	25,271
Long-term portion	$ 6,912	$ 6,305	$ 2,954	$ —	$ 1,377	$ 17,548

NOTE 20. LONG-TERM DEBT

As at	March 31, 2021	March 31, 2020
Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility“)	$ 59,342	$ 96,472
Governmental authorities loans	90,382	88,590
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	60,000
Lease liabilities	28,274	44,665
Balance of sale - Business acquisitions	—	2,983
Deferred financing costs, net	(2,299)	(3,093)
	250,699	289,617
Less: current portion	15,315	16,857
Long-term debt	$ 235,384	$ 272,760

Senior Secured Syndicated Revolving Credit Facility

The Revolving Facility matures in December 2024, has a limit of $250,000, of which $59,342 or US$47,000 is drawn, and bears interest at Libor + 1.2% representing an effective rate of 1.3% ($96,472 or US$68,000 Libor + 1.5% representing 2.5% at March 31, 2020). It also includes an accordion feature to increase the limit by an additional $100 million, subject to lenders’ approval. The revolving 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, 2021, 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 $1,649 ($3,153 in fiscal 2020), which was included in Net financial expenses (see note 10).

The effective interest rates for these loans were in the range of 0.0% to 6.8% as at March 31, 2021 (0.0% to 6.8% as at March 31, 2020).

Unsecured Subordinated Term Loan Facility

The Corporation has a Term Loan Facility provided by the Fonds de solidarité FTQ for an amount of up to $75,000. As at March 31, 2021, the Corporation had $75,000 drawn against this facility, compared to $60,000 as at March 31, 2020, following a $15,000 tranche drawn as a precaution for potential liquidity requirements related to the COVID-19 pandemic.

The Term Loan Facility is fully drawn and bears interest at a weighted average interest rate of 5.2% (5.5% as at March 31, 2020). 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.

Lease liabilities

The incremental borrowing rate applied to lease liabilities recognized at March 31, 2021 ranged between 2.1% and 7.0% for leases (2.8% and 7.0% as at March 31, 2020), maturing from April 2021 to May 2039.

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

As at	March 31, 2021	March 31, 2020
Balance at the beginning of the year	$ 44,665	$ 35,303
Additions	1,677	10,158
Settlement	(9,130)	—
Lease payments	(9,359)	(9,566)
Interest expense on lease liabilities	1,587	1,819
Effect of changes in exchange rates	(1,166)	107
	$ 28,274	$ 44,665

The expense related to short-term leases and low-value assets leases during the years ended March 31, 2021 and 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, 2021.

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	Total
2022	$ 1,151	$ 7,597	$ 3,907	$ 8,811	$ 21,466
2023	783	7,846	3,907	6,376	18,912
2024	783	10,410	3,907	3,825	18,925
2025	59,690	11,060	3,907	2,417	77,074
2026	—	10,836	76,951	2,285	90,072
Beyond 5 years	—	65,318	—	10,591	75,909
Sub-Total	62,407	113,067	92,579	34,305	302,358
Less: Interest	3,065	22,685	17,579	6,031	49,360
Debt balance (1)	$ 59,342	$ 90,382	$ 75,000	$ 28,274	$ 252,998

(1) *Before net deferred financing costs.*

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

	March 31, 2021	March 31, 2020
Long-term debt, at beginning of the fiscal year	$ 289,617	$ 260,306
Adoption of IFRS 16	—	14,892
Increase in long-term debt	69,790	41,085
Repayment of long-term debt	(89,616)	(38,024)
Settlement of lease liabilities	(9,130)	—
Debt acquired through business acquisitions (note 5)	—	8,247
Amortization of deferred financing costs (note 10)	794	756
Fees incurred to amend or renew the Credit Facility	—	(897)
Interest accretion and adjustments on governmental authorities loans (note 10)	1,369	(773)
Effects of fluctuations in exchange rates	(12,125)	4,025
Long-term debt, at end of the fiscal year	$ 250,699	$ 289,617

NOTE 21. OTHER LIABILITIES

As at	March 31, 2021	March 31, 2020
Customer advances and progress billings	$ 2,763	$ 3,890
Deferred revenue	942	1,019
Net defined benefit obligations (note 25)	—	10,079
Other	1,619	2,013
Other Liabilities	$ 5,324	$ 17,001

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:

			2021			2020
	Number		Issued capital	Number		Issued capital
Balance at the beginning of the year	36,367,210	$	79,757	36,362,210	$	79,676
Issued for cash on exercise of stock options	397,500		6,465	5,000		81
Balance at the end of the year	36,764,710	$	86,222	36,367,210	$	79,757

In May 2021, the Company filed a notice with the Toronto Stock Exchange of its intention to initiate a normal course issuer bid (''NCIB'') for purchase and cancellation of up to 2,412,279 of its issued and outstanding common shares.

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:

		2021		2020
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance at the beginning of the year	1,497,595	$ 13.86	1,167,095	$ 13.23
Granted	349,000	9.83	341,500	16.03
Exercised	(397,500)	11.71	(5,000)	11.71
Cancelled / forfeited	—	—	(6,000)	16.03
Balance at the end of the year	1,449,095	$ 13.48	1,497,595	$ 13.86
Stock-based compensation expense		$ 1,145		$ 1,108

The weighted-average share price at the date of exercise of stock options in fiscal 2021 was $15.13 ($18.10 in 2020).

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

	2021	2020
Number of stock options granted	349,000	341,500
Weighted average fair value per stock option	$3.05	$4.33
Total fair value	$1,064	$1,479
Expected life	5.7 years	5.4 years
Expected volatility	31%	25%
Expected forfeiture	1.1%	3.5%
Expected dividend distribution	None	None
Compounded risk-free interest rate	0.4%	1.6%

As at March 31, 2021, 1,449,095 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
$9.83	349,000	6.16	$9.83	—	—
$10.71 to $11.45	238,095	0.90	10.97	238,095	10.97
$14.93 to $16.22	862,000	4.28	15.66	513,125	15.37
	1,449,095	4.18	$13.48	751,220	13.98

As at March 31, 2021, 2,808,257 common shares are reserved for issuance upon exercise of stock options, of which 2,360,007 remained to be issued, compared to 2,757,507 as at March 31, 2020

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

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

	2021	2020
In number of DSUs		
Balance, beginning of year	154,950	166,334
Issued	37,158	21,671
Settled	—	(33,055)
Closing balance of DSUs outstanding	192,108	154,950
DSU (income) expense	$ 1,644	$ (325)
Fair value of outstanding DSUs, end of year	$ 3,243	$ 1,599

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

	2021	2020
In number of PSUs		
Balance, beginning of year	278,450	212,450
Issued	119,100	119,300
Settled	(93,200)	(16,100)
Cancelled/forfeited	(4,200)	(37,200)
Closing balance of PSUs outstanding	300,150	278,450
PSU expense	$ 3,004	$ 764
Fair value of vested outstanding PSUs, end of year	$ 4,089	$ 2,316

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, 2020	$ 34,845	$ (13,902)	$ (13,783)	$ 7,160
Other comprehensive (loss) income	(20,781)	22,433	7,467	9,119
Balance as at March 31, 2021	$ 14,064	$ 8,531	$ (6,316)	$ 16,279

	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 income (loss)	15,579	(12,130)	(6,791)	(3,342)
Balance as at March 31, 2020	$ 34,845	$ (13,902)	$ (13,783)	$ 7,160

The exchange differences on conversion of foreign operation is net of income tax recovery of $1,080 for 2021 (income tax expense of $377 in 2020).

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2021	2020
Consolidated statements of income (loss)		
Current income tax expense	$ 6,149	$ 7,637
Deferred income tax expense	225	5,105
Income tax expense reported in the consolidated statements of income	$ 6,374	$ 12,742
Consolidated statements of changes in shareholders' equity		
Expense (recovery) related to items charged or credited directly to retained earnings	$ 2,709	$ (631)
Expense (recovery) related to items charged or credited directly to other comprehensive income	8,189	(4,484)
Income tax expense (recovery) reported directly in shareholders' equity	$ 10,898	$ (5,115)

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

	2021	2020
Income taxes at combined Federal and Provincial statutory rates of 26.4% (26.5% last year)	$ 6,933	$ (10,030)
Income tax rate differential – foreign subsidiaries	(1,263)	(3,733)
Permanent differences	1,399	1,227
Non deductible goodwill impairment	—	21,130
Write-down of deferred tax asset	544	3,805
Other items	(1,239)	343
Income tax expense	$ 6,374	$ 12,742

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

As at	**March 31, 2021**	**March 31, 2020**
Deferred income tax assets		
Non-deductible reserves	$ 9,403	$ 10,785
Inventories	5,011	5,625
Receivables	53	14
Derivative financial instruments	—	4,707
Lease liabilities	1,225	3,837
Governmental authorities loans	477	15
Deferred tax benefits from tax losses and deductible expenses carried forward	18,918	23,538
Total deferred income tax assets	$ 35,087	$ 48,521
Deferred income tax liabilities		
Investment and other tax credits	(533)	(59)
Property, plant and equipment	(22,365)	(25,793)
Customer relationships and contracts	(9,946)	(11,783)
Derivative financial instruments	(3,141)	—
Total deferred income tax liabilities	$ (35,985)	$ (37,635)
Net deferred income tax (liabilities) assets	(898)	10,886

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

As at	March 31, 2021	March 31, 2020
Deferred income tax assets	$ 8,485	$ 19,698
Deferred income tax liabilities	(9,383)	(8,812)
Net deferred income tax (liabilities) assets	$ (898)	$ 10,886

As at March 31, 2021, net deferred income tax assets of $11,111 were recognized ($12,162 as at March 31, 2020) 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, 2021, 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 $34,095 ($28,354 as at March 31, 2020).

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

As at	March 31, 2021	March 31, 2020
Canada	$ 18,822	$ 26,094
United States	66,938	73,198
United Kingdom	5,785	1,802
Spain	20,852	24,357
	$ 112,397	$ 125,451

As at March 31, 2021, deferred income tax assets of $11,137 and deferred income tax liabilities of $1,311 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, 2021, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $21,347 ($28,850 in 2020).

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 2021, 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 $1,627 ($1,417 in 2020) while the cash contributed to its defined contribution plans amounted to $3,252 ($3,425 in 2020).

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 70% in equity funds, 30% in debt securities and 0% 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, 2021	March 31, 2020
Present value of defined benefit obligations of funded plans	$ 69,289	$ 64,234
Fair value of plan assets	69,988	55,117
Funded status of the plans – surplus (deficit)	699	(9,117)
Present value of defined benefit obligations of unfunded plan	(643)	(962)
Amount recognized in other long-term assets (other long-term liabilities) (notes 14, 21)	$ 56	$ (10,079)

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

	2021	2020
Current service cost	$ 1,053	$ 1,408
Interest on net defined benefit obligations (note 10)	394	238
Past service cost	—	543
Administrative cost	307	259
Defined benefit pension expense recognized in the consolidated statements of income	$ 1,754	$ 2,448

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

	2021	2020
Remeasurements		
Losses from changes in demographic assumptions	$ —	$ (59)
(Losses) gains from changes in financial assumptions	(4,519)	4,494
Experience gains (losses)	1,801	(486)
Return on plan assets, excluding interest income on plan assets	12,980	(6,347)
Other comprehensive income (loss)	$ 10,262	$ (2,398)

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

	2021	2020
Actual return on the fair value of plan assets	$ 15,070	$ (4,364)

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

As at	March 31, 2021	March 31, 2020
Defined benefit obligations at the beginning of the year	$ 65,196	$ 67,360
Current service cost	1,053	1,408
Interest expense	2,484	2,221
Contributions by plans' participants	943	694
Losses from changes in demographic assumptions	—	59
Losses (gains) from changes in financial assumptions	4,519	(4,494)
Experience losses (gains)	(1,801)	486
Benefits paid	(2,462)	(3,081)
Past service benefits	—	543
Defined benefit obligations at the end of the year	$ 69,932	$ 65,196

The fair value of plan assets is as follows:

As at	March 31, 2021	March 31, 2020
Fair value of plans' assets at the beginning of the year	$ 55,117	$ 60,710
Interest income on plans' assets	2,090	1,983
Return on plans' assets, excluding interest income on plans' assets	12,980	(6,347)
Contributions by the employer	1,627	1,417
Contributions by plans' participants	943	694
Benefits paid	(2,462)	(3,081)
Administrative costs	(307)	(259)
Fair value of plans' assets at the end of the year	$ 69,988	$ 55,117

The plans' assets consist of:

As at	March 31, 2021	March 31, 2020
Equity securities	70%	58%
Debt securities	30%	41%
Other	—%	1%
Total	100%	100%

Significant assumptions

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

	2021	2020
Defined benefit obligations as at March 31:		
Discount rate	3.28%	3.80%
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	86	87
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	87	88
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, 2021:

Increase (Decrease)	Defined benefit obligations
	%
Discount rate	
Increase of 0.5%	(6.2)
Decrease of 0.5%	7.0
Rate of compensation	
Increase of 0.5%	—
Decrease of 0.5%	—
Average life expectancies	
Increase of 1 year	2.2
Decrease of 1 year	(2.1)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2022 amount to $928.

The duration of the defined benefit obligations at March 31, 2021 is 14.6 years (14.7 years in 2020). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2021	March 31, 2020
Less than a year	$ 2,095	$ 1,860
Between 1-2 years	2,174	2,096
Between 2-5 years	7,643	7,071
Over 5 years	147,799	150,545
Total	$ 159,711	$ 161,572

Defined contribution pension plans

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

	2021	2020
Defined contribution pension plan costs	$ 3,252	$ 3,425

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:

	2022	2023	2024	2025	2026	Thereafter	Total 2021	Total 2020
Building, machinery and equipment acquisition commitments	$ 1,572	—	—	—	—	—	$ 1,572	$ 7,441

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, 2021, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2021, an amount of $4,588 ($4,804 in 2020) 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, 2021, the Corporation has outstanding letters of credit amounting to $22,772 ($22,590 in 2020).

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:

	2021	2020
Accounts receivable	$ 11,324	$ 4,328
Income tax receivable	(453)	1,102
Inventories	21,812	(45,517)
Other current and long-term assets	8,423	116
Accounts payable and accrued liabilities and other liabilities	(19,727)	3,320
Provisions	(3,661)	(8,822)
Customers advances and progress billings	5,301	11,072
Income tax payable	739	(508)
Effect of changes in exchange rates[(1)]	(904)	5,381
	$ 22,854	$ (29,528)

[(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, 2021
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	$ 99,161	$ 69,998	$ 19,528	$ 38,934	$ 227,621
Finite-life intangible assets, net	11,943	3,823	2,823	33,407	51,996
Goodwill	5,404	17,191	64,737	28,638	115,970
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

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

	2021	2020
United States	$ 300,691	$ 326,860
Canada	56,343	57,472
United Kingdom	47,877	62,734
Spain	47,730	48,049
Rest of Europe	73,532	67,647
Other countries	44,512	50,234
	$ 570,685	$ 612,996

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:

	2021	2020
Short-term employee benefits and other benefits	$ 3,820	$ 4,019
Pension and other post-retirement benefits	196	173
Share-based payments	1,333	1,301
	$ 5,349	$ 5,493

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, 2021			March 31, 2020		
	Fair value hierarchy	**Carrying amount**	**Fair Value**	**Fair value hierarchy**	**Carrying amount**	**Fair Value**
Financial assets						
Cash and cash equivalents	Level 1	$ 95,470	$ 95,470	Level 1	$ 45,841	$ 45,841
Derivative financial instruments	Level 2	14,277	14,277	Level 2	3,526	3,526
		$ 109,747	$ 109,747		$ 49,367	$ 49,367
Financial liabilities						
Derivative financial instruments	Level 2	$ 544	$ 544	Level 2	$ 23,988	$ 23,988
Long-term debt, including current portion	Level 2	252,998	270,790	Level 2	292,710	318,456
		$ 253,542	$ 271,334		$ 316,698	$ 342,444

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, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $268,737 denominated in USD, EUR and GBP. This amount includes mainly contracts with nominal value of US$197,500 convertible into Canadian dollars at an average rate of 1.3161. These contracts mature at various dates between April 2021 and March 2025, with the majority maturing fiscal years 2022 and 2023.

As at March 31, 2021, 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
Decrease in net income	$ (468)	$ (41)	$ (28)
Increase (decrease) in other comprehensive income (loss)	1,220	(1,713)	(691)

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 100% of long-term debt, excluding lease liabilities and government loans.

Cross-currency interest rate swaps

The acquisition of CESA 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.

As at March 31, 2021, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 90.5 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

In order to mitigate these risks, as at March 31, 2021, 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	1.75 %	October 2017	December 2024
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
C$	15,000	€	9,700	2.65 %	January 2021	September 2025

A 100 basis point variation in interest rates would have affected the Corporation's financial results for fiscal 2021 as follows:

	100 bps increase	100 bps decrease
	$	$
Impact on net income related to floating rate long-term debt	(91)	91
Impact on comprehensive income related to cross-currency interest-rate swap agreements	510	(529)

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, 2021, 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 2022.

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 65% of the Corporation's fiscal 2021 sales are made to the top ten customers (63% in 2020). More specifically, in fiscal 2021, the Corporation had one customer representing 17% of its consolidated sales (one customer representing 22% in 2020).

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 3.0% in fiscal 2021 (3.7% in 2020) of the Corporation's consolidated sales.

As at March 31, 2021, 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 is 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 situations are 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, 2021:

	2021
Balance, beginning of year	$ 1,188
Arising during the year	506
Balance at the end of the year	$ 1,694

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

As at	March 31, 2021	March 31, 2020
Not past due	$ 95,609	$ 103,099
Past due less than 90 days	5,243	7,820
Past due more than 90 days	566	2,264
Impaired	—	563
	101,418	113,746
Allowance for doubtful accounts	(1,694)	(1,188)
Balance at the end of the year	$ 99,724	$ 112,558

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, 2021, 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	$ —	$ —	$ 95,470
Accounts receivable	—	—	99,724
Derivative financial instruments	1,088	13,189	—

(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, 2021, 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	$ 109,809	$ —	$ —	$ —	$ 109,809
Customer advances	11,818	—	—	—	11,818
Long-term debt, including current portion (note 20)	21,466	37,837	167,146	75,909	302,358
Derivative financial instruments	—	59	485	—	544

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, 2021, 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, 2021	March 31, 2020
Current portion of long-term debt	$ 15,315	$ 16,857
Long-term debt	235,384	272,760
Deferred financing costs, net	2,299	3,093
Less: Cash and cash equivalents	95,470	45,841
Net debt	$ 157,528	$ 246,869
Shareholders' equity	391,732	349,448
Net debt-to-equity ratio	0.40:1	0.71:1

The Corporation is not subject to any regulatory capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2021

TABLE OF CONTENTS

OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2020 and March 31, 2021. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2021 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, 2021, 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, 2021 and 2020 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 *Economic Outlook* section 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	2021	2020
Sales	$ 570,685	$ 612,996
Operating income (loss)	34,096	(30,070)
Adjusted operating income (1)	45,211	52,548
Adjusted EBITDA (1)	88,297	96,191
Net income (loss)	19,813	(50,658)
Adjusted net income (1)	29,034	35,666
Cash flows related to operating activities	89,188	52,573
Free cash flow (1)	67,286	30,330
In dollars per share		
Earnings (Loss) per share - basic and diluted	$ 0.55	$ (1.38)
Adjusted EPS (1)	0.80	1.00
As at	March 31, 2021	March 31, 2020
Funded backlog (2)	$ 717,000	$ 810,000

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

(2) *Represents firm orders.*

Key Events

- All of our facilities remained open throughout the year and, despite the global pandemic, the Corporation has improved its financial position, with net debt reducing by $89.3 million, bringing the net debt to adjusted EBITDA ratio down from 2.6x to 1.8x.
- The Corporation generated sales of $570.7 million resulting in an operating income of $34.1 million, and Adjusted EBITDA of $88.3 million in fiscal 2021. These results compared to sales of $613.0 million, an operating loss of $30.1 million and Adjusted EBITDA of $96.2 million in fiscal 2020. Fiscal 2020 results included impairment charges of $85.8 million as a result of a reduction in expected demand for commercial aerospace products caused by the COVID-19 pandemic.
- During Fiscal 2021, the Corporation announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives affect 15% of the workforce and include the closure of the Alta Precision and APPH Wichita facilities. The initiatives are progressing as planned and are generating the anticipated savings for the Corporation’s cost structure. To date, approximately 85% of the overall planned workforce reduction have been completed and $11.1 million of restructuring charges have been incurred, compared to the $12.0 million initially announced. Refer to the *Non-Recurring Items* section under *Operating Results* for further details.
- Other operational highlights:
  - In September 2020, Héroux-Devtek delivered the first main landing gears for Boeing’s F/A-18E/F Super Hornet.
  - In October 2020, Héroux-Devtek announced that its CESA subsidiary in Spain has been awarded a major multi-year contract by Boeing to manufacture new actuation components for the 787, 777, 777X, 767 and 747 aircraft.
  - In January 2021, the Corporation was awarded entry to Boeing’s Premier Bidder program as a result of Héroux-Devtek’s consistent excellence in quality, delivery and business performance.
  - On March 10th, 2021, the first flight of the Dassault Falcon 6X took place. The flight lasted nearly 2.5 hours and proceeded according to the test plan. The latter included the extension and retraction of the Corporation’s landing gear.
  - In May 2021, the Corporation announced that it has been awarded a life-cycle contract to design, develop and manufacture the landing gear system for the large-cabin Dassault Falcon 10X business jet.
- Héroux-Devtek generated cash flows related to operating activities of $89.2 million and free cash flow of $67.3 million during fiscal 2021, compared to $52.6 million and $30.3 million in fiscal 2020.
- In May 2021, the Corporation filed a notice with the Toronto Stock Exchange of its intention to initiate a normal course issuer bid (NCIB). Under the terms of the NCIB, the Corporation may acquire up to 2,412,279 of the issued and outstanding common shares of the Company, 10% of the public float. Refer to the *Capital Structure* section under *Financial Position* for further details.

OVERVIEW OF THE BUSINESS

Profile

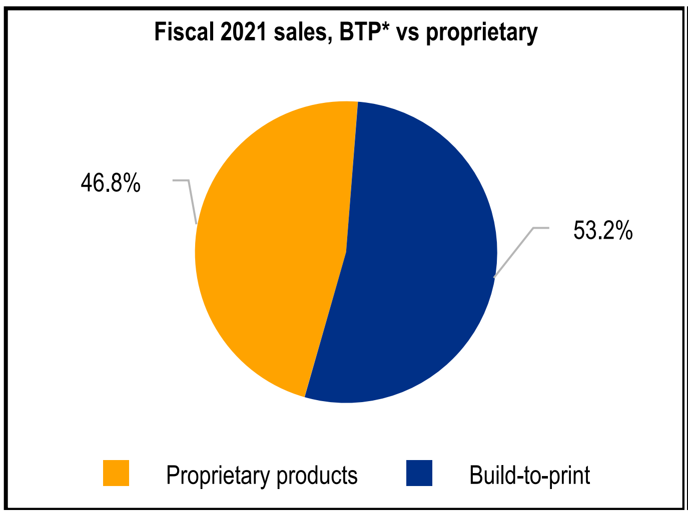
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul (R&O) of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a 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.

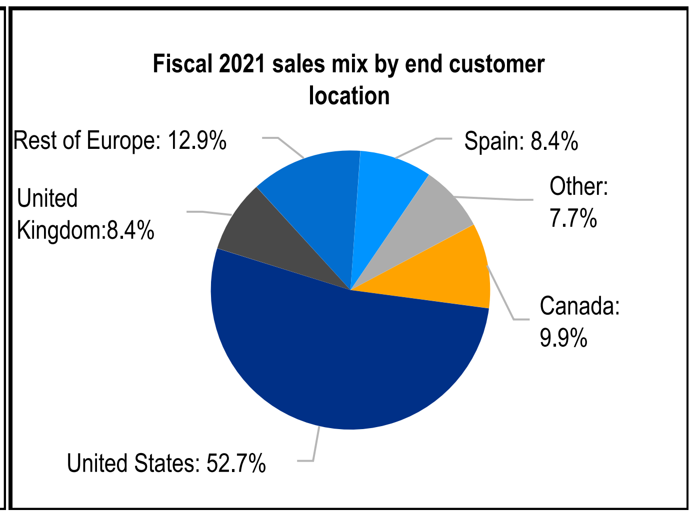
In the defence sector, the Corporation supplies landing gear systems, parts and repair and overhaul services for a diversified portfolio of transport aircraft, fighter jets and helicopters in the United States and Europe. For the civil sector, the Corporation is active in the large commercial, business jet, regional aircraft and helicopter markets. 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, Canada while operating facilities are located in Canada, the United States, Spain and the United Kingdom.

Héroux-Devtek sells to Original Equipment Manufacturers ("OEMs") such as Boeing, Airbus, Lockheed Martin, Leonardo, Embraer, Saab and Dassault Aviation; to Tier 1 suppliers such as Safran Landing Systems and Collins Aerospace; and to end users in the aftermarket where its largest customer is the U.S. Air Force. In fiscal 2021, the Corporation's the Top 10 largest customers represented approximately 65% of total consolidated sales, with one customer accounting for 17%.

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 fell as low as 94% year-over-year in April 2020, and the calendar year closed out with a 66% decrease compared to 2019, returning essentially to the same level as 1998[(1)]. The fallout of global lockdowns and health impacts have resulted by many measures in the worst global economic downturn since the Great Depression.

Airlines facing travel bans, grounded fleets and negative demand outlooks have delayed deliveries and cancelled orders of new commercial aircraft, which in turn has pushed OEMs to reduce production rates. Worldwide, supply chains have also been 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

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 2020, our Spanish operations developed protocols to prevent the spread of the disease within Héroux-Devtek's facilities. These measures, all of which are aligned with or surpassed local jurisdiction COVID-19 protocols, were implemented across all our business units (U.K., U.S.A. and Canada) to create a safe working environment and have proven to be very effective.

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 more than 91% throughout the crisis. Under the exceptional circumstances, this allowed us to remain relatively efficient.

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, in order to reduce our fixed and variable cost base, we announced restructuring plans including a reduction of our workforce of approximately 15% or 315 employees, including the closure of our Alta Precision and Wichita business units. We also revised our budgeted capital expenditures downwards and realigned our manufacturing resources towards the defence sector. The objective of these measures was to help us remain competitive and profitable during this challenging period.

We began to see the uplift in our profitability from these measures in the later half of the fiscal year. Combined with pandemic relief measures, most notably the Canadian Emergency Wage Subsidy, our leaner cost structure and organic growth in the defence sector helped to compensate for the drop in volume and pandemic-related inefficiencies, allowing us to deliver strong financial results under the circumstances.

More importantly, strong working capital management allowed us to deliver record cash flows related to operating activities and free cash flow totaling $89.2 million and $67.3 million, respectively. This cash flow generation drove a significant decrease in our net debt position, which decreased from $246.9 million to $157.5 million over the course of the fiscal year, or from 2.6 times adjusted EBITDA to 1.8 times. A year into the pandemic, therefore, we are in a better financial position to sustain future growth.

Looking Ahead

While we had success in weathering the pandemic in fiscal 2021, we can't say yet that the crisis facing our industry is past. Different countries are facing third or fourth waves and variants of concern, passenger air travel remains severely depressed, and OEM production rates for commercial aircraft have not shown any sign of recovery yet.

That being said, the same factors which lent resilience to Héroux-Devtek last fiscal year remain in place for fiscal 2022:

- A diversified product portfolio and strong backlog totaling $717.0 million, three quarters of which is for defence programs;
- A strong financial position with $278 million of available liquidity and a net debt to EBITDA ratio of 1.8x; and,
- Our newly streamlined cost structure which will allow us to remain competitive in the new aerospace landscape.

These factors not only give us confidence that we can continue to weather the storm, but also provide us with the opportunity to thrive in its aftermath.

[(1)] Source: COVID-19 Has Been an Unprecedented Shock, IATA, report issued March 17, 2021

Looking ahead, as we continue to stabilize our production system, we will prepare to absorb growth stemming from the recovery of the industry by optimizing and automating our processes. This way, we can grow within our existing manufacturing capacity with limited investment.

ECONOMIC OUTLOOK

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 has remained relatively immune to the pandemic, the negative impact on the civil market - particularly on passenger travel - should continue to be felt at all levels of the industry throughout Fiscal 2022.

In accordance with the forecasts presented in this section, drawn from recent reports published by key industry associations and analysts, the Company anticipates a slow but gradual recovery in passenger transportation demand over the next few years. Global aerospace and defence industry revenues are expected to begin recovering in 2021. The gradual withdrawal of health restrictions in several countries, the gradual opening of borders and the recovery of tourism could indeed revitalize the sector.

While the civil aviation sector is expected to recover slowly, as travel demand is not expected to return to pre-COVID-19 levels until 2024, the defence sector is expected to remain relatively stable in calendar 2021, as most countries have not significantly reduced their defence budgets and remain committed to maintaining their military capabilities.

Civil Market

Ultimately, the impact of the pandemic resulted in a 66% overall decline in passenger numbers in calendar 2020[3]. Though some early signs of recovery began to surface later in the year and in early 2021, the deterioration of virus control ahead of wide vaccination resulted in a new tightening of restrictions[4]. With airlines continuing to burn cash and 30% of the world jet fleet remaining parked, demand for both new aircraft and aftermarket services remains dramatically lower than pre-pandemic levels[5].

In addition, the pandemic has led to some changes in passenger behaviour, with a shift to short-haul and domestic flights. As evidence, in 2020, the average flight duration has decreased by almost 10% worldwide. In this regard, the International Air Transport Association (IATA) does not foresee a return to a pre-pandemic average flight duration before 2025. However, these changes in traveler habits could lead to an increase in demand for narrow-body aircraft, which is likely to lead the way to recovery in the medium term.

Globally, the commercial aircraft backlog stood at 13,421 at the end of December 2020. This is an 8.7 percent decline from the all-time high seen at the end of 2018 (approximately 14,700 aircraft). Deliveries are estimated at 950 aircraft for 2021, which would represent a 41% decrease compared to the record year in 2018. The moderate level of new orders, combined with possible order cancellations, could lead to a slight erosion of the global backlog. Over the long term, however, Boeing maintained a forecasted demand for over 43,000 commercial aircraft over the next twenty years, a figure only slightly below the pre-pandemic forecast of 44,000. This growth stems both from increased demand for air travel in East Asia and from an accelerated replacement cycle for older aircraft fleets being replaced with more versatile and efficient models[6].

On the cargo side, while cargo traffic measured in cargo tonne kilometers (CTKs) decreased due to the pandemic as well, they did so to a lesser degree, declining only 10.6% in calendar 2020 compared to 2019[3]. They have also recovered faster, up 9% in February 2021 as compared to February 2019[4]. This recovery presents a positive outline for the segment that is mirrored by expectations of a 62% growth in the freighter fleet over the next twenty years, including both cargo conversions and new aircraft.[6]

While the business jet market has been less impacted than the large commercial jet by the pandemic to date, travel restrictions, virtual meetings and economic factors all negatively impact the industry outlook. While leading market indicators like corporate profits, equities markets and oil prices are mixed, utilization is growing and recovering faster than airline travel.[5] This is particularly true for the large cabin business aircraft segment.

Defence Market

As forecast by many, the COVID-19 impact has been proven not to impact world defence spending. Total global military expenditures rose to nearly $2.0 trillion in 2020, representing a 4.4% increase compared to the previous year. As a percentage of GDP, many countries saw an increase in spending as their GDP decreased due to the pandemic, but their defence spending remained stable in real dollars(7). The sector is expected to remain relatively stable in 2021, growing 2.8%(8).

Most major nations have remained committed to strengthening their military presence, despite recent budget shortfalls. In the United States, defence spending is expected to remain flat in 2021, having spent US$778 billion in 2020. However, fiscal impacts from reduced revenues (due to COVID-19) could affect defence budgets starting in 2022, primarily due to debt associated with all stimulus spending.(7)

Along with the United States, the next four spenders make up a total of 62% of the world's defence spending budget. Most major players have remained committed to strengthening their military under global tensions, in spite of the pandemic. Among other commitments, Japan announced an increase in spending for a ninth straight year, France is maintaining spending, and the United Kingdom announced the largest increase in its defence budget since the cold war. This funding is earmarked for modernization, including funding among other programs for the Tempest fighter jet program (7, 8, 9).

Fighter jets represent the second-largest segment portion of the world aircraft production market over the next decade, representing over US$325 billion per year over the next decade. The forecasted production of over 4,200 aircraft over this period is driven by the replacement of aging and neglected fleets and high aircraft utilization rates. Lockheed's F-35 is expected to seize up to 47% of this market, while other 4.5 generation fighters like the F-18, F-16, F-15, Gripen and Rafale will make up over 20% of the balance(10). Along with the Tempest (U.K., Sweden and Italy) program listed above, other sixth generation fighters in varying stages of development include the FCAS (France, Germany and Spain), and the NGAD (United States).

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

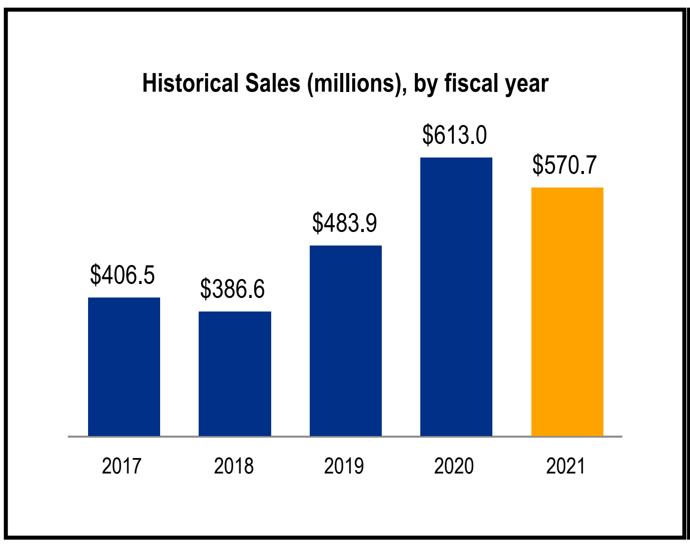
(1) Source: Commercial Aerospace Faces Turbulence, Boston Consulting Group, November 18, 2019.
(2) Source: COVID-19 Updated Impact Assessment, IATA, report issued April 14, 2020.
(3) Source: COVID-19 Has Been an Unprecedented Shock, IATA, report issued March 17, 2021
(4) Source: COVID-19 Passenger Market Remains Weak While Air Cargo Strengthens, report issued April 7, 2021
(5) Source: World Aero Market: Looking Up, From the Bottom of a Pit, Teal Group, April 2021
(6) Source: Boeing Commercial Market Outlook 2020–2039
(7) Source: Stockholm International Peace Institute, World Military Expenditures, press release issued April 26, 2021.
(8) Source: 2021 Aerospace and Defence Industry Outlook, Deloitte, January 2021.
(9) Source: PM to announce largest military investment in 30 years, UK Government, press release issues November 19, 2020
(10) Source: World Civil and Military Aircraft Briefing, Teal Group, March 2020

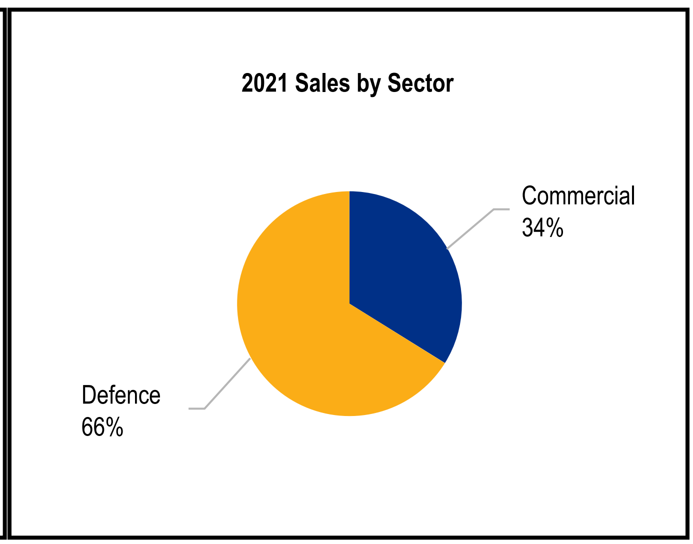
OPERATING RESULTS

	Quarters ended March 31,						Fiscal years ended March 31,					
		2021		2020		*Variance*		2021		2020		*Variance*
Sales	$	154,989	$	166,800	*$*	*(11,811)*	$	570,685	$	612,996	*$*	*(42,311)*
Gross profit		25,170		29,852		*(4,682)*		94,917		103,120		*(8,203)*
Selling and administrative expenses		11,322		12,275		*(953)*		49,706		50,572		*(866)*
Adjusted operating income[1]		13,848		17,577		*(3,729)*		45,211		52,548		*(7,337)*
Non-recurring items		1,619		82,003		*(80,384)*		11,115		82,618		*(71,503)*
Operating income (loss)		12,229		(64,426)		*76,655*		34,096		(30,070)		*64,166*
Net financial (gains) expenses		(158)		(533)		*375*		7,909		7,846		*63*
Income tax expense		3,585		8,220		*(4,635)*		6,374		12,742		*(6,368)*
Net income (loss)	$	8,802	$	(72,113)	*$*	*80,915*	$	19,813	$	(50,658)	*$*	*70,471*
Adjusted net income[1]	$	10,169	$	13,695	*$*	*(3,526)*	$	29,034	$	35,666	*$*	*(6,632)*
Adjusted EBITDA[1]	$	24,975	$	28,609	*$*	*(3,634)*	$	88,297	$	96,191	*$*	*(7,894)*
As a percentage of sales												
Gross profit		16.2%		17.9%		*-170 bps*		16.6%		16.8%		*-20 bps*
Selling and administrative expenses		7.3%		7.4%		*-10 bps*		8.7%		8.2%		*50 bps*
Operating income (loss)		7.9%		(38.6)%		*nmf*		6.0%		(4.9)%		*nmf*
Adjusted operating income[1]		8.9%		10.5%		*-160 bps*		7.9%		8.6%		*-70 bps*
In dollars per share												
Earnings (loss) per share[2]	$	0.24	$	(1.98)	*$*	*2.22*	$	0.55	$	(1.38)	*$*	*1.93*
Adjusted EPS[1]	$	0.28	$	0.38	*$*	*(0.10)*	$	0.80	$	1.00	*$*	*(0.20)*

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

Sales





Sales can be broken down by sector as follows:

	Quarters ended March 31,				
	2021	2020	FX Impact		Net variance
Defence	$ 107,312	$ 94,845	$ (2,276)	$ 14,743	15.5 %
Civil	47,677	71,955	(1,280)	(22,998)	(32.0)%
Total	$ 154,989	$ 166,800	$ (3,556)	$ (8,255)	(4.9)%

	Fiscal years ended March 31,				
	2021	2020	FX Impact		Net variance
Defence	$ 377,465	$ 329,259	$ 1,968	$ 46,238	14.0 %
Civil	193,220	283,737	1,007	(91,524)	(32.3)%
Total	$ 570,685	$ 612,996	$ 2,975	$ (45,286)	(7.4)%

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

Over the fiscal year, the corporation has shifted gears from the commercial to defence sector following the COVID-19 pandemic impact on the aerospace market demand.

Defence

The $46.2 million and $14.7 million net increases in defence sales for the fiscal year and the fourth quarter was mainly driven by:

- The ramp-up of deliveries under the Boeing F-18, Sikorsky CH-53K and Saab Gripen E contracts;
- Strong deliveries for existing OEM platforms such as the Eurofighter and Lockheed F-35 programs; and,
- Higher spares demand for the Northrop Grumman Global Hawk program and from the US Government for the C-130 and KC-135 aircraft.

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

Civil

The effect of COVID-19 on the aerospace market drove 32.3% and 32.0% reductions in civil sales for the fiscal year and fourth quarter, respectively. These decreases were mainly the result of lower deliveries for large commercial programs, where twin-aisle deliveries decreased 45% reflecting lower OEM demand.

Gross Profit

During the fiscal year, as described above, the COVID-19 pandemic caused a reduction in civil sales, and therefore gross profit, which was partly offset by growth in the defence sector. The virus outbreak also caused excess direct costs including production inefficiencies and commercial risks such as surplus inventory, which were mostly offset by government relief measures such as the Canadian Emergency Wage Subsidy (“CEWS”).

Gross profit for the fiscal year decreased from $103.1 million, or 16.8% of sales last year to $94.9 million or 16.6%, due mainly to lower sales volume without a corresponding decrease in fixed costs such as depreciation, which represented a negative year over year impact of 0.4% of sales. This decrease was partially offset by a better sales mix than last year.

Gross profit for the quarter decreased from $29.9 million, or 17.9% of sales last year to 25.2 million or 16.2%. This decrease was mainly the result of a less favourable sales mix than last year and lower volume without a corresponding decrease in fixed costs such as depreciation, which represented a negative impact of 0.6% of sales.

Foreign exchange fluctuations had a negative net impact of 0.5% of sales on the quarter ended March 31, 2021 and a negligible impact (less than 0.1% of sales) over the fiscal year.

Selling and Administrative Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Selling and Administrative Expenses	$ 11,322	$ 12,275	$ 49,706	$ 50,572
Less: Net gains (losses) on conversion of net monetary items	813	1,869	(1,456)	1,196
	$ 12,135	$ 14,144	$ 48,250	$ 51,768
As a percentage of sales	7.8%	8.5%	8.5%	8.4%

Selling and administrative expenses excluding the net effect of foreign exchange on monetary items remained stable as a percentage of sales for the fiscal year as the effect of restructuring initiatives on the cost structure compensated for lower sales volume but was slightly offset by higher stock-based compensation expense. As the effect of the restructuring initiatives was greater later in the fiscal year, selling and administrative expenses further decreased in the fourth quarter compared to the same period last year.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Non-recurring items in operating income				
Restructuring charges	$ 1,619	$ —	$ 11,115	$ —
Goodwill impairment	—	79,736	—	79,736
Write-down of investment tax credits receivable	—	2,267	—	2,267
Acquisition-related costs	—	—	—	615
	$ 1,619	$ 82,003	$ 11,115	$ 82,618
Non-recurring items in income tax expense				
Write-down of deferred income tax assets	$ —	$ 3,805	$ —	$ 3,805
	$ —	$ 3,805	$ —	$ 3,805
Total	**$ 1,619**	**$ 85,808**	**$ 11,115**	**$ 86,423**

Restructuring charges

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

To date, $11.1 million of related costs have been recorded compared to $12.0 million initially announced, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. 85% of staff reductions have been completed, with the remainder to occur essentially after the closure of APPH Wichita, which is expected by the end of the present calendar year. The closure of Alta Précision is substantially complete. As at March 31, 2021, restructuring provisions of $3.6 million remained on the consolidated balance sheet.

Goodwill impairment, 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 during fiscal 2020.

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisition of Alta Precision last fiscal year.

Operating Income

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Operating income (loss)	$ 12,229	$ (64,426)	$ 34,096	$ (30,070)
Non-recurring items	1,619	82,003	11,115	82,618
Adjusted operating income	$ 13,848	$ 17,577	$ 45,211	$ 52,548
As a percentage of sales				
Operating income (loss)	7.9 %	(38.6)%	6.0 %	(4.9)%
Adjusted operating income[1]	8.9 %	10.5 %	7.9 %	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.*

This fiscal year, operating income stood at 6.0% of sales compared to an operating loss of 4.9% which was driven by $82.0 million of non-cash impairment charges recorded last year, which represented 13.4% of sales. Excluding non-recurring items, operating income decreased from 8.6% to 7.9% of sales, mainly reflecting a $3.2 million year-over-year negative foreign exchange impact (0.6% of sales).

For the quarter, operating income stood at 7.9% of sales compared to an operating loss of 38.6% which also resulted from the non-cash impairment charges described above (49.2% of sales for the fourth quarter last year). Excluding non-recurring items, operating income decreased from 10.5% to 8.9% of sales mainly due to a $1.7 million year-over-year negative foreign exchange impact (or 1.1% of sales) as well as lower volume.

Net financial Expenses

	Quarters ended March 31,			Fiscal years ended March 31,		
	2021	2020	*Variance*	2021	2020	*Variance*
Interest on long-term debt	$ 1,471	$ 1,909	*$ (438)*	$ 7,097	$ 6,905	*$ 192*
Net interest expense (income) related to government loans	(1,000)	(2,999)	*1,999*	1,369	(773)	*2,142*
Interest income	(169)	(26)	*(143)*	(761)	(100)	*(661)*
Other interest expense	(460)	583	*(1,043)*	204	1,814	*(1,610)*
	$ (158)	$ (533)	*$ 375*	$ 7,909	$ 7,846	*$ 63*

This fiscal year, interest expense on long-term debt remained relatively stable compared to last year as a higher balance outstanding at the beginning of the fiscal year was offset by a decrease in interest rates and debt repayment during the fourth quarter. A lower gain on adjustment of government loan repayment schedule estimates (see *Government Authorities Loans* under *Liquidity and Capital Resources*) compared to last year was offset by favourable discount rate adjustments, mainly related to provisions, resulting in overall stable net financial expense.

During the fourth quarter, interest on long-term debt was lower than the same quarter last year due to lower interest rates and lower debt outstanding. This positive impact, along with gains related to changes in discount rates included in other interest expense, were more than offset by a lower gain on adjustment of government loan repayment schedules estimates (see *Government Authorities Loans* under *Liquidity and Capital Resources*).

Net Income

Earnings increased from a loss of $50.7 million to a profit of $19.8 million (or decreased from $35.7 million to $29.0 million excluding non-recurring items net of taxes) this fiscal year compared to last and increased from a loss of $72.1 million to earnings of $8.8 million (or decreased from $13.7 million to $10.2 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 increased from a loss of $1.38 to earnings of $0.55 per share (or decreased from $1.00 to $0.80 per share excluding non-recurring items net of taxes), while they increased from a loss of $1.98 to earnings of $0.24 per share (or decreased from $0.38 to $0.28 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:	Operating income excluding amortization expense and non-recurring items
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities less additions to property, plant and equipment and net increase or decrease in finite-life intangible assets.

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

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

The following are reconciliations of these items to their most comparable IFRS measures as well as additional information 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,	
	2021	2020	2021	2020
Operating income (loss)	$ 12,229	$ (64,426)	$ 34,096	$ (30,070)
Non-recurring items	1,619	82,003	11,115	82,618
Adjusted operating income	$ 13,848	$ 17,577	$ 45,211	$ 52,548

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,	
	2021	2020	2021	2020
Operating income (loss)	$ 12,229	$ (64,426)	$ 34,096	$ (30,070)
Amortization expense	11,127	11,032	43,086	43,643
Non-recurring items in operating income	1,619	82,003	11,115	82,618
Adjusted EBITDA	$ 24,975	$ 28,609	$ 88,297	$ 96,191

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,	
	2021	2020	2021	2020
Net income (loss)	$ 8,802	$ (72,113)	$ 19,813	$ (50,658)
Non-recurring items net of taxes	1,367	85,808	9,221	86,324
Adjusted net income	$ 10,169	$ 13,695	$ 29,034	$ 35,666
Non-controlling interests	(145)	(88)	(244)	(545)
Adjusted net income attributable to the equity holders of the parent	$ 10,314	$ 13,783	$ 29,278	$ 36,211
In dollars per share				
Earnings (loss) per share - basic and diluted	$ 0.24	$ (1.98)	$ 0.55	$ (1.38)
Non-recurring items net of taxes	0.04	2.36	0.25	2.38
Adjusted earnings per share	$ 0.28	$ 0.38	$ 0.80	$ 1.00

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 $100.0 million during the term of this agreement, subject to the approval of the lenders.

As at March 31, 2021, the Corporation had $59.3 million (US$ 47.0 million) drawn against this facility, compared to $96.5 million (US$ 68.0 million) as at March 31, 2020, following a US$ 21.0 million ($27.0 million) repayment during the fourth quarter.

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. As at March 31, 2021, the facility is fully drawn, compared to a balance of $60.0 million as at March 31, 2020. A $15.0 million tranche was drawn during the first quarter as a precaution for potential liquidity requirements related to the COVID-19 pandemic.

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

Net Debt Position

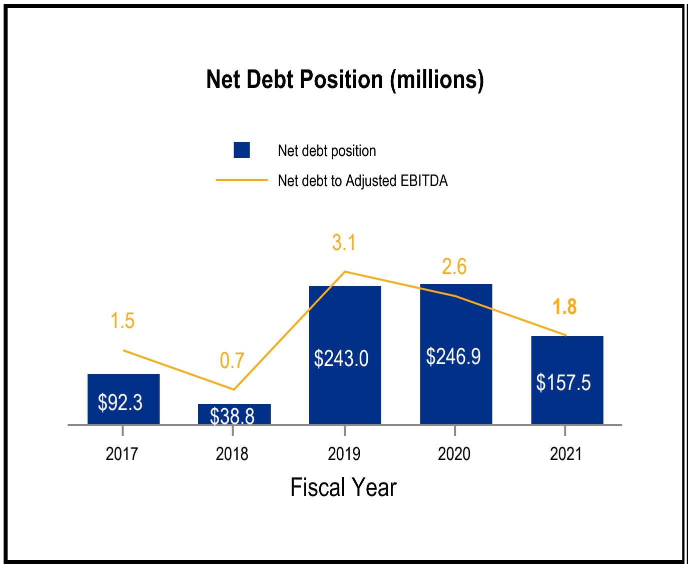
The Corporation's net debt position is calculated as follows, as at:

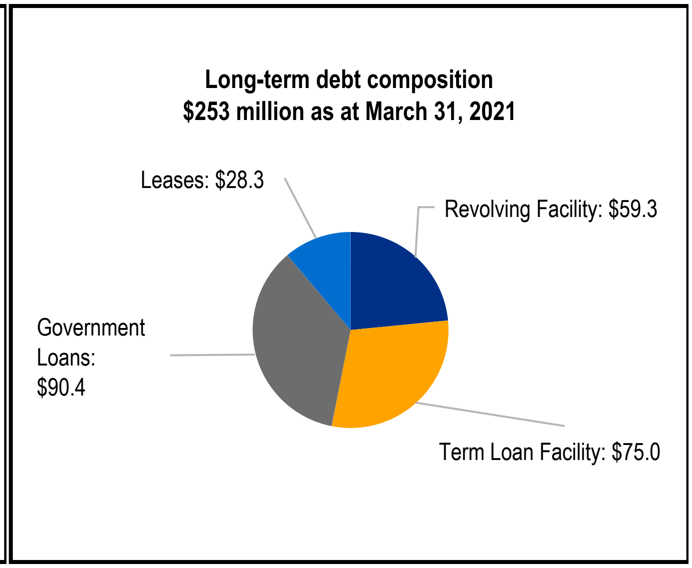
	March 31, 2021	March 31, 2020
Long-term debt, including current portion(1)	$ 252,998	$ 292,710
Less: Cash and cash equivalents	95,470	45,841
Net debt position	$ 157,528	$ 246,869
Adjusted EBITDA(2)	$ 88,297	$ 96,191
Net debt to adjusted EBITDA ratio	1.8:1	2.6:1

(1) *Excluding net deferred financing costs of $2.3 million and $3.1 million as at March 31, 2021 and March 31, 2020, respectively.*

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

The substantial $89.3 million decrease during the fiscal year is mainly the result of $67.3 million free cash flow generated this year (See *Free Cash Flow* below), as well as the early termination of a facility lease related to the closure of Alta.

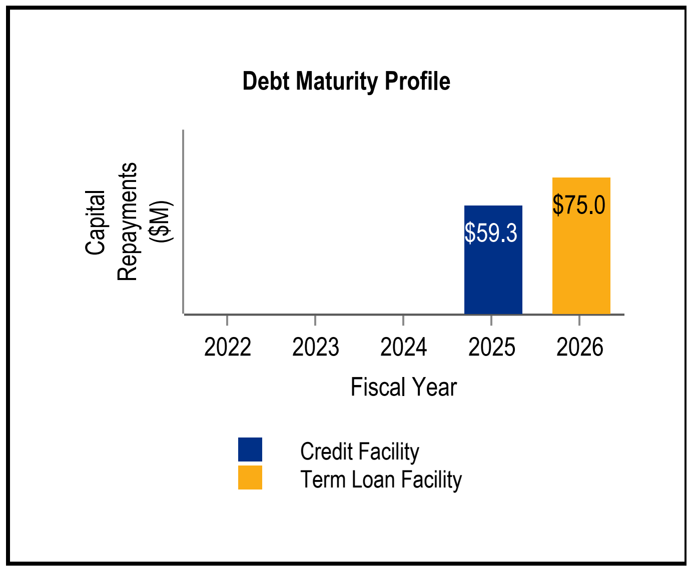




[(1)] *Excluding net deferred financing costs of $2.3 million as at* March 31, 2021 *and $3.1 million as at* March 31, 2020.

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, 2021 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.

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, 2021, 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 gains of $1,649 and $3,153 in fiscal 2021 and 2020, respectively, which were included in net financial expenses.

As at March 31, 2021, the Corporation had a present value of $90.4 million outstanding under these agreements ($88.6 million as at March 31, 2020), bearing effective interest rates of 0.0% to 6.8% as at March 31, 2021 (0.0% to 6.8% as at March 31, 2020). 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,	
	2021	2020	2021	2020
Cash and cash equivalents at beginning of periods	$ 95,500	$ 25,346	$ 45,841	$ 35,128
Cash flows related to operating activities	31,565	26,710	89,188	52,573
Cash flows related to investing activities	(7,874)	(9,951)	(21,523)	(34,844)
Cash flows related to financing activities	(23,016)	2,128	(16,849)	(7,936)
Effect of changes in exchange rates on cash and cash equivalents	(705)	1,608	(1,187)	920
Cash and cash equivalents at end of periods	$ 95,470	$ 45,841	$ 95,470	$ 45,841

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,	
	2021	2020	2021	2020
Cash flows from operations	$ 19,935	$ 25,497	$ 66,334	$ 82,101
Net change in non-cash items	11,630	1,213	22,854	(29,528)
Cash flows related to operating activities	$ 31,565	$ 26,710	$ 89,188	$ 52,573

Lower adjusted EBITDA and cash charges related to restructuring mainly drove the respective $15.8 million and $5.6 million decrease in cash flows from operations for the fiscal year and fourth quarter ended March 31, 2021 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,	
	2021	2020	2021	2020
Accounts receivable	$ (18,325)	$ (9,616)	$ 11,324	$ 4,328
Income tax receivable	335	2,040	(453)	1,102
Inventories	21,988	(10,153)	21,812	(45,517)
Other assets	4,444	(225)	8,423	116
Accounts payable and accrued liabilities and other liabilities	6,505	9,692	(19,727)	3,320
Provisions	(5,492)	(6,644)	(3,661)	(8,822)
Customer advance and progress billings	1,110	6,934	5,301	11,072
Income tax payable	(834)	94	739	(508)
Effect of changes in exchange rates	1,899	9,091	(904)	5,381
Net change in non-cash items	$ 11,630	$ 1,213	$ 22,854	$ (29,528)

For the fiscal year ended March 31, 2021, the positive net change in non-cash items mainly reflected:

- A decrease in inventory due to lower civil sales and the ramp-down of Alta Précision's operation; and
- A decrease in accounts receivable due to a lower sales volume and optimization of our collection initiatives; partially offset by,
- A decrease of accounts payable as a result of the reduction in inventory.

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

- An increase in inventory due to expected 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 quarter ended March 31, 2021, the positive net change in non-cash items mainly reflected a decrease in civil inventory for the same reasons as described above, slightly offset by an increase in accounts receivable due to a less linear sale profile compared to the third quarter.

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 in increases in accounts payable and accounts receivable, as well as the increase in inventory driven by foreign exchange rate fluctuations.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Additions to property, plant and equipment	$ (6,764)	$ (7,338)	$ (21,259)	$ (20,645)
Net increase in finite-life intangible assets	(1,489)	(2,641)	(643)	(1,598)
Proceeds on disposal of property, plant and equipment	379	28	379	4,053
Cash payments for business acquisitions	—	—	—	(17,149)
Capital contribution from a non-controlling interest in a subsidiary	—	—	—	495
Cash flows related to investing activities	$ (7,874)	$ (9,951)	$ (21,523)	$ (34,844)

Cash payments for business acquisitions in fiscal 2020 related to the acquisition of Alta Precision.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Gross additions to property, plant and equipment[(1)]	$ 7,806	$ 5,553	$ 21,805	$ 18,890
Government assistance	(682)	—	(682)	(30)
Additions to property, plant and equipment	$ 7,124	$ 5,553	$ 21,123	$ 18,860
Variation in unpaid additions included in Accounts payable	(360)	1,785	136	1,785
Additions, as per statements of cash flows	$ 6,764	$ 7,338	$ 21,259	$ 20,645

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

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Increase in long-term debt	$ 3,524	$ 4,977	$ 68,113	$ 30,927
Repayment of long-term debt	(31,019)	(2,827)	(89,616)	(38,024)
Issuance of common shares	4,479	58	4,654	58
Increase in deferred financing cost	—	(80)	—	(897)
Cash flows related to financing activities	$ (23,016)	$ 2,128	$ (16,849)	$ (7,936)

The increase in long-term debt during the fiscal year ended March 31, 2021 is mainly related to a $45.0 million drawing on the Revolving Facility and a $15.0 million drawing on the Term Loan Facility, both made as a precaution for potential liquidity requirements related to the COVID-19 pandemic. The balance is related to government authorities loans received.

In Fiscal 2020, the increase in long term debt was mainly related to $22.1 million of drawings on credit facilities made to finance the acquisition of Alta Precision.

Long-term debt repayments during the fiscal year ended March 31, 2021 are mainly related to the repayment of the $45.0 million drawing on the Revolving Facility described above and a US$21 million ($27.0 million) repayment of the Revolving Facility made during the fourth quarter. The remainder relates to lease payments and repayment of governmental authorities loans.

The issuance of common shares relates to the exercise of stock options that were expiring during the fiscal year.

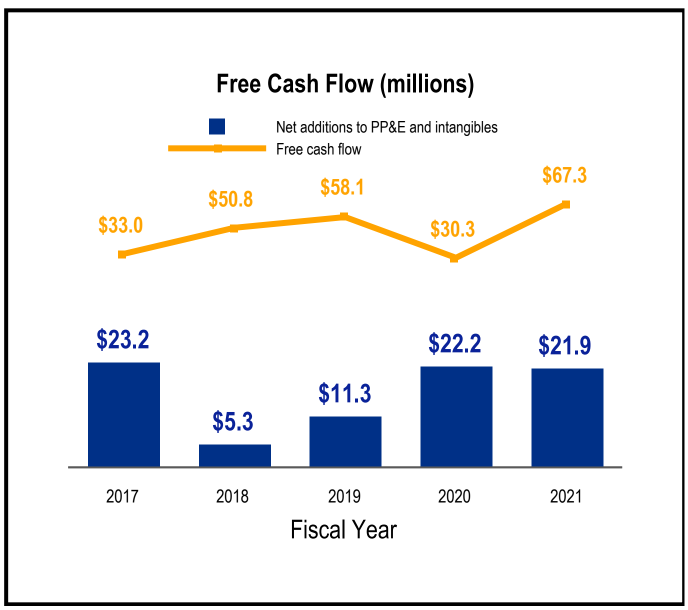
FREE CASH FLOW[1]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2021	2020	2021	2020
Cash flows related to operating activities	$ 31,565	$ 26,710	$ 89,188	$ 52,573
Additions to property, plant and equipment	(6,764)	(7,338)	(21,259)	(20,645)
Net increase in finite-life intangible assets	(1,489)	(2,641)	(643)	(1,598)
Free cash flow[1]	$ 23,312	$ 16,731	$ 67,286	$ 30,330

[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 increase in free cash flow over the fourth quarter and fiscal year compared to the same periods last fiscal year are mainly explained by strong non-cash working capital management, in an effort to align it with reduced sales volume resulting from the effect of the COVID-19 pandemic on the commercial aerospace market.



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, 2021:

		Payments due by period			
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	$ 113,067	$ 7,597	$ 18,256	$ 21,896	$ 65,318
Lease liabilities	34,305	8,811	10,201	4,702	10,591
Revolving Facility	62,407	1,151	1,566	59,690	—
Term Loan Facility	92,579	3,907	7,814	80,858	—
Repayments of long term debt, including interest	302,358	21,466	37,837	167,146	75,909
Purchase obligations	200,572	140,504	56,662	3,388	18
Accounts payable	57,508	57,508	—	—	—
Building, machinery and equipment acquisition commitments	1,572	1,572	—	—	—
Total contractual obligations(1)	**$ 562,010**	**$ 221,050**	**$ 94,499**	**$ 170,534**	**$ 75,927**

(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:

- Contract or repay long-term debt facilities;
- Issue new common shares;
- Repurchase common shares; and/or,
- Return capital to shareholders.

The net debt-to-equity ratio, calculated as net debt divided by shareholders’ equity, is a key metric that is considered in the Corporation’s capital management and monitoring practices.

During fiscal year ended March 31, 2021, 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, 2021	March 31, 2020
Long-term debt	$ 250,699	$ 289,617
Deferred financing costs, net	2,299	3,093
Less: Cash and cash equivalents	95,470	45,841
Net debt	$ 157,528	$ 246,869
Shareholders’ equity	391,732	349,448
Net debt-to-equity ratio	0.40:1	0.71:1

When evaluating the Corporation’s capital structure following the fiscal year end, management determined that further reducing net debt was no longer the optimal means of capital deployment to generate shareholder return given the low cost of debt and share price performance. Therefore, in May 2021, the Company filed a notice with the Toronto Stock Exchange of its intention to initiate a NCIB for cancellation of up to 2,412,279 of its issued and outstanding common shares.

Management views the NCIB as a flexible means to allocate capital to drive shareholder value without compromising the Corporation’s position for future growth initiatives, whether they are new contract opportunities or acquisitions.

ISSUED CAPITAL

Capital stock varied as follows:

	Quarter ended March 31, 2021		Fiscal year ended March 31, 2021	
	Number of shares	Issued capital	Number of shares	Issued capital
Opening balance	36,382,210	$ 80,001	36,367,210	$ 79,757
Issued for cash on exercise of stock options	382,500	6,221	397,500	6,465
Ending balance	**36,764,710**	**$ 86,222**	**36,764,710**	**$ 86,222**

As at May 19, 2021, the number of common shares outstanding stood at 36,796,469.

Stock options varied as follows:

	Quarter ended March 31, 2021		Fiscal year ended March 31, 2021	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,831,595	$ 13.11	1,497,595	$ 13.86
Granted	—	—	349,000	9.83
Exercised	(382,500)	11.71	(397,500)	11.71
Ending balance	**1,449,095**	**$ 13.48**	**1,449,095**	**$ 13.48**

During the last quarter of the fiscal year, the Corporation issued 382,500 common shares for a cash proceed of $6.2 million following the exercise of stock options that were expiring during the fiscal year.

As at March 31, 2021, 2,360,007 common shares remained reserved for issuance upon exercise of stock options compared to 2,757,507 at March 31, 2020. As a result, the Corporation may issue a further 910,912 stock options within the current reserve.

As at May 19, 2021, the number of stock options outstanding stood at 1,417,336.

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

Working Capital

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

	March 31, 2021	March 31, 2020	*Variance*	
Current assets	$ 434,769	$ 422,050	*$ 12,719*	*3.0 %*
Current liabilities	193,369	216,633	*(23,264)*	*(10.7)%*
Net working capital	$ 241,400	$ 205,417	*$ 35,983*	*17.5 %*
Working capital ratio	2.25	1.95		

The $12.7 million increase in current assets is mainly due to:

- a $49.6 million increase in cash and cash equivalents ; partly offset by,
- a $24.6 million decrease in inventory due to lower civil sales volume and the ramp-down of Alta Précision's operations; and,
- a $12.8 million decrease in accounts receivable due to lower sales volume and optimization of our collection initiatives.

The $23.3 million decrease in current liabilities is mainly due to a $16.7 million decrease of accounts payable as a result of the reduction in inventory and a $9.3 million reduction in derivative liabilities related to forward foreign exchange 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, 2021	March 31, 2020	*Variance*	
Long-term assets	$ 418,515	$ 476,798	*$ (58,283)*	*(12.2)%*
Long-term liabilities	268,183	332,767	*(64,584)*	*(19.4)%*
Shareholder's equity	$ 391,732	$ 349,448	*42,284*	*12.1 %*

The $58.3 million decrease in long-term assets over the fiscal year is mainly related to amortization expense and the negative impact of foreign exchange on the Corporation's assets denominated in foreign currencies.

The $64.6 million decrease in long-term liabilities mainly results from a $37.4 million decrease in long term debt due to net repayments and lease terminations, an $11.7 million decrease in other long-term liabilities largely attributable to the net defined benefit obligation and a favorable foreign exchange impact on revaluation of long term liabilities denominated in foreign currencies.

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:

	2021	2020
Net pension plan assets (defined benefit obligations), beginning of year	$ (10,079)	$ (6,650)
Net gains (losses) from remeasurement	10,262	(2,398)
Employer contributions	1,627	1,417
Current service cost	(1,053)	(1,408)
Interest on net defined benefit obligations	(394)	(238)
Other	(307)	(802)
Net pension plan assets (defined benefit obligations), end of year	$ 56	$ (10,079)

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

	March 31, 2021	March 31, 2020
Present value of defined benefit obligations of funded plans	$ 69,289	$ 64,234
Fair value of plan assets	69,988	55,117
Funding ratio	101.0 %	85.8 %

The Corporation made contributions of $1.6 million and $3.3 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2021, and expects to make respective contributions of $0.9 million and $2.8 million during fiscal 2022. The increase in fair value of plan assets mainly resulted from strong returns this year in financial markets after last fiscal year volatility caused by the COVID-19 pandemic.

ADDITIONAL INFORMATION

BUSINESS ACQUISITIONS

Acquisition of Alta Precision (Fiscal 2020)

On June 7, 2019, the Corporation completed the acquisition of all of the shares of Alta Précision Inc. (“Alta”), for $18.6 million. Located in Montreal, Canada, Alta is a manufacturer of high-precision landing gear components. The acquisition was financed with the Corporation's available credit facilities and was treated as a business combination.

On May 5, 2020, the Corporation announced the closing of Alta facilities as a result of the effect of the ongoing COVID-19 pandemic on the commercial aerospace market. Activities related to Alta were transferred to other business units where certain contracts were continued, along with the related assets acquired and liabilities.

Divestiture of APPH Bolton

On May 4th, 2021, Héroux-Devtek concluded an agreement for the sale of its Bolton, UK operations to Ontic Engineering & Manufacturing UK Limited for a sale price of £2.7 million ($4.6 million) excluding £0.9 million ($1.5 million) which is subject to the achievement of certain commercial objectives. The transaction will be accounted for in the first quarter of Fiscal 2022 and is not expected to result in a material gain or loss on disposal of the business unit.

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, 2021	March 31, 2020
USD (Canadian equivalent of US$1.0)	1.2575	1.4187
EUR (Canadian equivalent of €1.0)	1.4759	1.5584
GBP (Canadian equivalent of £1.0)	1.7337	1.7604

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,	
	2021	2020	2021	2020
USD (Canadian equivalent of US$1.0)	1.2666	1.3442	1.3292	1.3306
EUR (Canadian equivalent of €1.0)	1.5267	1.4811	1.5405	1.4784
GBP (Canadian equivalent of £1.0)	1.7461	1.7185	1.7269	1.6915

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 2021 featured a decrease in the value of the USD compared to CAD, EUR and GBP, due to market volatility observed in financial markets during the last twelve months. Approximately 70% of the Corporation's sales are denominated in USD, compared to slightly 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, 2021, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $268.7 million denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US$197.5 million convertible into Canadian dollars at an average rate of 1.3161. These contracts mature at various dates between April 2021 and March 2025, with the majority maturing in fiscal years 2022 and 2023.

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, 2021, a 1% strengthening of the CAD versus the USD would result in a $0.5 million decrease in the Corporation's fiscal 2021 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.

A key component of the Corporation's risk management practices is the Enterprise Risk Management ("ERM") process. The ERM process is a multi-level risk and control assessment procedure under which appraisals, insights and practices are solicited from management teams across all divisions, the senior management team, the Board of Directors, and internal leaders in specific fields of expertise.The information gathered is consolidated, assessed and synthesized to arrive at a comprehensive list of key risks, controls, responses and residual risks. The resulting information is incorporated into the internal audit program and communicated to the Audit Committee and Board of Directors, who also review key risks on a periodic basis.

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

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus identified COVID-19 as a global pandemic. During the Corporation's annual ERM review, certain key risks were assessed as having been accentuated by the effect of the pandemic, including:

- Virus Outbreak at a facility - business interruption;
- Liquidity - increased customer credit risk;
- Information Technology - heighten cybersecurity risks;
- Supply chain performance - disruption resulting in late deliveries; and,
- General economic conditions - important downturn of the commercial aerospace market.

Management consequently adjusted its response to these key risks by taking immediate and specific action to diminish the impact and bring those risks down to an acceptable level. For more information on management's response to these and other key business risks, refer to the tables below.

In spite of these actions, the pandemic could still significantly impact an organization in unforeseen ways, potentially causing, among other possibilities:

- An outbreak at a facility, 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 the 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 continues to closely monitor rising global COVID-19 infection rates, including the emergence and spread of new, more highly transmissible variants of the virus. Although vaccines have started being administered to the public, the duration and potential outcomes of the COVID-19 pandemic remain uncertain. The government has enforced measures throughout 2020 and into 2021 to slow the spread of the virus that may have broader impacts on the Canadian and global economies and financial markets. Despite all the measures taken by the Company to mitigate these risks and provide a safe work-environment, the Company is unable to predict the overall impact on its operations, liquidity or results. Any future epidemic, pandemic, or other public health crisis that occurs in the future may pose similar risks to the Corporation.

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.

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 10 of Héroux-Devtek's customers represent approximately 65% of consolidated sales, including one customer representing 17% 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. 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

Virus outbreak at a facility	The Corporation is exposed to having a viral outbreak in a facility which could not only impact employees' health but also disrupt operations putting at risk customer deliveries and causing financial losses.	Héroux-Devtek has put in place several measures in order to minimize the impact on its workforce and its operations:
		- The creation of a steering committee to coordinate response;
		- Travel limitations;
		- Deployment of information technology tools;
		- 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 program.

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.
Supply chain 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.
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, 2021, 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

As at March 31, 2021, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 90.5 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

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, 2021, the equity swap agreement covered 300,000 common shares of the Corporation at a price of $13.52, unchanged compared to March 31, 2020. This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2022.

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, 2021, 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, 2021, 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, 2021 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, 2021, 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 non-financial assets. This assessment indicated no impairment charges were warranted at this time. Impairment charges totaling $85.8 million of impairment charges affecting mainly goodwill were recorded at the end of fiscal 2020 at the onset of the pandemic. 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. 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.

SELECTED FINANCIAL INFORMATION

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

Fiscal year	2021				2020			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	$154,989	$150,298	$137,063	$128,335	$166,800	$157,253	$145,516	$143,427
Operating income (loss)	12,229	13,362	7,120	1,385	(64,426)	13,466	10,519	10,371
Adjusted operating income (1)	13,848	14,145	9,788	7,430	17,577	13,466	10,519	10,986
Adjusted EBITDA (1)	24,975	23,731	21,233	18,358	28,609	24,563	21,510	21,509
Net (loss) Income	8,802	8,486	3,838	(1,313)	(72,113)	8,705	6,307	6,443
Adjusted Net Income (1)	10,169	9,365	6,118	3,382	13,695	8,705	6,307	6,959
In dollars per share								
Earnings (loss) per share - basic and diluted	$ 0.24	$ 0.24	$ 0.11	$ (0.04)	$ (1.98)	$ 0.24	$ 0.18	$ 0.18
Adjusted Earnings per share (1)	0.28	0.26	0.17	0.09	0.38	0.24	0.18	0.19
In millions of shares								
Weighted average number of common diluted shares outstanding	36.5	36.5	36.4	36.4	36.4	36.7	36.7	36.6
In millions, as at period end								
Funded backlog	$ 717	$ 739	$ 764	$ 772	$ 810	$ 839	$ 769	$ 747

(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:

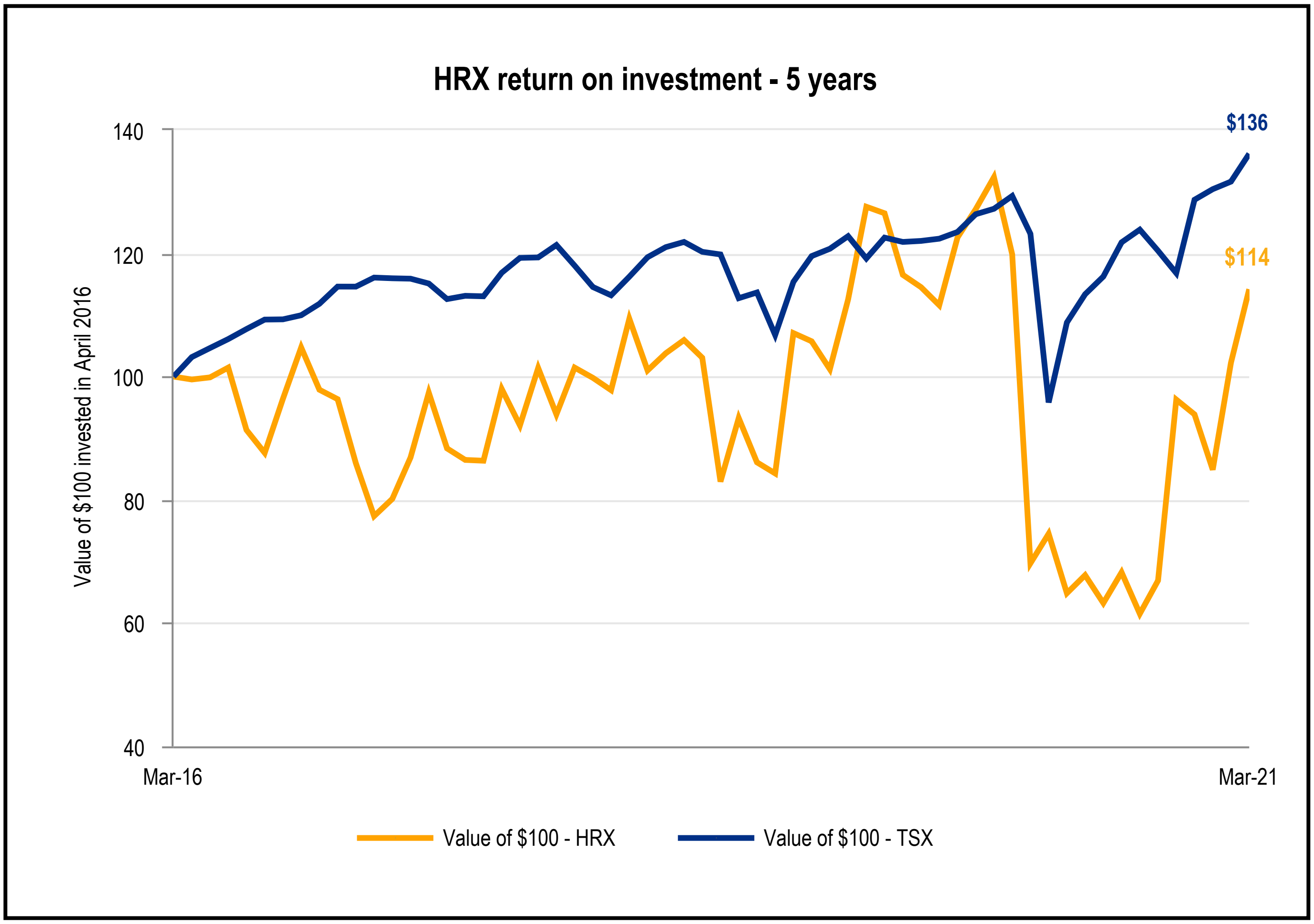
	2021	2020	2019
Sales	$ 570,685	$ 612,996	$ 483,877
Operating income (loss)	34,096	(30,070)	37,240
Adjusted operating income(1)	45,211	52,548	41,563
Adjusted EBITDA(1)	88,297	96,191	74,213
Net income (loss)	19,813	(50,658)	26,194
Adjusted net income(1)	29,034	35,666	30,352
Earnings (loss) per share ($) - basic and diluted	0.55	(1.38)	0.73
Adjusted earnings per share(1) ($)	0.80	1.00	0.84
Cash and cash equivalents	95,470	45,841	35,128
Total assets	853,284	898,848	872,767
Long-term financial liabilities(2)	251,243	314,363	268,273

(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 2022	
First quarter	August 10, 2021
Second quarter	November 12, 2021
Third quarter	February 9, 2022
Fourth quarter	May 19, 2022



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 19, 2021. 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

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