2022 Annual Report

AN AGILE FORCE IN A CHANGING WORLD

80TH ANNIVERSARY — SATISFYING CUSTOMERS SINCE 1942

HÉROUX-DEVTEK AT A GLANCE

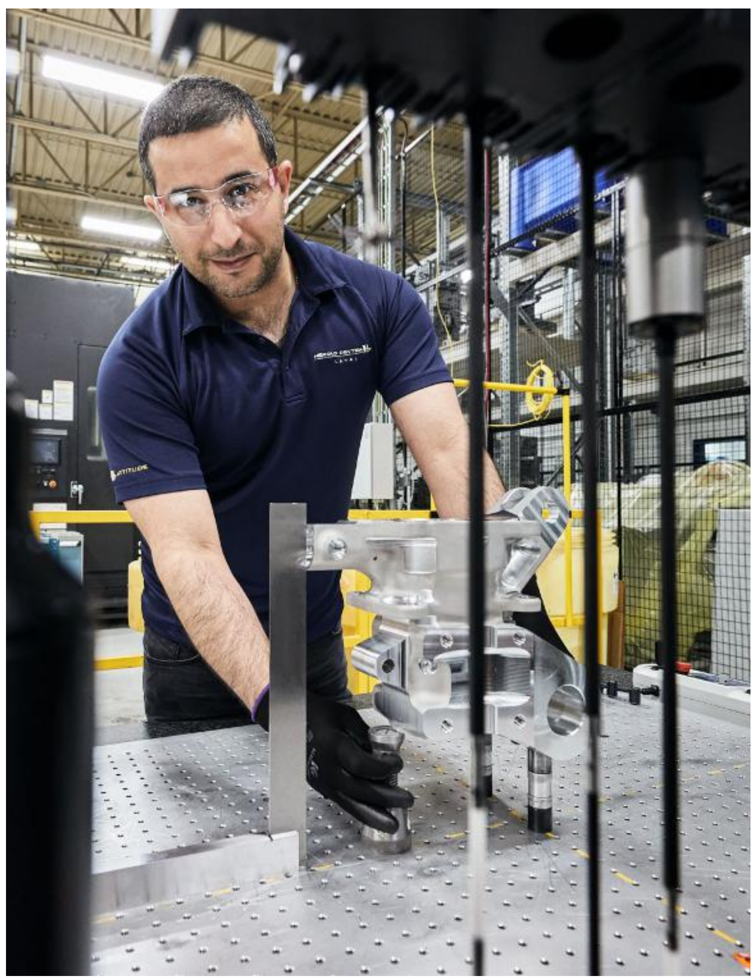
Founded in 1942, Héroux-Devtek Inc. (traded on the Toronto Stock Exchange under the symbol "HRX") is the third-largest landing gear manufacturer in the world specializing in the design, development, manufacture, repair and overhaul of aircraft landing gears, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components for 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.

Headquartered in Québec, Canada, 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.

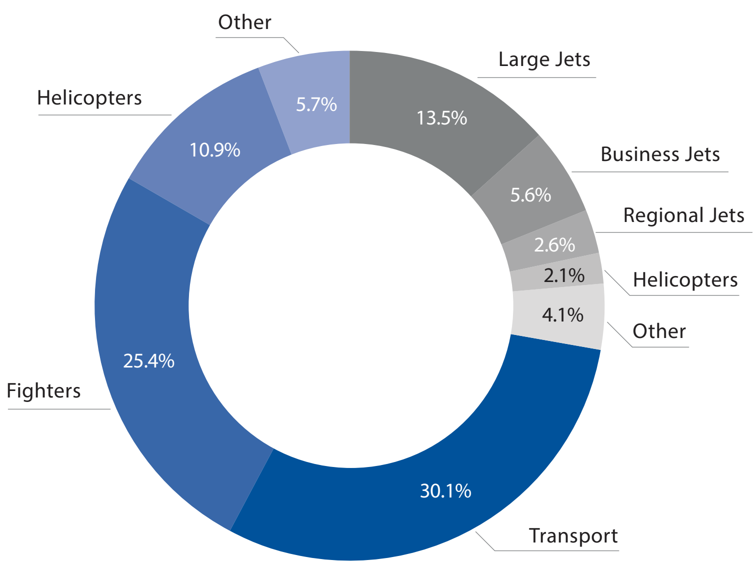


DIVERSIFIED AND BALANCED REVENUE MIX

(based on Fiscal 2022 sales)

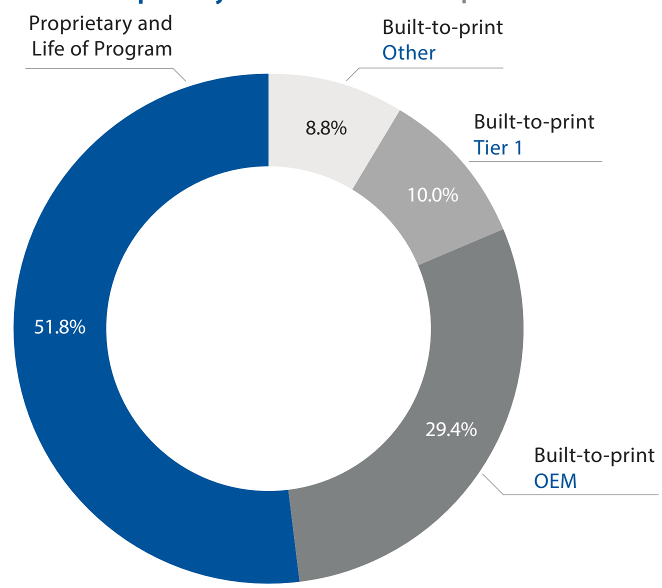
DEFENCE / CIVIL

72% Defence **28% Civil**

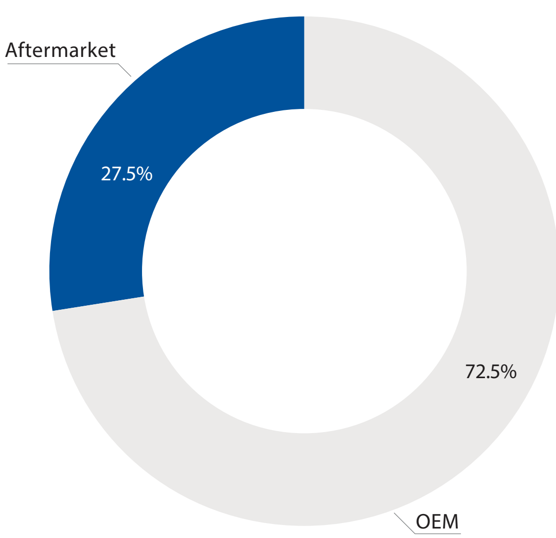


PROPRIETARY / BUILD-TO-PRINT

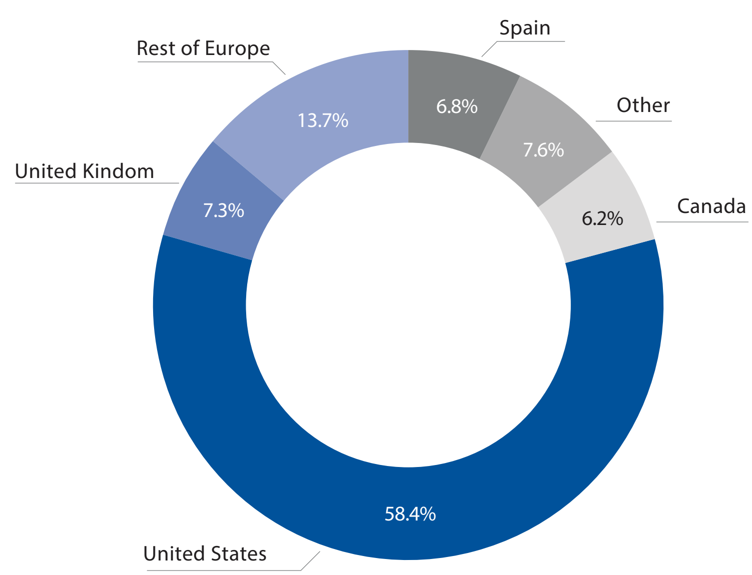
51.8% Proprietary **48.2% Built-to-print**



OEM/AFTERMARKET



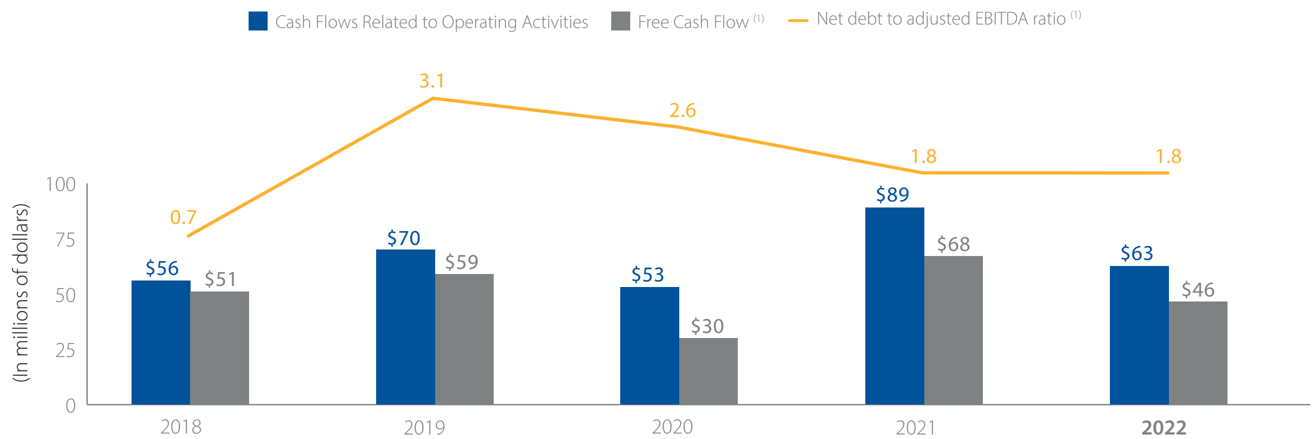
FISCAL 2022 SALES MIX BY END CUSTOMER LOCATION



INVESTMENT HIGHLIGHTS

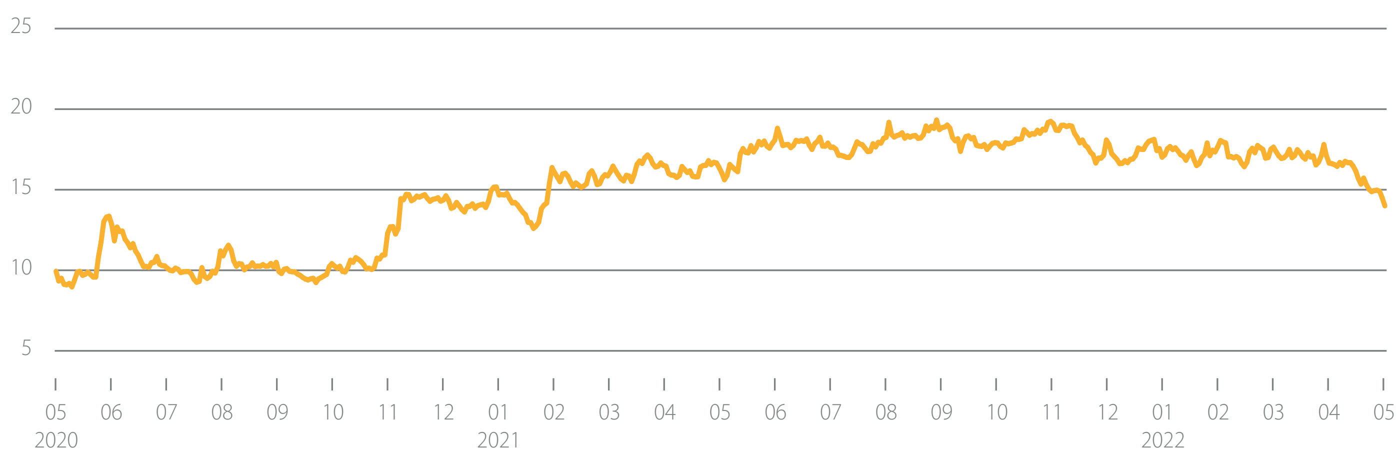
STRONG FINANCIAL POSITION DESPITE A CHALLENGING BUSINESS ENVIRONMENT

CASH FLOWS
(in millions of dollars)



$271.4 MILLION OF AVAILABLE LIQUIDITY AS AT MARCH 31, 2022

24-MONTH STOCK PERFORMANCE



[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 YEAR ENDED MARCH 31	2022	2021	2020	2019	2018
OPERATING RESULTS	(in millions of dollars except per share data and ratios)				
Sales	**536.1**	570.7	613.0	483.9	386.6
Operating income (loss)	**44.8**	34.1	(30.1)	37.2	23.4
Adjusted operating income [(1)]	**47.1**	45.2	52.5	41.6	30.3
Adjusted EBITDA [(1)]	**83.0**	88.3	96.2	74.2	56.9
Adjusted EBITDA [(1)] margin	**15.5%**	15.5%	15.7%	15.3%	14.7%
Net income (loss)	**32.1**	19.8	(50.7)	26.2	13.7
Adjusted net income [(1)]	**33.8**	29.0	35.7	30.4	24.2
Cash flows related to operating activities	**63.2**	89.2	52.6	70.0	56.1
Free cash flow [(1)]	**45.9**	67.7	30.3	58.6	50.8
Funded backlog	**682.0**	717.0	810.0	624.0	466.0
PER SHARE DATA					
EPS – basic (loss)	**0.91**	0.55	(1.38)	0.73	0.38
Adjusted EPS [(1)]	**0.95**	0.80	1.00	0.84	0.67
Weighted-average number of common diluted shares outstanding (in 000's)	**36 023**	36 523	36 363	36 437	36 332
FINANCIAL POSITION	(in millions of dollars except per share data and ratios)				
Cash	**86.7**	95.5	45.8	35.1	93.2
Working capital	**235.6**	241.4	205.4	173.1	201.9
Total assets	**813.4**	854.8	898.8	872.8	632.2
Long-term debt [(2)]	**238.8**	253.0	292.7	263.3	132.0
Net debt to adjusted EBITDA ratio	**1.8**	1.8	2.6	3.1	0.7
Shareholders' equity	**377.3**	391.7	349.4	404.1	379.0

[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 current portion but excluding net deferred financing costs.

SUPPLY CONTRACTS

The diversification of our customer and program portfolio across civil and defence segments provides us with some degree of shelter from the current challenges the industry faces.

VanderWolf Images - stock.adobe.com

Royal Canadian Air Force CC-295

© Oleg V. Belyakov - AirTeamImages

© Steve Lynes

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.


13


14

© Dassault Aviation - V. Almansa


15

© Dassault Aviation


16

© Matti Blume

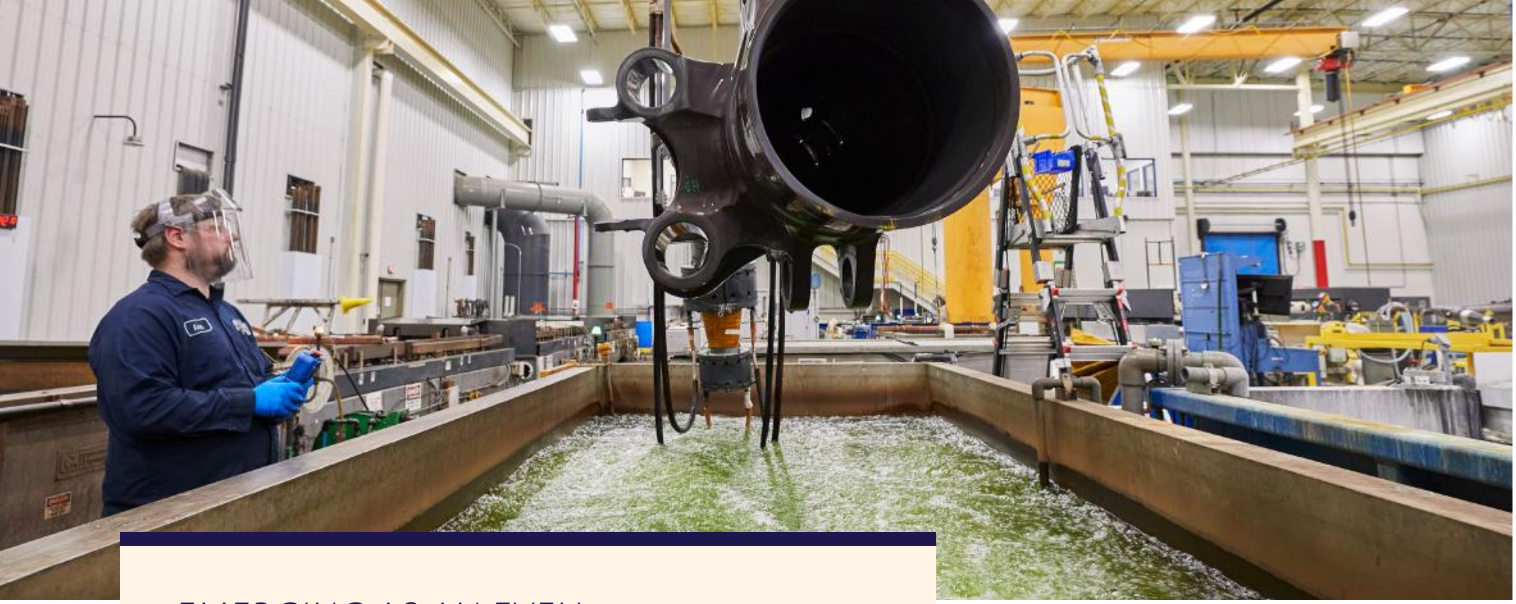
CIVIL

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

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.



EMERGING AS AN EVEN STRONGER ORGANIZATION

EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS

MESSAGE TO SHAREHOLDERS

Dear Shareholders,

This past year, the COVID-19 pandemic has continued to exert a major toll on passenger travel activity and consumer confidence, resulting in lower production rates across most civil aerospace programs.

Without a doubt, this downturn – perhaps more than in each of the prior industry downcycles experienced, has brought challenging circumstances for aerospace players, testing the resilience of even the most established firms.

Some of Héroux-Devtek's key advantages are its balance between defence and civil contracts, its diversified revenues and its strong balance sheet. These enabled us to further strengthen our company's profile and reputation while continuing to build a robust foundation for future growth in line with our long-term vision and ambitions.

MAXIMIZING VALUE FOR SHAREHOLDERS

Considering the overall environment, we had a strong performance this past year but our stock fails to reflect the strength of our balance sheet, our highly diversified profile, the versatility of our production capacity and the strong competitive advantage we have carved over the years through our business relations with leading OEMs.

Last year, we initiated a share repurchase program which allowed us to buy back and cancel 2.4 million shares for a total consideration of $43 million. Given the success of the program and its positive reception, the Board of Directors has approved a renewed program to repurchase a maximum of 1.9 million shares representing 5.5% of the outstanding balance.

Notwithstanding this, we will continue to look for growth opportunities, both organic and acquisition-related, while maintaining our strong financial position.

80 YEARS YOUNG, WITH A PROMISING FUTURE

It has now been 80 years since the founding of Héroux Machine Parts Limited in Longueuil, Québec. Beginning as a machine shop for aircraft components, Héroux added landing gear design to its product offering in the 60s and manufactured the legs of the Apollo lunar lander. We haven't looked back since, with expansion through acquisition and organic growth fuelled by contract wins that highlight both our design and manufacturing capabilities. The ingenuity and entrepreneurship that drove Héroux inc. years ago are still hallmarks of our culture today and are reflected in the approach to business that Héroux-Devtek Inc's customers appreciate so much.

Being a partner of choice to our OEM clients has been a key priority of our organization for years and being a responsible corporate citizen must continue to be met by an equal commitment.

As such, we will continue to invest time, attention and resources towards achieving a meaningful contribution in the key areas of governance, social impact and the environment. While we are proud of our track record on all three fronts, we will continue to do more and do better, supporting our communities, employees, and clients in the process.

In closing, I wish to sincerely thank our shareholders for their continued confidence and support for the past two years. To the members of our Board of directors, thank you for the quality of your advice and guidance. Your respective backgrounds and expertise are valuable assets to the company.

Since early 2020, Héroux-Devtek has adopted a mindset where we sought ways to become an even stronger, better diversified, and more agile organization – despite the challenging environment. We are in the process of achieving just that, in large part due to the hard work and dedication of our extraordinary group of employees.

On behalf of our Board, I wish to express our gratitude for the excellent work and leadership that our CEO Martin Brassard and his entire team demonstrate; we share your enthusiasm about what's to come.

GILLES LABBÉ
EXECUTIVE CHAIRMAN OF THE BOARD

1942
Héroux Machine Parts Limited, specializing in machine tooling of aircraft components, is founded in Longueuil, Québec.

1966
Héroux Inc. manufactures landing gear for the Apollo Lunar Module.

Bourse de Montréal Inc.

1985-1986
Management buyout and Héroux Inc. becomes a publicly traded company.

2000
Héroux Inc. acquires Devtek Corporation to enhance its landing gear capabilities in the commercial sector and changes its name to Héroux-Devtek Inc.

HÉROUX DEVTEK

2013
Signing of a long-term contract with The Boeing Company to supply complete landing gear systems for the Boeing 777 and 777X programs.

2014
Acquisition of APPH, an integrated provider of landing gear and hydraulic systems and assemblies for original equipment manufacturer and aftermarket applications.

CESA
COMPAÑIA ESPAÑOLA DE SISTEMAS AERONÁUTICOS S.A.
Beaver AEROSPACE & DEFENSE, INC.

2018
Agreement to acquire Beaver and CESA.

2022
The world's third-largest landing gear manufacturer, satisfying customers for 80 years and counting.

AGILITY AND ADAPTABILITY - KEY TO SUCCEED IN A CHANGING WORLD

Dear Shareholders,

This past year saw the world gain many new tools to fight against and learn to cope with COVID-19. While unevenly distributed among countries and regions, these positive developments are gradually encouraging higher consumer confidence and pushing a more sustainable resumption of air travel. However, the current environment continues to evolve, making the future difficult to predict. We understand these new market dynamics and are ready to take on the related challenges in order to continue building a stronger company in this changing world.

CONVERTING CHALLENGES INTO OPPORTUNITIES

Until these latest developments translate into an acceleration of civil production rates – namely for twin-aisle programs, our responsibility is to continue to display agility and adaptability, while creating value for our clients and shareholders. This is the approach we have successfully adopted since the very outset of the pandemic, and the one we are prepared to continue to apply for as long as necessary.

Indeed, if expansionary cycles are beneficial to business development and growth generation, challenging times are fruitful to the strengthening and deepening of business relationships and to looking at ways to improve our operations. By being responsive to the needs of our customers and working to find solutions to their challenges, we reinforced our reputation as a trusted partner of choice in the industry, leaving Héroux-Devtek in an even stronger competitive position that the one we held when we entered the pandemic.

A NEAR-HISTORIC PERFORMANCE

Our approach to improving efficiency, coupled to our focus on execution and operational discipline, has enabled us to achieve our financial objectives, generating healthy growth in defence sales and driving strong profitability for Héroux-Devtek.

While revenues totalled $536.1 million compared to $570.7 million last year, gross profit as a percentage of sales grew from 16.6% to 17.0%, and adjusted EBITDA reached $83.0 million, or 15.5% of sales, in line with the year prior. Net income for the year reached $32.1 million, from $19.8 million last year,

PRESIDENT & CEO MESSAGE TO SHAREHOLDERS

while earnings per share rose to $0.91, from $0.55. On an adjusted basis, EPS increased 18.8% to $0.95, compared to $0.80 last year. This overall performance is the direct result of our efficient cost structure and organizational focus.

Management also continued to apply the same disciplined approach to optimize profitability and cash flows in 2022 as our shareholders have been accustomed to in the past. Cash flow from operations grew to $69.7 million, enabling us to repay debt, repurchase shares and continue to invest in our future. As a result, our net debt to EBITDA ratio sits at a very healthy 1.8 ratio.

This, combined with the favorable credit conditions strategically renegotiated by our management team ahead of the recent inflationary cycle, provides us with the financial wherewithal and flexibility to seize opportunities for future growth. We remain fully committed towards our two-pronged organic and acquisition-driven growth strategy.

SEIZING BUSINESS DEVELOPMENT OPPORTUNITIES ACROSS SEGMENTS

The cornerstone of our business development approach has been our strategic diversification, with a strong footprint in virtually all civil and defence market segments, balancing proprietary products and build-to-print contracts – constantly leveraging our strong internal engineering and manufacturing capabilities.

Our reputation for meeting customers' expectations during the entire life cycle of our products has led us to conclude several agreements with important long-time clients.

Early in Fiscal 2022, we announced the inking of a major life-cycle agreement with Dassault Aviation to design, develop and manufacture the complete landing gear system of its new Falcon 10X aircraft, further strengthening our posture in the business jet market. Dassault Aviation's renewed trust towards our company as a partner of choice on such a key program testifies, once again, to the strength of our design and development engineering team.

In October, we announced a new contract for the development of landing gears for Lockheed Martin's next generation of defence aircraft, building on the 30-year strong business relationship between our respective organizations. This strategic contract opens an unlimited area of new collaboration between our organizations.

Finally, later in the third quarter, Boeing extended our contract for the provision of the complete landing gears for the 777/777x programs for six years. We are extremely proud of Boeing's confidence since the award of the contract in 2013.

Even while COVID-19 plagued economies worldwide, global defence budgets continued to grow in 2021, reaching an all-time high of $2.1 trillion. Since then, military conflicts and growing geopolitical tensions have resulted in further increases and fleet renewal programs in both NATO and non-NATO countries, bringing new opportunities for the years ahead.

While our industry continues to face uncertainties and production system disruptions, we are optimally positioned to seize growth opportunities that will arise, and we are fully prepared to support our clients in achieving their objectives.

THANK YOU

Irrespective of the sector, manufacturing facilities worldwide faced significant challenges this past year. Our employees and management teams across every single one of our facilities impressed us with their resilience and hard work. Recognition is among the values we strive to promote every day and we are humbled to see them caring as much for the success of our clients as we care for our teammates.

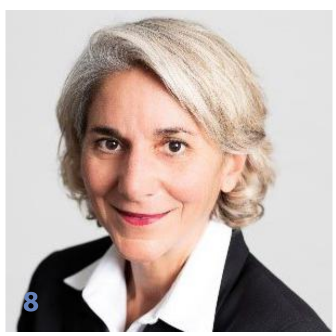
As a management team, we are truly fortunate for the support of our Chairman Gilles Labbé and the members of our board. I wish to thank them for their continued contribution towards the success of Héroux-Devtek.

A promising future lies ahead and while it may not always be smooth sailing, we are fully prepared to face the challenges brought by the current environment and are determined to continue to make our foundation even stronger.

MARTIN BRASSARD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

BOARD OF DIRECTORS

Héroux-Devtek's Board of Directors is composed of 9 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 Didier Evrard
Corporate Director and Consultant
Independent Director since 2021
Member of the Audit Committee

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

6 James J. Morris
Corporate Director and Consultant
Independent Director since 2013
Chair of the Human Resources and Corporate Governance Committee

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

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

9 Beverly Wyse
Corporate Director and Consultant
Lead director and member of the Audit Committee

CORPORATE TEAM

Gilles Labbé
Executive Chairman
of the Board

Martin Brassard
President and
Chief Executive Officer

Stéphane Arsenault
Vice-President and
Chief Financial Officer

Jean Gravel
Vice-President,
Sales & Programs

Stéphane Rainville
Vice-President,
Human Resources

Alexandre Verdon
Vice-President, Business
Development, Mergers
and Acquisitions

Patrick Gagnon
Vice-President,
Corporate Controller

Guy Delisle
Vice-President, IT

Jean-Philippe Sanche
Vice-President, Legal Affairs

Guillaume Lamy
Director, Financial Reporting

Olivier Perron
Director, Tax

Katie Nolan
Director, Internal Audit &
Corporate Governance

Sylvie Hébert
Director, Human Resources

OPERATIONS MANAGEMENT TEAM

Dominique Dallaire
Vice-President,
Central Region

Anne-Marie Bertrand
Vice-President,
Eastern Region

Marc-Olivier Gagnon
Vice-President,
Product Support

Pedro Sallent
Vice-President, Spain

Mike Meshay
Vice-President,
Toronto and Livonia

Daniel Normandin
Vice-President, Engineering,
QA & Environment

Hugo Lorrain
Vice-President, UK

HÉROUX-DEVTEK IN THE COMMUNITY

A POSITIVE FORCE FOR CHANGE FOR THE ENVIRONMENT AND OUR COMMUNITIES

The global aviation industry accounts for slightly over 2% of human-induced carbon emissions and around 4% of the global GDP. While this may seem like a positive ratio Héroux-Devtek believes that every single industry stakeholder has the responsibility to commit resources and efforts to further improve this metric, namely by reducing the reliance of manufacturing processes on non-renewable energy sources and resources.

While the manufacturing of landing gears and actuator systems are by nature not among the most carbon-emitting processes, Héroux-Devtek prides itself in being a positive force for change among the aerospace industry, having adopted its first environmental plans decades ago and making the reduction of CO2 emissions a systematic component of every single capital and equipment project across each of the Corporation's 15 manufacturing sites in Canada, the United States, Spain and the United Kingdom.

In recent years, Héroux-Devtek has laid the groundwork for enhanced sustainability initiatives, such as exhaustive reporting of indirect GHG emissions and improved measurement of environmental footprint performance indicators. Héroux-Devtek has also expanded its environmental regulatory compliance management process by implementing a new companywide procedure for proactive environmental compliance and has increased training of environmental officers to adopt compliance best practices.

Our long-term vision is one of carbon neutrality. In keeping with this ambition, we covert equipment to renewable sources of energy, including hydroelectricity, whenever we replace manufacturing equipment or update our processes – including for the safe management of manufacturing byproducts and waste materials. We also continue to support the development of improved practices by mobilizing our engineering expertise across various R&D projects and automation endeavours.

As a case in point, a new wastewater treatment process was recently installed at one of our sites to improve the quality of our sanitary discharges and new risk management procedures were introduced to enhance control and reduction of risks surrounding the use of chemical products.

ENVIRONMENTAL LEADERSHIP AT THE EXECUTIVE LEVEL

Additionally, to foster and support a culture of community engagement throughout our entire organization, Héroux-Devtek created and awarded the President's Environmental Awards to three company sites that distinguished themselves in the last year: Spain, Strongsville and Montreal. Héroux-Devtek is making a financial contribution to community organizations active at each winning site to support local environmental protection and awareness with the objective to honour the winning teams. The Corporation also issues a quarterly CEO Environmental Report and carries out Environmental Compliance Audits to review compliance to all applicable environmental legislation as well as to corporate requirements based on industry recognized ESG management principles. These reports and audits results are shared with our directors and discussed at Héroux-Devtek's corporate leadership team forums.

BUILDING BETTER COMMUNITIES STARTS WITH OUR CURRENT AND FUTURE EMPLOYEES

While ESG practices at Héroux-Devtek are largely focused on sustainability initiatives, we are also strongly committed to creating a positive influence in communities where we operate, by supporting community groups, academic institutions, and the arts and cultural sectors. This vision reflects our organizational culture, which is centred on four fundamental values of respect, responsibility, recognition, and resilience. As such, we believe that that our success as an organization is first defined by the well-being of our employees – current and future, by the health of the local communities in which we operate, and the planet we will leave to future generations.

This past year once again, Héroux-Devtek made financial contributions to food banks and to organizations that promote a world free of sexual violence. Other donations were made to accelerate heart disease research, while our employees, unions, and executives continue to support the annual United Way of Greater Montreal (Centraide) major fundraising campaign, ultimately making a difference for some 350 community organizations and projects.

Determined to promote entrepreneurship in Canada, Héroux-Devtek also continues to support women leadership initiatives. We provided funding to *Réseau des femmes d'affaires du Québec*, a non-profit organization working to inspire, connect and encourage women's business enterprises. The Corporation also supports *Women in Aerospace* (WIA) to develop women's leadership capabilities and visibility in the aerospace community.

PROVIDING A SAFE WORKING ENVIRONMENT

The safety of our people also remains a key priority. While adherence to applicable legal requirements is a must, we prefer to set standards that may entail even more strict duties. Senior management thinks it is also critical to create and foster a culture that supports occupational health and safety programs and activities.

As a result, we are dedicated to preventing any job-related injuries and illnesses by creating a safe and healthy work environment and proactively recognizing and resolving all inherent hazards. In all phases of our operations, our health and safety plans include clear leadership from management, engagement from all workers and roles, and the use of suitable safety equipment and technology.

INVESTING TO ATTRACT AND TRAIN THE BEST TALENTS TO AEROSPACE

We support and invest in initiatives that promote a strong aerospace workforce locally such as Quebec's *Comité sectoriel de développement de la main-d'œuvre pour le secteur aérospatial* (CAMAQ).

We are also involved with the professional development of future aerospace engineers and technicians, for example, through our longstanding association to support the École nationale d'aérotechnique (ENA) at Cégep Édouard-Montpetit, North America's premier aero technical training school. Finally, as a multi-year donor to the new National Integrated Center of Intelligent Manufacturers Pavilion at the Université du Québec à Trois-Rivières, we are pleased to see progress in its construction.

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, three women are members of our Board out of a total of nine directors. Women hold the key functions of Lead Independent Director, and Vice-President, Eastern Region. 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.

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 small to medium landing gear components and systems

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

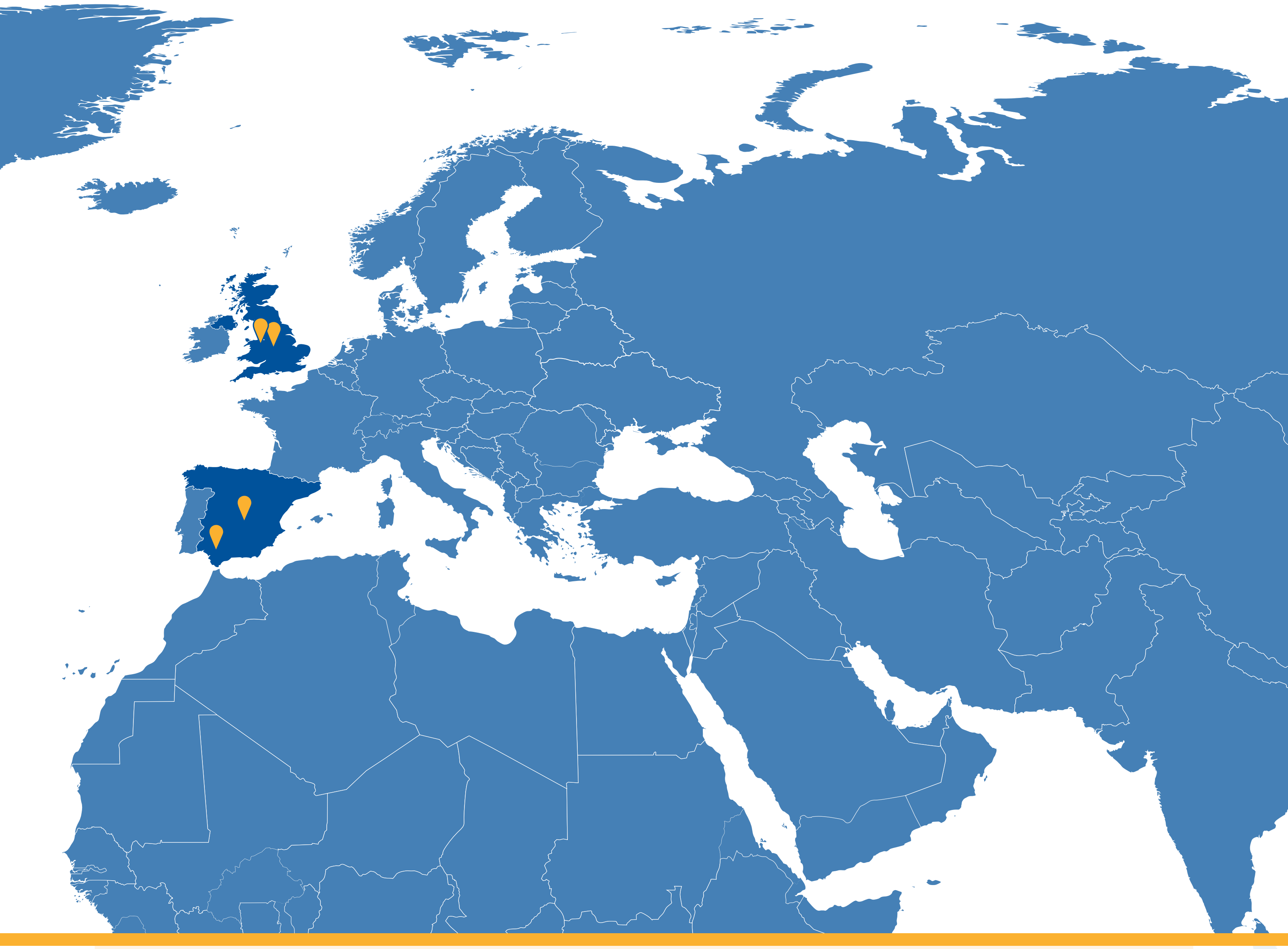
USA

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



Our 15 Centers of Excellence worldwide have showcased their agility and their resilience over the past year as they manoeuvred in a changing business environment.

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


ABELL-HOWE
2
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ABELL-HOWE

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Friday, August 5, 2022, at 10:00 A.M.
Westin Montreal
270 Saint-Antoine W Street
Montréal, Québec H2Y 0A3

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
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SHARE LISTING

Shares are traded on the Toronto Stock Exchange
Ticker Symbol: **HRX**

INVESTOR RELATIONS

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HÉROUX DEVTEK

CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2022

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal years ended March 31, 2022 and 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") as issued by the International Accounting Standards Board ("IASB"). 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 at the end of fiscal year 2022. As at March 31, 2022, 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
Vice-President and Chief Financial Officer

May 18, 2022

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, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, 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, 2022 and 2021, 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 the 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 matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of goodwill and other non-financial assets

As at March 31, 2022, the Group had goodwill amounting to $108 million on the consolidated balance sheet. As disclosed in Note 3, Significant Accounting Policies and Note 17, Goodwill, for each cash generating unit ("CGU"), to which goodwill has been allocated, 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 the CGU. 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 rates 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 18, 2022

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

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at	Notes	March 31, 2022	March 31, 2021
Assets	20		
Current assets			
Cash		$ 86,692	$ 95,470
Accounts receivable		105,389	99,724
Income tax receivable		1,108	1,708
Inventories	12	200,342	216,441
Derivative financial instruments	13	5,500	4,903
Other current assets	14	16,419	16,523
		415,450	434,769
Property, plant and equipment	15	208,838	227,621
Finite-life intangible assets	16	47,320	51,996
Derivative financial instruments	13	14,329	9,374
Deferred income tax assets	24	6,557	8,485
Goodwill	17	108,200	115,970
Other long-term assets	14	12,664	6,616
Total assets		$ 813,358	$ 854,831
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	18	$ 114,508	$ 109,809
Provisions	19	21,925	25,271
Customers advances and progress billings		29,875	40,867
Income tax payable		826	2,107
Derivative financial instruments	13	1,852	—
Current portion of long-term debt	20	10,835	15,315
		179,821	193,369
Long-term debt	20	225,691	235,384
Provisions	19	14,828	17,548
Derivative financial instruments	13	830	544
Deferred income tax liabilities	24	8,567	9,383
Other liabilities	21	6,339	6,871
		436,076	463,099
Shareholders' equity			
Issued capital	22	82,189	86,222
Contributed surplus		5,767	5,126
Accumulated other comprehensive income	23	6,865	16,279
Retained earnings		282,461	282,831
Total equity attributable to the equity holders of the parent		377,282	390,458
Non-controlling interests	5	—	1,274
		377,282	391,732
Total liability and shareholder's equity		$ 813,358	$ 854,831

Commitments and contingencies (note 26)

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

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

For the fiscal years ended March 31,	Notes	2022	2021
Sales	6, 28	$ 536,087	$ 570,685
Cost of sales	7, 8, 12	444,992	475,768
Gross profit		91,095	94,917
Selling and administrative expenses	7, 8	44,028	49,706
Non-recurring items	9	2,309	11,115
Operating income		44,758	34,096
Net financial expenses	10	4,270	7,909
Income before income tax expense		40,488	26,187
Income tax expense	24	8,348	6,374
Net income		$ 32,140	$ 19,813
Attributable to:			
Equity holders of the parent		32,525	20,057
Non-controlling interests		(385)	(244)
		$ 32,140	$ 19,813
Earnings per share – basic and diluted	11		
Basic		$ 0.91	$ 0.55
Diluted		0.90	0.55

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars)

For the fiscal years ended March 31,	Notes	2022	2021
Other comprehensive income (loss):			
Items that may be reclassified to net income			
Losses arising from conversion of the financial statements of foreign operations	23	$ (11,059)	$ (20,781)
Cash flow hedges:	23		
Net gains (losses) on valuation of derivative financial instruments		(817)	29,197
Net (gains) losses on derivative financial instruments transferred to net income		(4,471)	1,425
Deferred income taxes		1,394	(8,189)
		(3,894)	22,433
Gains on hedges of net investments in foreign operations	23	6,378	8,547
Deferred income taxes		(839)	(1,080)
		5,539	7,467
Items that are never reclassified to net income			
Defined benefit pension plans:	25		
Gains from remeasurement		5,507	10,262
Deferred income taxes		(1,455)	(2,709)
		4,052	7,553
Other comprehensive income (loss)		$ (5,362)	$ 16,672
Comprehensive income			
Net income		$ 32,140	$ 19,813
Other comprehensive income (loss)		(5,362)	16,672
Comprehensive income		$ 26,778	$ 36,485
Attributable to:			
Equity holders of the parent		27,163	36,729
Non-controlling interests		(385)	(244)
		$ 26,778	$ 36,485

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, 2021		$86,222	$5,126	$16,279	$282,831	$390,458	$1,274	$391,732
Common shares issued under the stock option plan	22	2,031	(532)	—	—	1,499	—	1,499
Repurchase and cancellation of common shares	22	(6,064)	—	—	(36,936)	(43,000)	—	(43,000)
Stock-based compensation expense	22	—	1,173	—	—	1,173	—	1,173
Transactions with minority interests		—	—	—	(11)	(11)	(889)	(900)
Net income (loss)		—	—	—	32,525	32,525	(385)	32,140
Other comprehensive income (loss)	23	—	—	(9,414)	4,052	(5,362)	—	(5,362)
Balance as at March 31, 2022		$82,189	$5,767	$ 6,865	$282,461	$377,282	$ —	$377,282

	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

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	2022	2021
Cash provided by (used for):			
Operating activities			
Net income		$ 32,140	$ 19,813
Items not requiring an outlay of cash:			
Amortization expense	15, 16	35,982	43,086
Deferred income taxes	24	71	225
(Gain) loss on disposal of property, plant and equipment		(850)	492
Net non-cash financial expenses	10	1,139	2,820
Stock-based compensation expense	22	1,173	1,145
Cash flows from operations		69,655	67,581
Net change in non-cash items	27	(6,489)	21,607
Cash flows related to operating activities		63,166	89,188
Investing activities			
Net additions to property, plant and equipment	15	(17,306)	(21,259)
Proceeds on disposal of property, plant and equipment		2,881	379
Net increase in finite-life intangible assets	16	(2,847)	(643)
Proceeds from a business divestiture	5	2,041	—
Purchase of minority interest	5	(900)	—
Cash flows related to investing activities		(16,131)	(21,523)
Financing activities			
Increase of long-term debt	20	3,145	68,113
Repayment of long-term debt	20	(16,310)	(89,616)
Increase in deferred financing costs	20	(555)	—
Repurchase and cancellation of shares	22	(43,000)	—
Issuance of common shares	22	1,499	4,654
Cash flows related to financing activities		(55,221)	(16,849)
Effect of changes in exchange rates on cash		(592)	(1,187)
Change in cash during the year		(8,778)	49,629
Cash at beginning of year		95,470	45,841
Cash at end of year		$ 86,692	$ 95,470
Interest and income taxes reflected in operating activities:			
Interest paid		$ 7,460	$ 1,127
Interest received		$ 522	$ 761
Income taxes paid		$ 4,895	$ 2,257

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, 2022 and 2021
(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 18, 2022.

Basis of consolidation

The consolidated financial statements include the accounts of Héroux-Devtek Inc. and its subsidiaries, all of which are wholly-owned. 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.

Certain comparatives figures from the previous year were reclassified to conform with fiscal 2022 presentation.

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. Inventories

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.

Work in process includes raw materials, applied direct labor and manufacturing overhead costs.

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.

C. Property, plant and equipment

Assets acquired
Property, plant and equipment are stated at cost less accumulated amortization and accumulated impairment losses, if any (see F). 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.

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 J of this note and *Note 4 - Significant accounting estimates and assumptions* for further information about provisions for asset retirement obligations.

D. 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 the expected quantity to be sold. They are presented net of related government assistance and amounts contributed by customers.

The expected quantity to be sold is 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, options, and customer and industry forecasts. Management conducts quarterly reviews of the contract quantities, 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 up to 15 years.

Software
Software is amortized over 3 to 7 years.

E. 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.

F. 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.

G. 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, 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 financial assets include certain derivative financial instruments, except those that are designated as hedging instruments and classified as FVTOCI as a result. 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 financial assets are non-derivatives 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 of the asset's original effective interest rate.

The Corporation considers a financial asset in default when collection of an account receivable is 30 days past its contractual terms. The Corporation may also consider a financial asset to be in default when internal or external information indicates that the Corporation is unlikely to receive the outstanding contractual amounts in full. Overdue accounts receivable are considered to be at a higher credit risk, and management monitors these receivables closely in order to assess whether ultimate collection is at risk. 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 Corporation has reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

For accounts receivable, 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.

H. 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 cost

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.

I. 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.

J. 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, when the effect is material. 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 contracts in progress or firm customer purchase orders in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs are the cost of fulfilling the contracts and comprise all costs related directly to the contract and include incremental costs such as direct labour and material and allocation of other cost such as allocation of depreciation charges.

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 represents a reasonable estimate of the present value 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. Changes in estimates of these costs, accretion and changes in the relevant discount rate are recognized in the consolidated statement of income in the period in which they occur.

Product warranty

This provision covers the cost of remedying 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.

K. 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.

L. 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.

M. 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.

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

The pension and other retirement benefit plan assets are measured at the lower of the surplus in the defined benefit plan and the asset ceiling.

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.

N. 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 generally 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.

O. 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.

P. Government assistance

Government assistance, which mainly includes investment and other tax credits and grants, 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.

Q. 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.

R. Earnings per share

Basic and diluted earnings per share are computed based on net income attributable to equity holders of the Corporation, 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 from the exercise of in-the-money stock options would be used to purchase common shares at the average market price during the year.

S. 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).

T. New accounting standards and interpretations issued but not yet effective

A number of amendments to existing standards have been published by the IASB and their adoption is mandatory for future periods. The Corporation does not anticipate that these changes will have a significant impact on its consolidated financial statements.

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. Impairment of goodwill and other 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.

B. 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.

C. 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.

D. 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.

E. 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.

F. 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.

G. 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. DIVESTITURE AND PURCHASE OF MINORITY INTEREST

Divestiture of APPH Bolton

On May 4, 2021, the Corporation 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 ($1,478) which is subject to the achievement of certain commercial objectives. The transaction did not result in a material gain or loss on disposal. A cash amount of $2,041 was received during the first quarter of fiscal 2022 and the £1,500 ($2,463) balance, included in other current assets as at March 31, 2022, was received in May 2022.

Purchase of minority interest

On October 5, 2021, the Corporation purchased the remaining 30% minority interest in Tekalia Aeronautik for $900.

NOTE 6. SALES

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

	2022	2021
Civil	$ 149,368	$ 193,220
Defence	386,719	377,465
Total sales	$ 536,087	$ 570,685

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

	2022	2021
United States	$ 313,218	$ 300,691
Canada	32,970	56,343
United Kingdom	39,320	47,877
Spain	36,424	47,730
Rest of Europe	73,282	73,532
Other countries	40,873	44,512
	$ 536,087	$ 570,685

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:

	2022	2021
Finite-life intangible assets (note 16)	$ 650	$ 1,016
Property, plant and equipment (note 15)	585	682
Cost of sales and, selling and administrative expenses	11,124	17,728

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

During fiscal 2022, government assistance accounted for in cost of sales and selling and administrative expenses includes essentially the Canadian Emergency Wage Subsidy ("CEWS") and R&D tax credits, while for fiscal 2021, it was largely comprised of the CEWS.

NOTE 8. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

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

	2022	2021
Raw materials and purchased parts	$ 199,421	$ 223,626
Employee costs	181,494	189,354
Amortization of property, plant and equipment and finite-life intangible assets (notes 15, 16)	35,982	43,086
Others	72,123	69,408
	$ 489,020	$ 525,474
Included in cost of sales, selling and administrative expenses:		
Foreign exchange gain (loss) upon conversion of net monetary items	842	(1,456)

NOTE 9. NON-RECURRING ITEMS

	2022	2021
Non-recurring items in operating income		
Legal ruling	$ 2,309	$ —
Restructuring charges	—	11,115
	$ 2,309	$ 11,115

Legal ruling

Following a court decision resulting from legal action intended by a non-product supplier related to a contractual dispute, the Corporation incurred $2,309 of damages and legal fees.

Restructuring charges

In fiscal 2021, Héroux-Devtek announced restructuring initiatives in light of the effects of the COVID-19 pandemic. These initiatives affected 15% of the workforce, or approximately 315 employees, and included the closure of Alta Précision and APPH Wichita.

The total restructuring cost of $11,115, recorded in fiscal 2021, mainly comprised of employee-related charges and costs to dismantle and relocate machinery. As at March 31 2022, all of the staff reductions have been completed and no restructuring provision remained on the consolidated balance sheet ($3,607 as at March 31, 2021).

NOTE 10. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2022	2021
Interest accretion on governmental authorities loans	$ 3,162	$ 3,018
Revision of governmental authorities loans repayment estimates (note 20)	(3,062)	(1,649)
Interest on defined benefit obligations (note 25)	23	394
Interest on leases (note 20)	1,010	1,247
Amortization of deferred financing costs	554	794
Other net non-cash financial income	(548)	(984)
Non-cash net financial expenses	1,139	2,820
Interest expense	3,653	5,850
Interest income on cash	(522)	(761)
	$ 4,270	$ 7,909

NOTE 11. EARNINGS PER SHARE

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

	2022	2021
Weighted-average number of common shares outstanding	35,748,639	36,429,244
Effect of dilutive stock options of the Corporation	274,423	93,587
Weighted-average number of common diluted shares outstanding	36,023,062	36,522,831
Options excluded from diluted earnings per share calculation(1)	189,000	862,000

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

NOTE 12. INVENTORIES

As at	March 31, 2022	March 31, 2021
Raw materials and purchased parts	$ 83,396	$ 106,528
Work in progress	115,172	107,075
Finished goods	1,774	2,838
	$ 200,342	$ 216,441

An amount of $342,525 of inventory was recognized as cost of sales during the fiscal year ($366,432 for fiscal 2021).

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

	2022	2021
Reserves recognized as cost of sales	$ 2,847	$ 11,469
Reversal of prior-period reserves	1,081	855

The reversal of prior-period reserves is mainly 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, 2022	March 31, 2021
Current Assets		
Forward foreign exchange contracts	$ 4,338	$ 4,903
Cross-currency interest rate swap agreements	1,162	—
	$ 5,500	$ 4,903
Long-term Assets		
Forward foreign exchange contracts	$ 4,790	$ 6,423
Cross-currency interest rate swap agreements	8,469	1,863
Equity swap agreement	1,070	1,088
	$ 14,329	$ 9,374
Current Liabilities		
Forward foreign exchange contracts	$ 1,852	$ —
	$ 1,852	$ —
Long-term Liabilities		
Forward foreign exchange contracts	$ 830	$ —
Cross-currency interest-rate swap agreements	—	544
	$ 830	$ 544

NOTE 14. OTHER ASSETS

As at	March 31, 2022	March 31, 2021
Investment and other tax credits receivable	$ 5,635	$ 7,247
Prepaid expenses	3,931	5,055
Sales tax receivable	3,243	3,010
Balance of sale receivable (note 5)	2,463	—
Others	1,147	1,211
Other current assets	$ 16,419	$ 16,523
Investment and other tax credits receivable	3,047	1,445
Long-term receivable	3,229	3,568
Net pension plan asset (note 25)	6,388	1,603
Other long-term assets	$ 12,664	$ 6,616

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, 2021	$ 16,783	$ 134,454	$ 301,791	$ 24,183	$ 1,663	$ 478,874
Additions	—	2,546	12,366	1,448	990	17,350
Government assistance (note 7)	—	(8)	(535)	(42)	—	(585)
Retirements and disposals	(412)	(6,544)	(29,003)	(4,089)	(137)	(40,185)
Effect of changes in exchange rates	(613)	(2,304)	(4,038)	(718)	(73)	(7,746)
As at March 31, 2022	$ 15,758	$ 128,144	$ 280,581	$ 20,782	$ 2,443	$ 447,708
Accumulated amortization:						
As at March 31, 2021	$ —	$ 47,169	$ 187,536	$ 16,548	$ —	$ 251,253
Amortization expense	—	7,042	19,365	2,235	—	28,642
Retirements and disposals	—	(5,430)	(27,838)	(3,205)	—	(36,473)
Effect of changes in exchange rates	—	(1,163)	(2,681)	(708)	—	(4,552)
As at March 31, 2022	$ —	$ 47,618	$ 176,382	$ 14,870	$ —	$ 238,870
Net book value as at March 31, 2022	$ 15,758	$ 80,526	$ 104,199	$ 5,912	$ 2,443	$ 208,838

	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

Right of use assets:

The following tables reconciles the right-of-use assets for the Corporation as at March 31, 2022 and 2021 that is included in Property, Plant and Equipment:

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As at March 31, 2021	$ 18,301	$ 45,942	$ 1,982	$ 66,225
Additions	459	—	321	780
Retirements and disposals	(754)	—	—	(754)
Effect of changes in exchange rates	(885)	—	(26)	(911)
As at March 31, 2022	$ 17,121	$ 45,942	$ 2,277	$ 65,340
Accumulated amortization:				
As at March 31, 2021	$ 4,450	$ 21,598	$ 918	$ 26,966
Amortization expense	2,248	6,136	533	8,917
Retirements and disposals	(239)	—	—	(239)
Effect of changes in exchange rates	(247)	—	(19)	(266)
As at March 31, 2022	$ 6,212	$ 27,734	$ 1,432	$ 35,378
Net book value as at March 31, 2022	$ 10,909	$ 18,208	$ 845	$ 29,962

	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
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
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

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

	2022	2021
Gross additions	$ 17,350	$ 23,482
Government assistance (note 7)	(585)	(682)
Additions to property, plant and equipment	16,765	22,800
Non-cash additions to right-of-use assets	(780)	(1,677)
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	1,321	136
Additions, as per statements of cash flows	$ 17,306	$ 21,259

As at March 31, 2022, the cost of property, plant and equipment still in use and fully depreciated is $111,283 ($120,314 as at March 31, 2021).

NOTE 16. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2021	$ 24,658	$ 24,680	$ 68,059	$ 117,397
Additions	7,849	2,308	—	10,157
Customers funding	(5,520)	—	—	(5,520)
Government assistance (note 7)	(650)	—	—	(650)
Retirements and disposals	—	(5,324)	—	(5,324)
Effect of changes in exchange rates	—	(775)	(2,520)	(3,295)
As at March 31, 2022	$ 26,337	$ 20,889	$ 65,539	$ 112,765
Accumulated amortization:				
As at March 31, 2021	$ 13,889	$ 20,285	$ 31,227	$ 65,401
Amortization expense	575	2,178	4,587	7,340
Retirements and disposals	—	(5,324)	—	(5,324)
Effect of changes in exchange rates	—	(689)	(1,283)	(1,972)
As at March 31, 2022	$ 14,464	$ 16,450	$ 34,531	$ 65,445
Net book value as at March 31, 2022	$ 11,873	$ 4,439	$ 31,008	$ 47,320

	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

NOTE 17. GOODWILL

Goodwill varied as follows, during fiscal year:

	2022	2021
Balance at beginning of the year	$ 115,970	$ 120,773
Divestiture (note 5)	(2,467)	—
Effect of changes in exchange rates	(5,303)	(4,803)
Balance, end of year	$ 108,200	$ 115,970

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

	March 31, 2022	March 31, 2021
North America	$ 22,485	$ 22,594
U.K.	58,835	64,738
Spain	26,880	28,638
Goodwill	$ 108,200	$ 115,970

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

	March 31, 2022		March 31, 2021	
	Pre-tax discount rate	**Perpetual growth rate**	**Pre-tax discount rate**	**Perpetual growth rate**
North America	14.4 %	2.5 %	14.8 %	2.5 %
U.K.	14.7 %	2.5 %	14.6 %	2.5 %
Spain	14.8 %	2.5 %	15.0 %	2.5 %

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 impairment tests performed as at March 31, 2022 did not indicate any 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, 2022:

	Incremental increase in pre-tax discount rate	**Incremental decrease in perpetual growth rate**
North America	2.2 %	3.5 %
U.K.	1.4 %	2.1 %
Spain	4.3 %	7.6 %

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2022	March 31, 2021
Trade payables [1]	$ 71,637	$ 57,508
Accrued liabilities [2]	39,442	47,424
Other	3,429	4,877
Accounts payable and accrued liabilities	$ 114,508	$ 109,809

[1] Trade payables are normally settled on 30 to 60 day terms.
[2] Accrued liabilities mainly include employee-related liabilities.

NOTE 19. PROVISIONS

	Onerous contracts	Asset retirement obligations	Product warranty	Restructuring (note 9)	Others (notes 9, 26)	Total
As at March 31, 2021	$ 9,348	$ 6,305	$ 12,187	$ 3,607	$ 11,372	$ 42,819
Arising during the year	406	143	1,237	—	3,708	5,494
Accretion expense	—	124	—	—	—	124
Utilized	(1,467)	—	(2,263)	(3,607)	(1,132)	(8,469)
Reversed	(19)	—	(501)	—	(850)	(1,370)
Discount rate adjustment	—	(517)	(247)	—	—	(764)
Effect of changes in exchange rates	(234)	—	(633)	—	(214)	(1,081)
As at March 31, 2022	$ 8,034	$ 6,055	$ 9,780	$ —	$ 12,884	$ 36,753
Less: current portion	2,318	—	7,454	—	12,153	21,925
Long-term portion	$ 5,716	$ 6,055	$ 2,326	$ —	$ 731	$ 14,828

NOTE 20. LONG-TERM DEBT

As at	March 31, 2022	March 31, 2021
Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility“)	$ 58,821	$ 59,342
Governmental authorities loans	84,508	90,382
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	20,497	28,274
Deferred financing costs, net	(2,300)	(2,299)
	236,526	250,699
Less: current portion	10,835	15,315
Long-term debt	$ 225,691	$ 235,384

Senior Secured Syndicated Revolving Credit Facility

The Revolving Facility has a limit of $250,000, of which $58,821 or US$47,000 is drawn, and bears interest at Libor + 1.0% representing an effective rate of 1.3% ($59,342 or US$47,000 Libor + 1.2% representing 1.3% as at March 31, 2021). It includes an accordion feature to increase the limit by an additional $200,000 ($100,000 as at March 31, 2021), subject to lenders' approval, and is secured by essentially all assets of the corporation and its subsidiaries.

In June 2021 and May 2022, the Corporation reached agreements to extend the Revolving Facility to a new maturity of June 2027 (as at March 31, 2021 - December 2024). The accordion feature was increased from $100,000 to $200,000 as part of the June agreement, while other terms and conditions remain relatively unchanged.

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, 2022, the Corporation revised the estimated repayment schedule of its government authorities loans, taking into account updated assumptions and data. This resulted in a non-cash gain of $3,062 ($1,649 in fiscal 2021), 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, 2022 (0.0% to 6.8% as at March 31, 2021).

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, 2022 and 2021, this facility was fully drawn.

In June 2021, the Corporation reached an agreement to extend the Term Loan Facility to a new maturity of September 2028, (September 2025 as at March 31, 2021). The Term Loan Facility bears interest at a rate of 5.0% (5.2% as at March 31, 2021) and the Corporation will have the option to make early repayments as of September 2024, subject to certain fees.

Lease liabilities

The incremental borrowing rate applied to lease liabilities recognized as at March 31, 2022 ranged between 2.1% and 7.0% for leases (2.1% and 7.0% as at March 31, 2021), maturing from April 2022 to May 2039.

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

As at	March 31, 2022	March 31, 2021
Balance at the beginning of the year	$ 28,274	$ 44,665
Additions	780	1,677
Settlement	(534)	(9,130)
Lease payments	(8,466)	(9,359)
Interest expense on lease liabilities (note 10)	1,010	1,247
Effect of changes in exchange rates	(567)	(826)
	$ 20,497	$ 28,274

The expense related to short-term leases and low-value assets leases during the years ended March 31, 2022 and 2021 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, 2022.

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

	March 31, 2022	March 31, 2021
Long-term debt, at beginning of the fiscal year	$ 250,699	$ 289,617
Increase in long-term debt	3,925	69,790
Repayment of long-term debt	(16,310)	(89,616)
Settlement of lease liabilities	(534)	(9,130)
Amortization of deferred financing costs (note 10)	554	794
Increase in deferred financing cost	(555)	—
Interest accretion and adjustments on governmental authorities loans (note 10)	100	1,369
Interest accretion in lease liability (note 10)	1,010	1,247
Effects of fluctuations in exchange rates	(2,363)	(13,372)
Long-term debt, at end of the fiscal year	$ 236,526	$ 250,699

NOTE 21. OTHER LIABILITIES

As at	March 31, 2022	March 31, 2021
Progress billings	$ 3,377	$ 2,763
Deferred revenue	725	942
Net defined benefit obligations (note 25)	1,063	1,547
Other	1,174	1,619
Other Liabilities	$ 6,339	$ 6,871

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:

		2022		2021
	Number	Issued capital	Number	Issued capital
Balance at the beginning of the year	36,764,710	$ 86,222	36,367,210	$ 79,757
Issued for cash on exercise of stock options	134,345	2,031	397,500	6,465
Repurchase and cancellation	(2,412,279)	(6,064)	—	—
Balance at the end of the year	34,486,776	$ 82,189	36,764,710	$ 86,222

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

As at March 31, 2022, the Corporation has purchased and cancelled the full amount of 2,412,279 common shares for a cash consideration of $43,000 representing a weighted average price of $17.83 per share. The $36,936 excess of purchase price over the carrying value was charged to retained earnings.

In May 2022, the Corporation filed a notice with the Toronto Stock Exchange of its intention to initiate a new NCIB for purchase and cancellation of 1,905,385 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:

	2022		2021	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance at the beginning of the year	1,449,095	$ 13.48	1,497,595	$ 13.86
Granted	197,000	17.45	349,000	9.83
Exercised	(134,345)	11.16	(397,500)	11.71
Cancelled / forfeited	(8,000)	17.45	—	—
Balance at the end of the year	1,503,750	$ 14.19	1,449,095	$ 13.48
Stock-based compensation expense		$ 1,173		$ 1,145

The weighted-average share price at the date of exercise of stock options in fiscal 2022 was $17.86 ($15.13 in 2021).

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

	2022	2021
Number of stock options granted	197,000	349,000
Weighted average fair value per stock option	$6.30	$3.05
Total fair value	$1,241	$1,064
Expected life	5.4 years	5.7 years
Expected volatility	36%	31%
Expected forfeiture	1.1%	1.1%
Expected dividend distribution	None	None
Compounded risk-free interest rate	1.0%	0.4%

As at March 31, 2022, 1,503,750 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 to 10.71	452,750	4.01	$10.03	191,000	$10.32
14.93 to 15.01	332,000	2.46	14.95	332,000	14.95
16.03 to 17.45	719,000	4.42	16.45	313,625	16.12
	1,503,750	3.86	$14.19	836,625	$14.33

As at March 31, 2022, 2,808,257 common shares are reserved for issuance upon exercise of stock options, of which 2,225,662 remained to be issued, compared to 2,360,007 as at March 31, 2021.

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

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

	2022	2021
In number of DSUs		
Balance, beginning of year	192,108	154,950
Issued	31,676	37,158
Settled	(24,313)	—
Closing balance of DSUs outstanding	199,471	192,108
DSU expense	$ 540	$ 1,644
Fair value of outstanding DSUs, end of year	$ 3,332	$ 3,243

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

	2022	2021
In number of PSUs		
Balance, beginning of year	300,150	278,450
Issued	88,150	119,100
Settled	(86,800)	(93,200)
Cancelled/forfeited	(16,150)	(4,200)
Closing balance of PSUs outstanding	285,350	300,150
PSU expense	$ 1,420	$ 3,004
Fair value of vested outstanding PSUs, end of year	$ 3,999	$ 4,089

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, 2021	$ 14,064	$ 8,531	$ (6,316)	$ 16,279
Other comprehensive (loss) income	(11,059)	(3,894)	5,539	(9,414)
Balance as at March 31, 2022	$ 3,005	$ 4,637	$ (777)	$ 6,865

	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 income (loss)	(20,781)	22,433	7,467	9,119
Balance as at March 31, 2021	$ 14,064	$ 8,531	$ (6,316)	$ 16,279

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2022	2021
Consolidated statements of income		
Current income tax expense	$ 8,277	$ 6,149
Deferred income tax expense	71	225
Income tax expense reported in the consolidated statements of income	$ 8,348	$ 6,374
Consolidated statements of changes in shareholders' equity		
Expense related to items charged or credited directly to retained earnings	$ 1,455	$ 2,709
Expense (recovery) related to items charged or credited directly to other comprehensive income	(555)	8,189
Income tax expense reported directly in shareholders' equity	$ 900	$ 10,898

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

	2022	2021
Income taxes at combined Federal and Provincial statutory rates of 26.4% (26.4% in 2021)	$ 10,689	$ 6,933
Income tax rate differential – foreign subsidiaries	(2,010)	(1,263)
Permanent differences	(475)	1,399
Write-down (recognition) of deferred tax asset	(301)	544
Other items	445	(1,239)
Income tax expense	$ 8,348	$ 6,374

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

As at	March 31, 2022	March 31, 2021
Deferred income tax assets		
Non-deductible reserves	$ 7,752	$ 9,403
Inventories	5,729	5,011
Receivables	(25)	53
Lease liabilities	2,090	1,225
Governmental authorities loans	284	477
Deferred tax benefits from tax losses and deductible expenses carried forward	19,261	18,918
Total deferred income tax assets	$ 35,091	$ 35,087
Deferred income tax liabilities		
Investment and other tax credits	(547)	(533)
Property, plant and equipment	(24,945)	(22,365)
Customer relationships and contracts	(9,002)	(9,946)
Derivative financial instruments	(2,607)	(3,141)
Total deferred income tax liabilities	$ (37,101)	$ (35,985)
Net deferred income tax (liabilities) assets	(2,010)	(898)

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

As at	March 31, 2022	March 31, 2021
Deferred income tax assets	$ 6,557	$ 8,485
Deferred income tax liabilities	(8,567)	(9,383)
Net deferred income tax liabilities	$ (2,010)	$ (898)

As at March 31, 2022, net deferred income tax assets of $9,791 were recognized ($11,111 as at March 31, 2021) 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, 2022, non-capital 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 $32,962 ($34,095 as at March 31, 2021).

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

As at	March 31, 2022	March 31, 2021
Canada	$ 23,397	$ 18,822
United States	75,302	66,938
United Kingdom	9,106	5,785
Spain	5,480	20,852
	$ 113,285	$ 112,397

As at March 31, 2022, deferred income tax assets of $8,182 and deferred income tax liabilities of $4,888 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, 2022, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $22,100 ($21,347 in 2021).

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 2022, 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 $1,097 ($1,627 in 2021) while the cash contributed to its defined contribution plans amounted to $3,287 ($3,252 in 2021).

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 62% in equity funds, 35% in debt securities and 3% 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, 2022	March 31, 2021
Present value of defined benefit obligations of funded plans	$ 64,443	$ 69,289
Fair value of plan assets	70,241	69,988
Funded status of the plans – surplus	5,798	699
Present value of defined benefit obligations of unfunded plan	(473)	(643)
Net pension plan asset	$ 5,325	$ 56
Amount recognized in other long-term assets (note 14)	6,388	1,603
Amount recognized in other long-term liabilities (note 21)	(1,063)	(1,547)

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

	2022	2021
Current service cost	$ 1,085	$ 1,053
Interest on net defined benefit obligations (note 10)	23	394
Administrative cost	227	307
Defined benefit pension expense recognized in the consolidated statements of income	$ 1,335	$ 1,754

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

	2022	2021
Remeasurements		
Gains from changes in demographic assumptions	$ 1,203	$ —
Gains (losses) from changes in financial assumptions	5,524	(4,519)
Experience gains	5	1,801
Return on plan assets, excluding interest income on plan assets	(1,225)	12,980
Other comprehensive income	$ 5,507	$ 10,262

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

	2022	2021
Actual return on the fair value of plan assets	$ 1,071	$ 15,070

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

As at	March 31, 2022	March 31, 2021
Defined benefit obligations at the beginning of the year	$ 69,932	$ 65,196
Current service cost	1,085	1,053
Interest expense	2,319	2,484
Contributions by plans' participants	744	943
Gains from changes in demographic assumptions	(1,203)	—
(Gains) losses from changes in financial assumptions	(5,524)	4,519
Experience gains	(5)	(1,801)
Benefits paid	(2,432)	(2,462)
Defined benefit obligations at the end of the year	$ 64,916	$ 69,932

The fair value of plan assets is as follows:

As at	March 31, 2022	March 31, 2021
Fair value of plans' assets at the beginning of the year	$ 69,988	$ 55,117
Interest income on plans' assets	2,296	2,090
Return on plans' assets, excluding interest income on plans' assets	(1,225)	12,980
Contributions by the employer	1,097	1,627
Contributions by plans' participants	744	943
Benefits paid	(2,432)	(2,462)
Administrative costs	(227)	(307)
Fair value of plans' assets at the end of the year	$ 70,241	$ 69,988

The plans' assets consist of:

As at	March 31, 2022	March 31, 2021
Equity securities	62%	70%
Debt securities	35%	30%
Other	3%	—%
Total	100%	100%

Significant assumptions

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

	2022	2021
Defined benefit obligations as at March 31:		
Discount rate	3.98%	3.28%
Rate of compensation increase	3.50%	3.50%
Average life expectancies based on a pension at 65 years of age:		
Male, 45 years of age at reporting date	87	86
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	86	87
Female, 65 years of age at reporting date	88	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, 2022:

Increase (Decrease)	**Defined benefit obligations**
	%
Discount rate	
Increase of 0.5%	(5.9)
Decrease of 0.5%	6.7
Rate of compensation	
Increase of 0.5%	—
Decrease of 0.5%	—
Average life expectancies	
Increase of 1 year	2.2
Decrease of 1 year	(2.2)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2023 amount to $891.

The duration of the defined benefit obligations at March 31, 2022 is 13.4 years (14.6 years in 2021). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2022	March 31, 2021
Less than a year	$ 2,233	$ 2,095
Between 1-2 years	2,357	2,174
Between 2-5 years	8,290	7,643
Between 5-10 years	16,857	16,410
Total	$ 29,737	$ 28,322

Defined contribution pension plans

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

	2022	2021
Defined contribution pension plan costs	$ 3,287	$ 3,252

NOTE 26. COMMITMENTS AND CONTINGENCIES

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:

	2023	2024	2025	2026	2027	Thereafter	Total 2022
Building, machinery and equipment acquisition commitments	$ 2,616	—	—	—	—	—	$ 2,616

Guarantees

The Corporation executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business dispositions 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 legislation), valuation differences or as a result of litigation 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, 2022, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2022, an amount of $4,795 ($4,588 in 2021) 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, 2022, the Corporation has outstanding letters of credit amounting to $18,824 ($22,772 in 2021).

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 27. NET CHANGE IN NON-CASH ITEMS

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

	2022	2021
Accounts receivable	$ (8,515)	$ 11,324
Inventories	11,026	21,812
Other assets	(7,248)	7,970
Account payable and accrued liabilities	10,418	(12,297)
Provisions	(5,333)	(3,661)
Customer advances and progress billings	(9,823)	5,301
Other Liabilities	2,986	(8,842)
	$ (6,489)	$ 21,607

NOTE 28. GEOGRAPHIC INFORMATION

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

As at					March 31, 2022
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	$ 93,141	$ 63,367	$ 16,543	$ 35,787	$ 208,838
Finite-life intangible assets, net	11,990	3,561	1,749	30,020	47,320
Goodwill	5,404	17,085	58,833	26,878	108,200
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

NOTE 29. 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:

	2022	2021
Short-term benefits and other benefits	$ 3,872	$ 3,820
Pension and other post-retirement benefits	97	196
Share-based compensation	2,349	1,848
	$ 6,318	$ 5,864

NOTE 30. 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, 2022			March 31, 2021		
	Fair value hierarchy	**Carrying amount**	**Fair Value**	**Fair value hierarchy**	**Carrying amount**	**Fair Value**
Financial assets						
Cash	Level 1	$ 86,692	$ 86,692	Level 1	$ 95,470	$ 95,470
Derivative financial instruments	Level 2	19,829	19,829	Level 2	14,277	14,277
		$ 106,521	$ 106,521		$ 109,747	$ 109,747
Financial liabilities						
Derivative financial instruments	Level 2	$ 2,682	$ 2,682	Level 2	$ 544	$ 544
Long-term debt, including current portion	Level 2	238,826	243,081	Level 2	252,998	270,790
		$ 241,508	$ 245,763		$ 253,542	$ 271,334

Derivative financial instruments – Thee 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.

Accounts receivable and Account payable and accrued liabilities – Given the short-term nature of these financial instruments, the Corporation has determined that their carrying amount approximate the fair value.

NOTE 31. 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, 2022, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $341,604 denominated in USD, EUR and GBP ($268,737 in 2021). This amount includes mainly contracts with nominal value of US$219,500 convertible into Canadian dollars at an average rate of 1.2888 and contracts with nominal value of US$35,540 convertible into EUR at an average rate of 0.8709. These contracts mature at various dates between April 2022 and March 2026, with the majority maturing in fiscal years 2023 and 2024.

As at March 31, 2022, 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	$ (460)	$ (38)	$ (122)
Increase (decrease) in other comprehensive income (loss)	1,527	(1,571)	(631)

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.

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, 2022, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 90.5 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2028, and bear interest at a weighted average fixed rate of 2.3%.

In order to mitigate these risks, as at March 31, 2022, 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 %	September 2018	December 2024
US$	17,523	€	15,000	Euribor 1 month + 1.74%	September 2018	May 2022
C$	75,000	€	50,468	2.95 %	July 2021	September 2028

A 100 basis point variation in interest rates would have affected the Corporation's financial results for fiscal 2022 as follows:

	100 bps increase	100 bps decrease
	$	$
Impact on net income related to floating rate long-term debt	1	(1)
Impact on comprehensive income related to cross-currency interest-rate swap agreements	3,257	(3,286)

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, 2022, 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 2023.

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 derivative financial instruments.

Credit concentration risks are related to the fact that approximately 44% of the Corporation's fiscal 2022 sales are made to the top four customers (47% in 2021). More specifically, in fiscal 2022, the Corporation had one customer representing 15% of its consolidated sales (one customer representing 17% in 2021).

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 3.5% in fiscal 2022 (2.6% in 2021) of the Corporation's consolidated sales.

The Corporation has historically not made any significant write-off of accounts receivable, and as at March 31, 2022, the number of days in accounts receivable was at acceptable levels in the industry in which the Corporation operates.

Changes in the allowance for doubtful accounts were as follows for the fiscal year ended March 31, 2022:

	2022	2021
Balance, beginning of year	$ 1,694	$ 1,188
Arising during the year	—	506
Reversed	(1,092)	—
Amounts written off	(97)	—
Balance at the end of the year	$ 505	$ 1,694

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

As at	March 31, 2022	March 31, 2021
Not past due	$ 99,687	$ 95,609
Past due less than 90 days	4,669	5,243
Past due more than 90 days	1,538	566
	105,894	101,418
Allowance for doubtful accounts	(505)	(1,694)
Balance at the end of the year	$ 105,389	$ 99,724

Cash 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, 2022, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 30):

	FVTPL	FVTOCI [(1)]	A.C.
Cash	$ —	$ —	$ 86,692
Accounts receivable	—	—	105,389
Derivative financial instruments	1,070	18,759	—

[(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, 2022, 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	$ 114,508	$ —	$ —	$ —	$ 114,508
Customer advances	9,923	—	—	—	9,923
Long-term debt including interest payments(1)	16,190	34,752	90,943	145,170	287,055
Derivative financial instruments	1,852	409	421	—	2,682

(1) *The carrying amount of the long-term debt is $238,826 (note 20) .*

NOTE 32. 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, 2022, 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, 2022	March 31, 2021
Current portion of long-term debt	$ 10,835	$ 15,315
Long-term debt	225,691	235,384
Deferred financing costs, net	2,300	2,299
Less: Cash	86,692	95,470
Net debt	$ 152,134	$ 157,528
Shareholders' equity	377,282	391,732
Net debt-to-equity ratio	0.40:1	0.40:1

The Corporation is not subject to any regulatory capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2022

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OVERVIEW

The purpose of this management discussion and analysis (''MD&A'') is to provide the reader with an overview of how the financial position of Héroux-Devtek Inc. and its subsidiaries (''Héroux-Devtek'', the ''Corporation'' or "Management") evolved between March 31, 2021 and March 31, 2022. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2022 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, 2022, 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, 2022 and 2021 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. 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	2022	2021
Sales	$ 536,087	$ 570,685
Operating income	44,758	34,096
Adjusted operating income (1)	47,067	45,211
Adjusted EBITDA (1)	83,049	88,297
Net income	32,140	19,813
Adjusted net income (1)	33,839	29,034
Cash flows related to operating activities	63,166	89,188
Free cash flow (1)	45,894	67,665
In dollars per share		
Earnings share - diluted	$ 0.90	$ 0.55
Adjusted EPS (1)	0.95	0.80
As at	March 31, 2022	March 31, 2021
Funded backlog (2)	$ 682,000	$ 717,000

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

Key Events

- The Corporation generated sales of $536.1 million compared to sales of $570.7 million last fiscal year. This decrease mainly relates to delayed deliveries resulting from supply chain and production system disruptions related to the current operating environment.
- These sales resulted in operating income and adjusted EBITDA of $44.8 million and $83.0 million, respectively, compared to $34.1 million and $88.3 million, last fiscal year.
- The fiscal year closed with diluted earnings per share at $0.90 and adjusted EPS of $0.95, compared to $0.55 and $0.80 last fiscal year.
- Héroux-Devtek generated cash flows related to operating activities of $63.2 million and free cash flow of $45.9 million during fiscal 2022, compared to $89.2 million and $67.7 million in fiscal 2021.
- During the fiscal year, Héroux-Devtek announced and completed a Normal Course Issuer Bid ("NCIB"), resulting in the repurchase and cancellation of 2.4 million shares for a total consideration of $43 million, or $17.83 per share, while maintaining a net debt to Adjusted EBITDA ratio of 1.8:1. Refer to *Capital Structure* under *Financial Position* for further details.
- In May 2022 and June 2021, the Corporation reached agreements with its lenders to extend its Revolving and Term Loan facilities. As part of the agreements, the accordion feature of the Revolving Facility has been increased from $100 to $200 million. Together with available liquidity totaling $271.4 million, the revised accordion feature would allow the Corporation to deploy nearly $500 million with no major principal repayments until June 2027. Refer to *Credit Facilities and Net Debt Position* under *Liquidity and Capital Resources* for further details.
- In October 2021, the Corporation announced that it had been awarded a contract by Lockheed Martin for the development of landing gears for its next generation of defense aircraft.
- In November 2021, the Corporation announced a six-year extension of its contract with The Boeing Company to supply complete landing gear systems for the 777 and 777X aircraft programs. The contract, which includes all OEM and aftermarket requirements, has been extended until December 31, 2030.

OVERVIEW OF THE BUSINESS

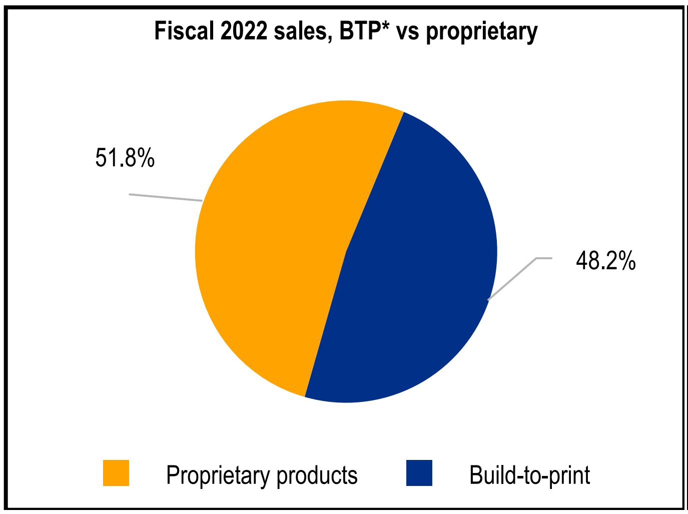
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul (R&O) of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a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

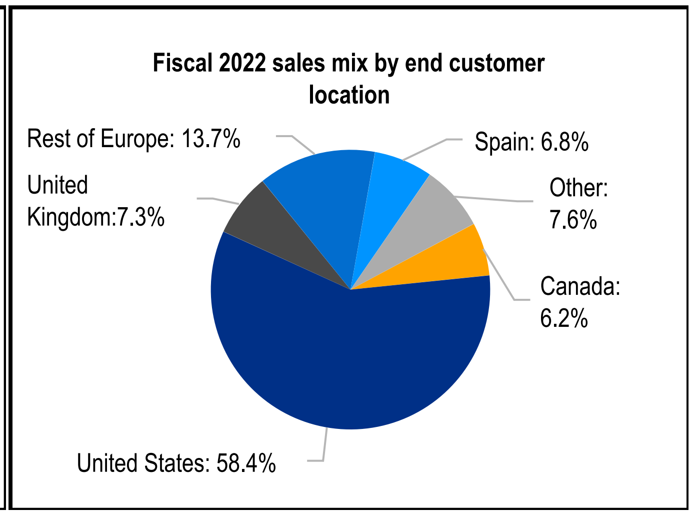
In the defence sector, the Corporation supplies landing gear systems, parts and repair and overhaul services for a diversified portfolio of transport aircraft, fighter jets and helicopters in the United States and Europe. For the civil sector, the Corporation is active in the large commercial, business 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 2022, the Corporation's four largest customers represented approximately 44% of total consolidated sales, with one customer accounting for 15%.

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





** BTP: Build to Print*

ECONOMIC OUTLOOK

Impacts of the COVID-19 pandemic and rising geopolitical tensions

The COVID-19 pandemic continued to exert a major toll on passenger travel activity throughout 2021, which greatly affected civil market demand and the corresponding production rates, particularly for twin-aisle aircraft. On the other hand, defence spending remained relatively immune to the pandemic this past year and will most likely continue to increase over the next quarters in response to escalating geopolitical tensions and a strengthening of the NATO alliance, likely leading to an increase in orders for certain defence aircraft programs.

In late 2021, the Omicron variant and its various sub-variants brought about additional challenges, namely to the stability and reliability of the entire production system, leading to delays in the delivery of key components and materials. In early 2022, the Russia-Ukraine conflict has exacerbated supply chain challenges[1]. Russia and Ukraine are both major producers of metals used for critical components. Ukraine's production was indeed hampered, and Russia's export opportunities are limited as a result of sanctions[2]. Commodity prices are expected to rise even further as global demand for metals increases while production remains stagnant.

In accordance with the forecasts presented in this section, drawn from recent reports published by key industry associations and analysts, such as reports from the International Air Transport Association (IATA), a full recovery of air traffic to pre-pandemic levels is expected in 2024[3]. Recently, travel restrictions were lifted in many countries, therefore encouraging passengers to re-engage in both local and international travel. The trend is forecasted to continue unless the epidemiological situation worsens unexpectedly.

Civil Market

Passenger activity

As a result of the evolution of government-imposed travel restrictions in some countries, expectations for full recovery are now higher than in previous months. Nevertheless, the threat of new COVID-19 variants remains and could lead to further disruptions, as experienced with Omicron. Indeed, overall passenger numbers in 2021 were 47% lower than in 2019, pre-pandemic. Passenger activity is expected to rise to 83% of 2019 levels in 2022, 94% in 2023, 103% in 2024, and 111% in 2025[4]. The revenue passenger kilometres (RPKs) increased by 115.9 % year-over-year (YoY) in February 2022 but stood at 54.5% of the levels of February 2019[5].

The pandemic has led to some changes in passenger behaviour which continued to endure throughout this past year, with a shift to short-haul and domestic flights. As evidence, in 2021, domestic traveller numbers were 61% of 2019 levels, ending at nearly 76% in December, while international traveller numbers represented 27% of 2019 levels, and closed the year at close to 42%. These changes in traveller habits are already translating in a higher demand for narrow-body aircraft. Indeed, according to Air Lease Corporation (ALC), global demand for narrow-body aircraft has recovered[6].

Global production backlog and long-term perspectives

Globally, the civil aircraft backlog stood at 12,218 at the end of December 2021[7], which represents a 9.0% decline from the same time last year. Deliveries totaled 951 aircraft for 2021, almost identical to last year deliveries[8]. Airbus and Boeing both went through a COVID-19 recovery phase in 2021, which is reflected in the results. Over the long term, Boeing recently revised its 20-year forecasted demand to 43,500 new commercial aircraft[9], a figure only slightly below the pre-pandemic forecast of 44,000.

Business jets

Compared to the large commercial aircraft segment, business jet deliveries have been relatively resilient to the market effects of COVID-19, and have in fact recovered from it faster, with 2021 deliveries nearly reaching pre-pandemic levels[10]. Part of this recovery has been due to changing passenger habits. Over the next ten years, Teal Group forecasts a total output of 10,813 business aircraft worth $244.5 billion. In comparison, the previous decade (2011-2020) saw 10,180 business aircraft produced for a total value of $238.4 billion[11].

Air cargo

The cargo market was strong throughout calendar 2021, with cargo tonne kilometers (CTK) exceeding pre-pandemic levels all year-long. In March 2022, however, CTKs suffered a notable decrease, falling slightly below pre-pandemic levels. The rapid spread of Omicron across Asia, particularly in China, is prompting additional lockdowns and labour shortages. These have had a significant impact on manufacturing hubs in China and Asia, which has affected air freight traffic[12]. In the long term, driven by persistent demand associated with rising e-commerce and air freight's speed and dependability, the global freighter fleet is estimated to be 70% larger in 2040 than it was pre-pandemic[9].

[1] Source: Supply of Critical Minerals Amid the Russia-Ukraine War and Possible Sanctions, Columbia | SIPA Center on Global Energy Policy, April 19, 2022
[2] Source: Invasion halts Ukraine steel shipments; appetite wanes for Russian steel, S&P Global Commodity Insights, February 24, 2022
[3] Source: Air Passenger Numbers to Recover in 2024, IATA, March 1, 2022
[4] Source: Air Passenger Numbers to Recover in 2024, IATA, March 1, 2022
[5] Source: Air Passenger Market Analysis, IATA, February 2022
[6] Source: ALC Sees Strong Recovery In Narrowbody Aircraft Demand, Simple Flying, November 06, 2021
[7] Source: Airbus and Boeing Report Q4 and Full-Year 2021 Commercial Aircraft Orders and Deliveries, Forecast International, January 18, 2022
[8] Source: Airbus, Boeing Report 2021 Commercial Aircraft Deliveries, Aviation Today, January 12, 2022
[9] Source: Commercial Market Outlook 2021–2040, Boeing, September 2021
[10] Source: Business Aviation: GAMA Year End 2021 Results, GAMA, February 23, 2022
[11] Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, November 2021
[12] Source: Air cargo volumes fall to late-2020 levels, IATA, March 2022

Defence Market

Military expenditures

Global military spending surged in 2021, hitting new records as Russia prepared its invasion of Ukraine, forecasting that the trend would continue in Europe in particular. Despite the financial consequences of the worldwide COVID-19 pandemic, governments all around the globe upgraded their arsenals, with global military spending increasing. Indeed, expenses totalled 2.1 trillion, a 5% increase compared to the previous year. 2021 marks the 7th year of consecutive increase in defence spending[13].

However, as a percentage of GDP, world military expenditures stood at 2.2%, compared to 2.3% in 2020. This small decrease is due to the strong economic recovery in 2021. In reaction to Russia's invasion of Ukraine in February 2022, numerous European NATO member nations declared intentions to increase military expenditures to meet or surpass the NATO spending objective of 2% of GDP or more in the coming months.

Military spending in the United States fell marginally to 3.5% of GDP in 2021 from 3.7% of GDP in 2020. The US Department of Defense reported that military spending in 2021 was $801 billion, down 1.4% from 2020. In 2022, the budget is anticipated to grow due to a $29 billion spending increase requested by President Joe Biden in April 2022[14,15].

Amongst other commitments, on March 16, 2022, Germany's coalition cabinet was presented with a draft law creating a special defence fund totalling $112 billion[16]. This money will be used to increase German defence spending from roughly 1.5% of GDP to at least 2%.

China raised expenditures by 4.7%, marking the 27th consecutive year of increases. As a result of the country's military expansion, its neighbouring countries have increased their own military spending, with Japan contributing $7 billion for a total budget of $47.2 billion[17].

Fighter jets

The fighter jet market continues to represent the second-largest segment of the world aircraft production market over the next decade, accounting for over US$319 billion over the next decade. Deliveries have averaged $19 billion each year (in 2021 USD) during the last five years (2016-2020). Calendar 2022 figures are expected to approximate 290 deliveries valued at $23 billion[18].

Between 2021 and 2030, specialists forecasted the production of 4,305 fighter jets valued at $325.2 billion (in 2021 USD). In comparison, between 2011 and 2020, a total of 2,605 aircraft were manufactured[19]. The high projections reflect aging fleets, high levels of global tension and high levels of utilization. According to Teal Group forecasts, the F-35 will account for 47.2% of the market in terms of value over the next ten years. Other programs, such as the F-18, F-15, Gripen and Eurofighter are expected to make up over 15% of the balance.

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

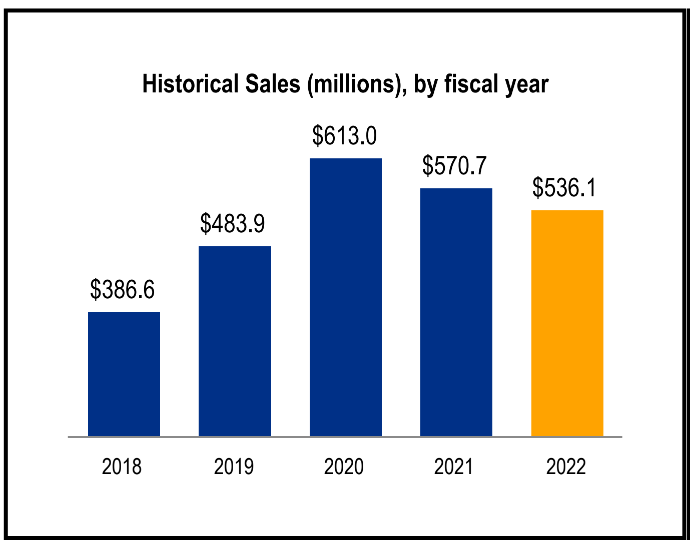
[13] Source: World military expenditure passes $2 trillion for first time, Stockholm International Peace Research Institute, April 25, 2022
[14] Source: Biden Approves $29 Billion Increase in Defense Budget, Arms Control Association, April 2022
[15] Source: 2022 aerospace and defense industry outlook, Deloitte, January 2022
[16] Source: Explainer: The proposed hike in German military spending, Stockholm International Peace Research Institute, March 25, 2022
[17] Source: Japan Approves Record Defense Budget for Fiscal Year 2022, The Diplomat, December 27, 2022
[18] Source : World Military & Civil Aircraft Briefing, Teal Group Corporation, February 2022
[19] Source : World Military & Civil Aircraft Briefing, Teal Group Corporation, November 2021

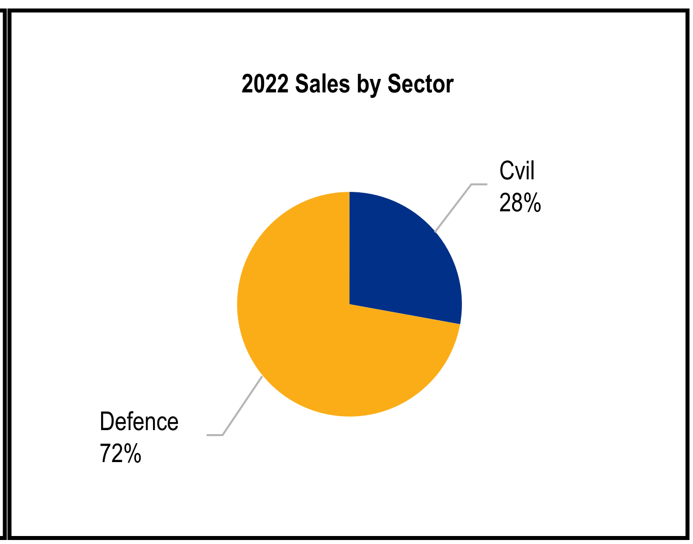
OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2022	2021	*Variance*	2022	2021	*Variance*
Sales	$ 147,459	$ 154,989	*$ (7,530)*	$ 536,087	$ 570,685	*$ (34,598)*
Gross profit	25,891	25,170	*721*	91,095	94,917	*(3,822)*
Selling and administrative expenses	12,119	11,322	*797*	44,028	49,706	*(5,678)*
Adjusted operating income(1)	13,772	13,848	*(76)*	47,067	45,211	*1,856*
Non-recurring items	2,309	1,619	*690*	2,309	11,115	*(8,806)*
Operating income	11,463	12,229	*(766)*	44,758	34,096	*10,662*
Net financial (income) expenses	(1,643)	(158)	*(1,485)*	4,270	7,909	*(3,639)*
Income tax expense	1,647	3,585	*(1,938)*	8,348	6,374	*1,974*
Net income	$ 11,459	$ 8,802	*$ 2,657*	$ 32,140	$ 19,813	*$ 12,327*
Adjusted net income(1)	$ 13,158	$ 10,169	*$ 2,989*	$ 33,839	$ 29,034	*$ 4,805*
Adjusted EBITDA(1)	$ 22,149	$ 24,975	*$ (2,826)*	$ 83,049	$ 88,297	*$ (5,248)*
As a percentage of sales						
Gross profit	17.6%	16.2%	*140 bps*	17.0%	16.6%	*40 bps*
Selling and administrative expenses	8.2%	7.3%	*90 bps*	8.2%	8.7%	*-50 bps*
Operating income	7.8%	7.9%	*-10 bps*	8.3%	6.0%	*230 bps*
Adjusted operating income(1)	9.3%	8.9%	*40 bps*	8.8%	7.9%	*90 bps*
In dollars per share						
Earnings per share	$ 0.33	$ 0.24	*$ 0.09*	$ 0.91	$ 0.55	*$ 0.36*
Diluted earnings per share	$ 0.33	$ 0.24	*$ 0.09*	$ 0.90	$ 0.55	*$ 0.35*
Adjusted EPS(1)	$ 0.38	$ 0.28	*$ 0.10*	$ 0.95	$ 0.80	*$ 0.15*

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

Sales





Sales can be broken down by sector as follows:

	Fiscal years ended March 31,				
	2022	2021	FX Impact	Net variance	
Defence	$ 386,719	$ 377,465	$ (15,826)	$ 25,080	6.6 %
Civil	149,368	193,220	(6,113)	(37,739)	(19.5)%
Total	$ 536,087	$ 570,685	$ (21,939)	$ (12,659)	(2.2)%

	Quarters ended March 31,				
	2022	2021	FX Impact	Net variance	
Defence	$ 109,518	$ 107,312	$ (1,854)	$ 4,060	3.8 %
Civil	37,941	47,677	(497)	(9,239)	(19.4)%
Total	$ 147,459	$ 154,989	$ (2,351)	$ (5,179)	(3.3)%

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

Defence

The $25.1 million and $4.1 million net increases for the fiscal year and the fourth quarter, respectively, were mainly driven by:

- The ramp-up of deliveries under the Boeing F-18, Sikorsky CH-53K and Boeing MQ-25 contracts; and,
- High deliveries of spares for the U.S. Government.

These positive factors were partly offset by lower aftermarket demand from AAR, as the contract is ending.

Civil

The respective 19.5% and 19.4% net reductions for the fiscal year and fourth quarter, respectively, were mainly driven by:

- Large commercial sales were lower than the comparative periods in last fiscal year as the pandemic's effect was not yet fully realized then; and,
- The repatriation by customers of certain Tier-2 contracts in the large commercial sector.

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

Gross Profit

Gross profit increased from 16.6% of sales last year to 17.0% for the fiscal year, and from 16.2% to 17.6% for the quarter, due to the positive effect of the Corporation's restructuring initiatives, including lower depreciation, as well as a positive sales mix. These positive elements were partly offset by the effect of lower throughput and higher quality-related costs resulting from the disruptions caused by the current environment, as described in the *Overview* section.

Foreign exchange fluctuations had a negligible impact on gross profit for both the fiscal year and fourth quarter.

Selling and Administrative Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Selling and Administrative Expenses	$ 12,119	$ 11,322	$ 44,028	$ 49,706
Less: Net gains (losses) on conversion of net monetary items	(235)	814	842	(1,456)
	$ 11,884	$ 12,136	$ 44,870	$ 48,250
As a percentage of sales	8.1%	7.8%	8.4%	8.5%

Excluding the effect of the conversion of net monetary items, sales and administrative expenses remained relatively stable as a percentage of sales for the fiscal year and fourth quarter, as the effect of the Corporation's restructuring initiatives and lower stock-based compensation expense offset the effect of lower sales.

Non-Recurring Items

Non-recurring items comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Non-recurring items in operating income				
Legal ruling	$ 2,309	$ —	$ 2,309	$ —
Restructuring charges	—	1,619	—	11,115
	$ 2,309	$ 1,619	$ 2,309	$ 11,115

Legal ruling

Following a court decision resulting from legal action intended by a non-product supplier related to a contractual dispute, the Corporation incurred $2.3 million of damages and legal fees.

Restructuring charges

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

During fiscal 2021, $11.1 million of related charges were incurred. Of this amount $1.6 million were incurred in the three months ended March 31, 2021. These restructuring initiatives were completed during the current fiscal year and no additional related charges were incurred.

Operating Income

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Operating income	$ 11,463	$ 12,229	$ 44,758	$ 34,096
Non-recurring items	2,309	1,619	2,309	11,115
Adjusted operating income	$ 13,772	$ 13,848	$ 47,067	$ 45,211
As a percentage of sales				
Operating income	7.8 %	7.9 %	8.3 %	6.0 %
Adjusted operating income(1)	9.3 %	8.9 %	8.8 %	7.9 %

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

Excluding non-recurring items, adjusted operating income stood at 8.8% this fiscal year compared to 7.9% last year. Aside from the factors described above, this improvement also reflects a $0.9 million positive year-over-year impact of foreign exchange, representing 0.2% of sales.

For the quarter ended March 31, 2022, adjusted operating income stood at 9.3% of sales, compared to 8.9% last year, reflecting the factors described above as well as $1.1 million negative year-over-year impact of foreign exchange, representing 0.7% of sales.

Net financial Expenses

	Quarters ended March 31,			Fiscal years ended March 31,		
	2022	2021	*Variance*	2022	2021	*Variance*
Interest on long-term debt	$ 814	$ 1,182	*$ (368)*	$ 3,653	$ 5,850	*$ (2,197)*
Net interest expense (income) related to government loans	(2,246)	(1,000)	*(1,246)*	100	1,369	*(1,269)*
Interest income	(99)	(169)	*70*	(522)	(761)	*239*
Other interest expense	(113)	(171)	*58*	1,039	1,451	*(412)*
	$ (1,644)	$ (158)	*$ (1,486)*	$ 4,270	$ 7,909	*$ (3,639)*

This fiscal year, net financial expenses decreased from $7.9 million to $4.3 million due to a lower level of outstanding debt throughout the year, as well as a higher gain on revision of government loan repayment estimates (see *Government Authorities Loans* under *Liquidity and Capital Resources* for further details).

For the quarter, the increase in net financial income mainly relates to a higher gain on revision of government loan repayment estimates as well as a lower level of outstanding debt.

Income Tax Expense

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Income before income tax expense	$ 13,106	$ 12,387	$ 40,488	$ 26,187
Income tax expense	1,647	3,585	8,348	6,374
Effective tax rate	12.6 %	28.9 %	20.6 %	24.3 %
Canadian blended statutory income tax rate	26.4 %	26.5 %	26.4 %	26.5 %

For fiscal 2022, the Corporation's effective income tax rate is 5.8% lower than the Canadian blended statutory rate (2.2% in fiscal 2021) primarily due to the favourable impact of earnings in lower tax rate jurisdictions totaling $2.1 million ($1.3 million in fiscal 2021) and non-taxable income of $0.7 million, partially offset by permanent differences of $0.4 million ($0.7 million in fiscal 2021).

The effective income tax rate for the quarter ended March 31, 2022 mainly reflects the favourable impact of earnings in lower tax rate jurisdictions of $0.5 million ($0.2 million in fiscal 2021), as well as the recognition of a $0.9 million deferred tax asset (none in fiscal 2021) and non-taxable income of $0.6 million (none in fiscal 2021), partially offset by permanent differences totaling $0.1 million ($0.4 million in fiscal 2021).

Net Income

Earnings increased from $19.8 million to $32.1 million this fiscal year compared to last and increased from $8.8 million to $11.5 million during the quarter compared to the same quarter last fiscal year mainly as a result of the factors described above. Excluding non-recurring items net of taxes, adjusted net income increased from $29.0 million to $33.8 million over the fiscal year, and from $10.2 million to $13.2 million during the quarter.

During the fiscal year, earnings per share increased from $0.55 to $0.91 per share (or increased from $0.80 to $0.95 per share excluding non-recurring items net of taxes), while they increased from $0.24 to $0.33 per share (or increased from $0.28 to $0.38 excluding non-recurring items net of taxes) during the quarter compared to the same quarter last fiscal year.

NON-IFRS FINANCIAL MEASURES

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

Adjusted operating income:	Operating income excluding non-recurring items.
Adjusted EBITDA:	Operating income excluding amortization expense and non-recurring items
Adjusted net income:	Net income excluding non-recurring items net of taxes.
Adjusted earnings per share:	Diluted earnings per share calculated on the basis of adjusted net income.
Free cash flow:	Cash flows related to operating activities less net additions to property, plant and equipment and net increase or decrease in finite-life intangible assets, plus proceeds of disposal of property, plant and equipment.

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,	
	2022	2021	2022	2021
Operating income	$ 11,463	$ 12,229	$ 44,758	$ 34,096
Non-recurring items	2,309	1,619	2,309	11,115
Adjusted operating income	$ 13,772	$ 13,848	$ 47,067	$ 45,211

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,	
	2022	2021	2022	2021
Operating income	$ 11,463	$ 12,229	$ 44,758	$ 34,096
Amortization expense	8,377	11,127	35,982	43,086
Non-recurring items	2,309	1,619	2,309	11,115
Adjusted EBITDA	$ 22,149	$ 24,975	$ 83,049	$ 88,297

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,	
	2022	2021	2022	2021
Net income	$ 11,459	$ 8,802	$ 32,140	$ 19,813
Non-recurring items net of taxes	1,699	1,367	1,699	9,221
Adjusted net income	$ 13,158	$ 10,169	$ 33,839	$ 29,034
Non-controlling interests	—	(145)	(385)	(244)
Adjusted net income attributable to the equity holders of the parent	$ 13,158	$ 10,314	$ 34,224	$ 29,278
In dollars per share				
Earnings per share - diluted	$ 0.33	$ 0.24	$ 0.90	$ 0.55
Non-recurring items net of taxes	0.05	0.04	0.05	0.25
Adjusted earnings per share	$ 0.38	$ 0.28	$ 0.95	$ 0.80

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 NET DEBT POSITION

Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility”)

The Corporation has a Revolving Facility with a syndicate of five Canadian banks and their U.S. affiliates or branches and a Canadian branch of a U.S. bank. This facility 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 $200.0 million during the term of this agreement, subject to the approval of the lenders ($100.0 million as at March 31, 2021).

In June 2021 and May 2022, the Corporation reached agreements to extend the Revolving Facility to a new maturity of June 2027 (as at March 31, 2021 - December 2024). The accordion feature was increased from $100.0 million to $200.0 million as part of the June agreement, while other terms and conditions remain relatively unchanged.

As at March 31, 2022, the Corporation had $58.8 million (US$ 47.0 million) drawn against this facility, compared to $59.3 million (US$ 47.0 million) as at March 31, 2021.

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 $75.0 million. This facility is fully drawn and bears interest at a rate of 5.0%, compared to 5.2% as at March 31, 2021. The decrease resulted from an agreement reached in June 2021 which also extended the Term Loan Facility to a new maturity of September 2028 (previously September 2025). The Term Loan Facility is repayable at maturity, and the Corporation has the option to make early repayments as of September 2024 (previously September 2021), subject to certain fees.

Net Debt Position

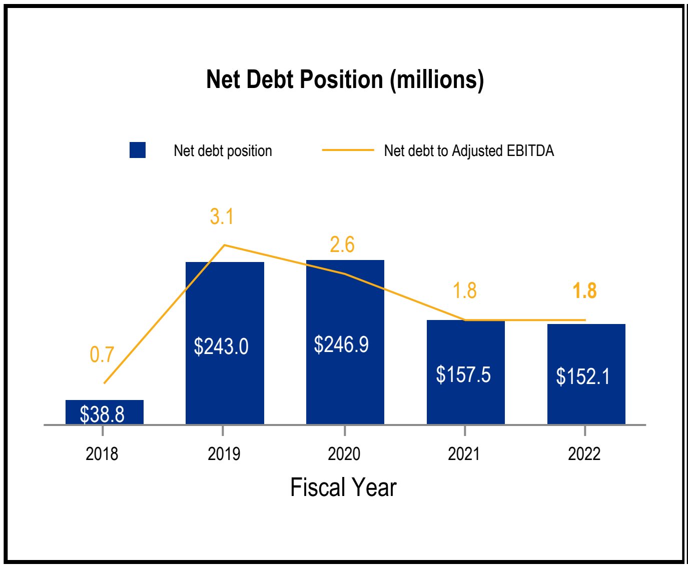
The Corporation’s net debt position is calculated as follows, as at:

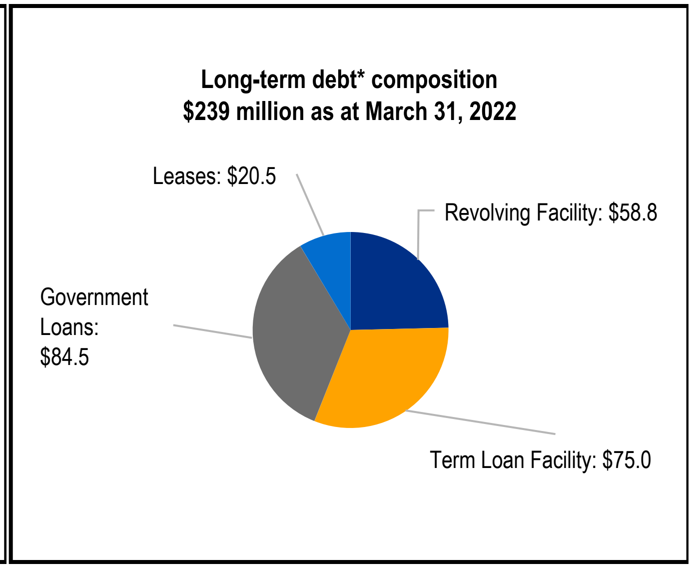
	March 31, 2022	March 31, 2021
Long-term debt, including current portion(1)	$ 238,826	$ 252,998
Less: Cash	86,692	95,470
Net debt position	$ 152,134	$ 157,528
Adjusted EBITDA(2)	$ 83,049	$ 88,297
Net debt to adjusted EBITDA ratio	1.8:1	1.8:1

(1) Excluding net deferred financing costs of $2.3 million and $2.3 million as at March 31, 2022 and March 31, 2021, respectively.

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

The Corporation’s net debt position remained relatively stable throughout the fiscal year, as free cash flow generation offset the $43.0 million allocated to the NCIB.

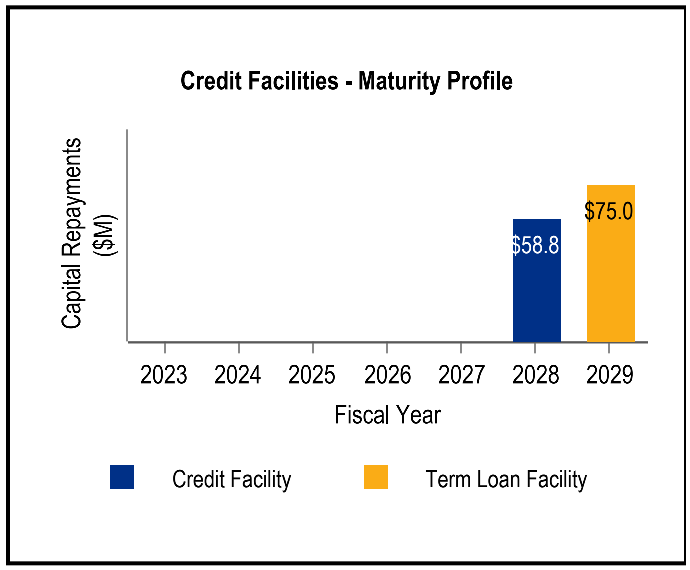




Excluding net deferred financing costs of $2.3 million as at March 31, 2022 *and $2.3 million as at* March 31, 2021.

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, 2022 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 obligatory capital repayments required on its credit facilities until June of 2027.



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, 2022, the Corporation updated the estimated repayment schedule of its government authorities' loans, taking into account updates assumptions and data. As these assumptions resulted in a more favourable repayment profile, non-cash gains of $3.1 million and $1.6 million in fiscal 2022 and 2021, respectively, which were included in net financial expenses.

As at March 31, 2022, the Corporation had a present value of $84.5 million outstanding under these agreements ($90.4 million as at March 31, 2021), bearing effective interest rates between 0.0% to 6.8% as at March 31, 2022 (0.0% to 6.8% as at March 31, 2021). These loans have repayment terms extending to fiscal 2035 at the latest.

VARIATIONS IN CASH

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Cash at beginning of periods	$ 86,836	$ 95,500	$ 95,470	$ 45,841
Cash flows related to operating activities	10,016	31,565	63,166	89,188
Cash flows related to investing activities	(3,173)	(7,874)	(16,131)	(21,523)
Cash flows related to financing activities	(6,555)	(23,016)	(55,221)	(16,849)
Effect of changes in exchange rates on cash	(432)	(705)	(592)	(1,187)
Cash at end of periods	$ 86,692	$ 95,470	$ 86,692	$ 95,470

Operating Activities

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Cash flows from operations	$ 16,051	$ 20,224	$ 69,655	$ 67,581
Net change in non-cash items	(6,035)	11,341	(6,489)	21,607
Cash flows related to operating activities	$ 10,016	$ 31,565	$ 63,166	$ 89,188

While cash flows from operations were relatively stable year over year, during the quarter, the lower cash flows from operations is mainly explained by lower adjusted EBITDA.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Accounts receivable	$ (20,700)	$ (18,325)	$ (8,515)	$ 11,324
Inventories	8,966	21,988	11,026	21,812
Other assets	(7,660)	4,779	(7,248)	7,970
AP and accrued liabilities	13,376	14,440	10,418	(12,297)
Provisions	1,561	(5,492)	(5,333)	(3,661)
Customer advances and progress billings	(6,982)	1,110	(9,823)	5,301
Other liabilities	5,404	(7,159)	2,986	(8,842)
Net change in non-cash items	$ (6,035)	$ 11,341	$ (6,489)	$ 21,607

For the quarter and fiscal year ended March 31, 2022, the negative net change in non-cash items mainly reflected:

- A decrease in customer advances and progress billings related to the profile of ongoing production and deliveries over the fiscal year;
- An increase in accounts receivable mainly related to the non-linear profile of fourth quarter deliveries, and;

These negative items were partly offset by a decrease in inventory related to ongoing optimization in line with expected sales as well as an increase in trade accounts payable due to the timing of supplier receipts and payments.

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
- 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 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.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Net additions to property, plant and equipment	$ (4,399)	$ (6,764)	$ (17,306)	$ (21,259)
Proceeds on disposal of property, plant and equipment	2,562	379	2,881	379
Net increase in finite-life intangible assets	(1,336)	(1,489)	(2,847)	(643)
Proceeds from a business divestiture	—	—	2,041	—
Purchase of minority interest	—	—	(900)	—
Cash flows related to investing activities	$ (3,173)	$ (7,874)	$ (16,131)	$ (21,523)

Proceeds from disposal of property, plant and equipment essentially relate to the sale of the building upon closure of APPH Wichita, while the proceeds from a business divestiture relate to the sale of the Corporation's Bolton operations.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Gross additions to property, plant and equipment	$ 6,598	$ 8,054	$ 17,350	$ 23,482
Government assistance	(585)	(682)	(585)	(682)
Additions to property, plant and equipment	$ 6,013	$ 7,372	$ 16,765	$ 22,800
Variation in unpaid additions included in Accounts Payable	(1,539)	(360)	1,321	136
Non-cash additions of right-of-use assets	(75)	(248)	(780)	(1,677)
Additions, as per statements of cash flows	$ 4,399	$ 6,764	$ 17,306	$ 21,259

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Increase in long-term debt	$ 86	$ 3,524	$ 3,145	$ 68,113
Repayment of long-term debt	(2,315)	(31,019)	(16,310)	(89,616)
Issuance of common shares	53	4,479	1,499	4,654
Repurchase and cancellation of shares	(4,379)	—	(43,000)	—
Increase in deferred financing cost	—	—	(555)	—
Cash flows related to financing activities	$ (6,555)	$ (23,016)	$ (55,221)	$ (16,849)

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

During fiscal 2021, the increase in long-term debt mainly related to $60.0 million of drawings on credit facilities made as a precaution in case of liquidity needs resulting from the impact of COVID-19. $45 million of these drawings were repaid during the second quarter of last fiscal year, and the remainder in the fourth quarter of last fiscal year.

The $4.4 million and $43.0 million were spent on the repurchase and cancellation of 256,645 and 2,412,279 shares under a NCIB further detailed in *Capital Structure* under *Financial Position.*

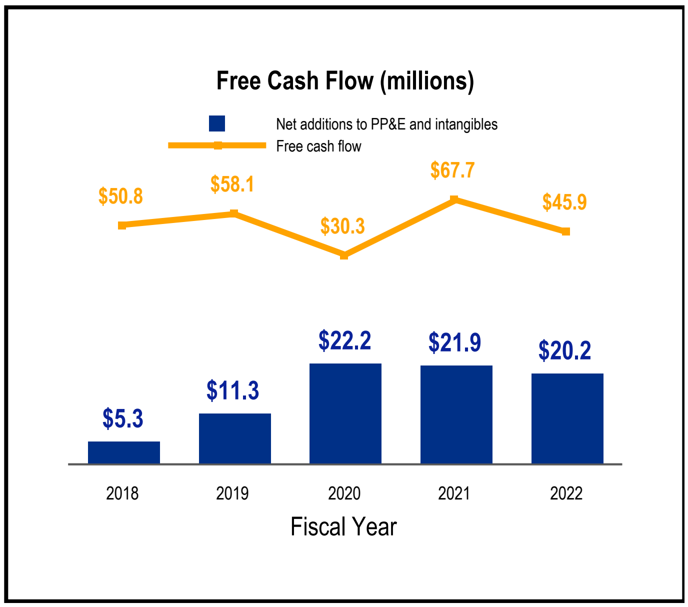
FREE CASH FLOW [(1)]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2022	2021	2022	2021
Cash flows related to operating activities	$ 10,016	$ 31,565	$ 63,166	$ 89,188
Additions to property, plant and equipment	(4,399)	(6,764)	(17,306)	(21,259)
Net increase in finite-life intangible assets	(1,336)	(1,489)	(2,847)	(643)
Proceeds of disposal of property, plant and equipment	2,562	379	2,881	379
Free cash flow[(1)]	$ 6,843	$ 23,691	$ 45,894	$ 67,665

(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 decrease in free cash flow over the fourth quarter and fiscal year compared to the same periods last fiscal year are mainly explained by last year's strong inventory decrease related to an alignment with the revised civil aerospace market resulting from the impact of COVID-19, as well as the implementation of stronger working capital management practices that were upheld during fiscal 2022.



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, 2022:

		Payments due by period			
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	$ 104,997	$ 5,255	$ 19,558	$ 20,556	$ 59,628
Lease liabilities	24,989	6,444	6,212	3,647	8,686
Revolving Facility	61,739	778	1,556	59,405	—
Term Loan Facility	95,420	3,713	7,426	7,425	76,856
Repayments of long term debt, including interest	287,145	16,190	34,752	91,033	145,170
Purchase obligations	264,998	198,703	63,339	2,934	22
Accounts payable	71,637	71,637	—	—	—
Building, machinery and equipment acquisition commitments	2,616	2,616	—	—	—
Total contractual obligations(1)	**$ 626,396**	**$ 289,146**	**$ 98,091**	**$ 93,967**	**$ 145,192**

(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, 2022, 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, 2022	March 31, 2021
Long-term debt	$ 236,526	$ 250,699
Deferred financing costs, net	2,300	2,299
Less: Cash	86,692	95,470
Net debt	$ 152,134	$ 157,528
Shareholders' equity	377,282	391,732
Net debt-to-equity ratio	0.40:1	0.40:1

Normal Course Issuer Bid

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

	During the period		
	Number of shares	Average cost per share	Total cost
Quarter ended June 30, 2021	370,427	$ 17.96	$ 6,654
Quarter ended September 30, 2021	389,017	17.56	6,831
Quarter ended December 31, 2021	1,396,190	18.00	25,136
Quarter ended March 31, 2022	256,645	17.06	4,379
Total	2,412,279	$ 17.83	$ 43,000

During the quarter, the Corporation completed the amount of repurchases and cancellation allowed under the NCIB. The total program cost $43.0 million, representing an average cost of $17.83 per share.

When evaluating the Corporation's capital structure following the fiscal year end, management determined that further reducing net debt was not the optimal means of capital deployment to generate shareholder return given the low cost of existing debt and share price performance. Therefore, again in May 2022, the Company filed a second notice with the Toronto Stock Exchange of its intention to initiate a NCIB for cancellation of up to 1,905,385 (May 2021 - 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 business acquisitions.

ISSUED CAPITAL

Capital stock varied as follows:

	Fiscal year ended March 31, 2022	
	Number of shares	Issued capital
Opening balance	36,764,710	$86,222
Issued for cash on exercise of stock options	134,345	2,031
Repurchase and cancellation	(2,412,279)	(6,064)
Ending balance	**34,486,776**	**$82,189**

As at May 18, 2022, the number of common shares outstanding stood at 34,486,776.

Stock options varied as follows:

	Fiscal year ended March 31, 2022	
	Number of stock options	Weighted-average exercise price
Opening balance	1,449,095	$ 13.48
Granted	197,000	17.45
Exercised	(134,345)	11.16
Cancelled / forfeited	(8,000)	17.45
Ending balance	**1,503,750**	**$ 14.19**

As at March 31, 2022, 2,225,662 common shares remained reserved for issuance upon exercise of stock options compared to 2,360,007 at March 31, 2021. As a result, the Corporation may issue a further 721,912 stock options within the current reserve.

As at May 18, 2022, the number of stock options outstanding stood at 1,503,750.

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, 2022	March 31, 2021	*Variance*	
Current assets	$ 415,450	$ 434,769	*$ (19,319)*	*(4.4)%*
Current liabilities	179,821	193,369	*(13,548)*	*(7.0)%*
Net working capital	$ 235,629	$ 241,400	*$ (5,771)*	*(2.4)%*
Working capital ratio	2.31	2.25		

The $19.3 million decrease in current assets is mainly due to a $16.1 million decrease in inventories due to the ongoing alignment with civil sales and the closure of Wichita.

The $13.5 million decrease in current liabilities is mainly due to an $11.0 million decrease in customers advances and progress billing, mainly attributed to the profile of ongoing production and deliveries over the fiscal year.

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, 2022	March 31, 2021	*Variance*	
Long-term assets	$ 397,908	$ 420,062	*$ (22,154)*	*(5.3)%*
Long-term liabilities	256,255	269,730	*(13,475)*	*(5.0)%*
Shareholder's equity	$ 377,282	$ 391,732	*(14,450)*	*(3.7)%*

The $22.2 million decrease in long-term assets over the fiscal year is mainly related to the excess of amortization expense over additions to fixed assets and the negative impact of foreign exchange on the Corporation's assets denominated in foreign currencies.

The $13.5 million decrease in long-term liabilities mainly results from a $9.7 million decrease in long term debt due to scheduled repayments and lease terminations, and the positive impact of foreign exchange on the Corporation's 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:

	2022	2021
Net pension plan assets (defined benefit obligations), beginning of year	$ 56	$ (10,079)
Net gains from remeasurement	5,507	10,262
Employer contributions	1,097	1,627
Current service cost	(1,085)	(1,053)
Interest on net defined benefit obligations	(23)	(394)
Other	(227)	(307)
Net pension plan assets, end of year	$ 5,325	$ 56
Amount recognized in other long-term assets	6,388	1,603
Amount recognized in other long-term liabilities	(1,063)	(1,547)

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

	March 31, 2022	March 31, 2021
Present value of defined benefit obligations of funded plans	$ 64,443	$ 69,289
Fair value of plan assets	70,241	69,988
Funding ratio	109.0 %	101.0 %

The Corporation made contributions of $1.1 million and $3.3 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2022, and expects to make respective contributions of $0.9 million and $2.8 million during fiscal 2023. The decrease in the present value of the defined benefit obligations is mainly due from the change in the discount rate and demographic assumptions.

ADDITIONAL INFORMATION

BUSINESS DIVESTITURE AND PURCHASE OF MINORITY INTEREST

Divestiture of APPH Bolton

On May 4, 2021, the Corporation concluded an agreement for the sale of its Bolton, UK operations to Ontic Engineering & Manufacturing UK Limited for a sale price of £2.7 million ($4.6 million) excluding £0.9 million ($1.5 million) which is subject to the achievement of certain commercial objectives. The transaction did not result in a material gain or loss on disposal. $2.0 million was received during the first quarter of fiscal 2022 and the £1.5 million ($2.5 million) balance, included in other current assets as at March 31, 2022, was received in May 2022.

Purchase of minority interest

On October 5, 2021, the Corporation purchased the remaining 30% minority interest in Tekalia Aeronautik for $0.9 million.

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, 2022	March 31, 2021
USD (Canadian equivalent of US$1.0)	1.2496	1.2575
EUR (Canadian equivalent of €1.0)	1.3853	1.4759
GBP (Canadian equivalent of £1.0)	1.6417	1.7337

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,	
	2022	2021	2022	2021
USD (Canadian equivalent of US$1.0)	1.2663	1.2666	1.2536	1.3292
EUR (Canadian equivalent of €1.0)	1.4218	1.5267	1.4570	1.5405
GBP (Canadian equivalent of £1.0)	1.6995	1.7461	1.7130	1.7269

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 2022 featured a decrease in the value of the EUR and GBP compared to CAD and USD. Approximately 77% of the Corporation's sales are denominated in USD, compared to approximately 54% 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.

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 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.

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 4 of Héroux-Devtek's customers represent approximately 44% of consolidated sales, including one customer representing 15% 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 the balance sheet by their impact on rates used by Héroux- Devtek to discount provisions and pension obligations, among other balances.	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.
Tax matters and changes in tax laws	As a multinational company conducting operations through subsidiaries in multiple jurisdictions, the Corporation is subject to income and other tax laws and fiscal policies in numerous jurisdictions. The effective income tax rate in the future could be adversely affected as a result of a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in tax laws, treaties or regulations or their interpretation, and the outcome of income tax audits (including transfer pricing) in various jurisdictions around the world. The assessment of additional taxes, interest and penalties could be materially adverse to the Corporation's current and future results of operations and financial condition.	Management regularly assess all tax matters to determine the adequacy of the tax compliance. Management is also supported by legal and accounting tax specialists to insure compliance in all respective jurisdictions that we operate in. Developments in tax regulations are closely monitored by management to ensure continuous compliance.

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 internal and external legal professionals who advise senior management on the subject of ongoing legal, regulatory, export 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	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, program management, procurement and finance. Competition is fierce when it comes to hiring and retaining such skilled employees. Retention or replacement may cause increased labour cost, while the Corporation may be unable to hire or retain key employees and suffer delays or lose cost efficiency in certain initiatives or deliveries.	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. It also includes succession planning, for key employees up to senior management, discussed annually at the HR and governance committee.

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	The pressure on the supply chain resulting from the Covid-19 pandemic, geopolitical tensions or other causes could lead to supply disruptions for the Corporation. Prolonged disruption in the supply chain could have a material adverse effect on the Corporation's operations, significantly increase the cost of operating its business and significantly reduce its margins and profitability. Also, reductions in quality and reliability of supply 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 tracks and monitors supplier performance and mitigates potential losses by ensuring poor quality, if any, is detected through internal quality management. Héroux-Devtek also has the ability to in-source manufacturing or finishing of many key parts in the event of critical issues in the supply chain.

External Risks

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

RISK	DESCRIPTION	RISK MANAGEMENT APPROACH
General economic conditions	The ongoing COVID-19 pandemic, including the emergence of variants, continues to negatively impact the global economy, disrupt global supply chains and create significant economic uncertainty and disruption of financial markets. 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 downturns. Such market conditions may also be caused by any number of factors, including but not limited to political instability, terrorist activity, or natural disasters. Such unfavourable conditions could negatively impact the Corporation through decreased sales and increased costs affecting the Corporation's profitability.	While such economic conditions are outside of the direct sphere of control of management, this risk is 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. Also, 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.
Inflation	Inflation can directly affect the price the Corporation pays for the goods and services it acquires or contracts and also usually has a trailing effect on labour costs. Inflation can be restricted to certain jurisdictions or, in rare cases, be broadly generalized and occur at a high velocity.	The Corporation's main customer contracts generally feature escalation clauses based on indices of consumer spending or material costs as appropriate. In other cases, key materials may be supplied by customers, or prices may be established by the cost on an order-to-order basis. Supplier contracts also normally include flow-down of terms and conditions included in long-term contracts with customers. As described in operational risks above, the Corporation also monitors the supply chain and workforce diligently.
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.
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
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 adjusted EBITDA, adjusted net income and free cash flow. 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, 2022, these derivative financial instruments are as follows:

Forward foreign exchange contracts

As at March 31, 2022, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $341.6 million denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US$219.5 million convertible into Canadian dollars at an average rate of 1.2888. These contracts mature at various dates between April 2022 and March 2026, 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, 2022, a 1% strengthening of the CAD versus the USD would result in a $0.5 million decrease in the Corporation's fiscal 2022 net income.

Cross-currency interest rate swaps

As at March 31, 2022, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of €90.5 million in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2028, and bear interest at a weighted average fixed rate of 2.3%.

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, 2022, the equity swap agreement covered 300,000 common shares of the Corporation at a price of $13.52, In February 2022, the agreement was amended and now matures in June 2023. All other conditions of the agreement stayed unchanged compared to March 31, 2021. This agreement is a derivative that is not part of a designated hedging relationship.

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, 2022, 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, 2022, 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, 2022 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:

Impairment of goodwill and other 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				2022				2021
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	$147,459	$131,147	$131,293	$126,188	$154,989	$150,298	$137,063	$128,335
Operating income	11,463	10,545	11,953	10,797	12,229	13,362	7,120	1,385
Adjusted operating income [(1)]	13,772	10,545	11,953	10,797	13,848	14,145	9,788	7,430
Adjusted EBITDA [(1)]	22,149	19,694	21,157	20,049	24,975	23,731	21,233	18,358
Net Income	11,459	6,468	7,510	6,703	8,802	8,486	3,838	(1,313)
Adjusted Net Income [(1)]	13,158	6,468	7,510	6,703	10,169	9,365	6,118	3,382
In dollars per share								
Earnings (loss) per share diluted	$ 0.33	$ 0.18	$ 0.21	$ 0.19	$ 0.24	$ 0.24	$ 0.11	$ (0.04)
Adjusted Earnings per share [(1)]	0.38	0.18	0.21	0.19	0.28	0.26	0.17	0.09
In millions of shares								
Weighted average number of common diluted shares outstanding	34.9	35.7	36.6	37.0	36.5	36.5	36.4	36.4

[(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:

	2022	2021	2020
Sales	$ 536,087	$ 570,685	$ 612,996
Operating income (loss)	44,758	34,096	(30,070)
Adjusted operating income[(1)]	47,067	45,211	52,548
Adjusted EBITDA[(1)]	83,049	88,297	96,191
Net income (loss)	32,140	19,813	(50,658)
Adjusted net income[(1)]	33,839	29,034	35,666
Earnings (loss) per share ($) - basic	0.91	0.55	(1.38)
Earnings (loss) per share ($) - diluted	0.90	0.55	(1.38)
Adjusted earnings per share[(1)] ($)	0.95	0.80	1.00
Cash	86,692	95,470	45,841
Total assets	813,358	854,831	898,848
Long-term financial liabilities[(2)]	238,419	251,243	314,363

[(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.*

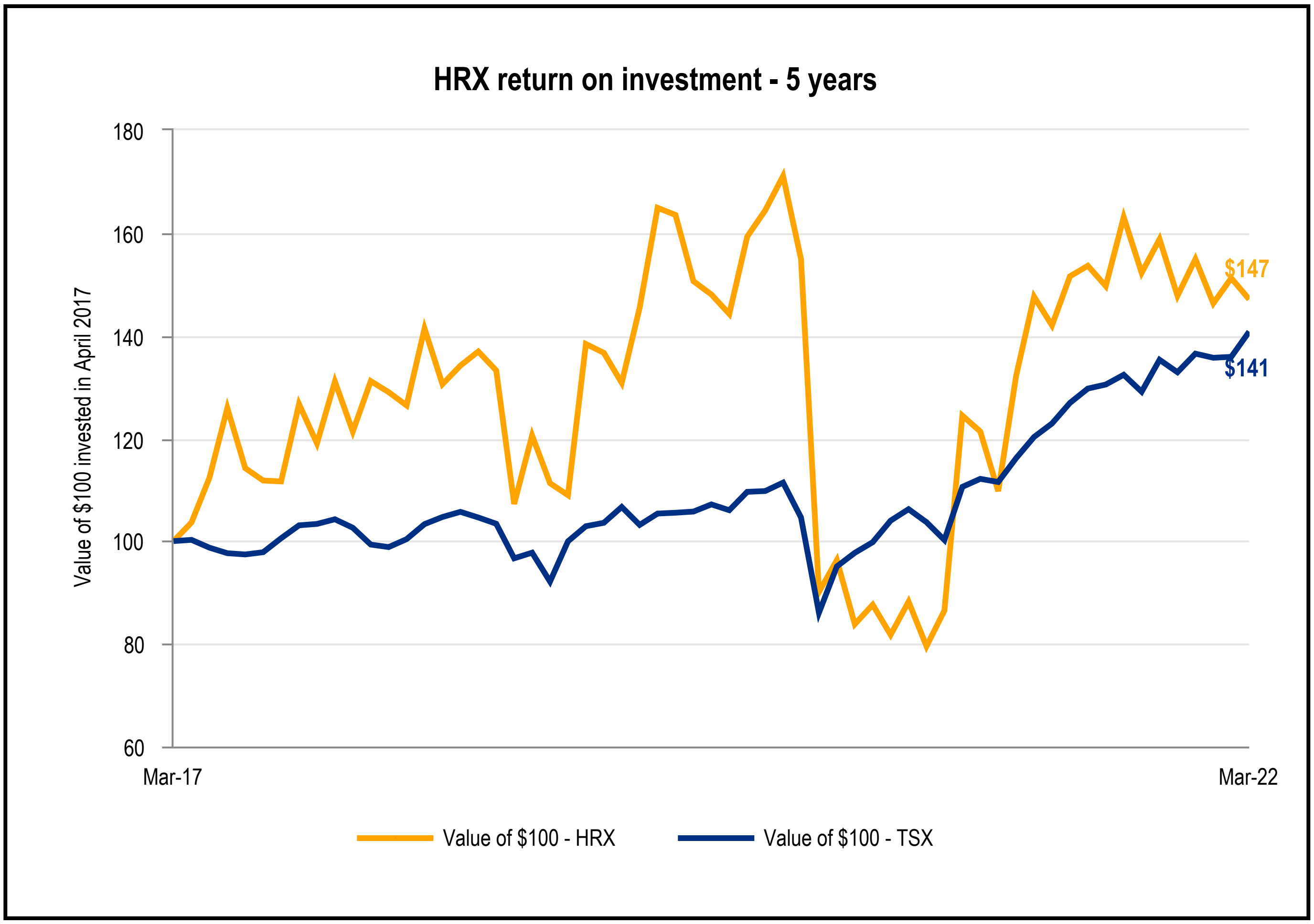
[(2)] Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.

SHAREHOLDER INFORMATION

ISSUED CAPITAL	May 18, 2022
Common shares issued and outstanding	34,486,776
Stock options issued and outstanding	1,503,750

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

Expected issuance date of financial results	
Fiscal 2023	
First quarter	August 5, 2022
Second quarter	November 11, 2022
Third quarter	February 8, 2023
Fourth quarter	May 17, 2023



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 18, 2022. 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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