ANNUAL REPORT 2023

HÉROUX DEVTEK

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HÉROUX-DEVTEK AT A GLANCE

Héroux-Devtek Inc. (traded as "**HRX**" on the Toronto Stock Exchange) has evolved from its beginnings in 1942 as a parts manufacturer for aerospace products to become a leading landing gear manufacturer in the industry.

The company specializes in designing, developing, manufacturing, repairing, and overhauling aircraft landing gears, hydraulic and electromechanical flight control actuators, custom ball screws, and fracture-critical components for both the civil and defence market segments.

Aside from its ability to manufacture complete landing gear and actuation systems to specification, Héroux-Devtek has earned a strong reputation for its outstanding support and service of landing gear and actuation systems for a wide range of defence and civil aircraft, including some out-of-production models.

The company's comprehensive services encompass maintenance, repair, overhaul, spares provisioning and supply, warranty administration and support, technical publications, as well as on-site technical support and training.

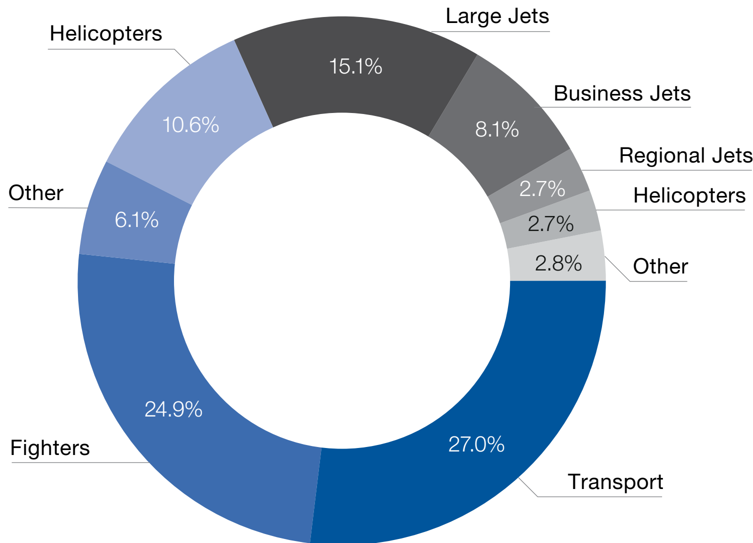
Headquartered in Québec, Canada, Héroux-Devtek currently employs approximately 1,800 dedicated individuals across its 15 centres of excellence, which are strategically located in Canada, the United States, the United Kingdom, and Spain.

Recognized for its innovative approach, expertise in system integration, engineering prowess, world-class service, and exceptional execution, Héroux-Devtek continues to lead the industry as the third-largest landing gear manufacturer worldwide.

DIVERSIFIED AND BALANCED REVENUE MIX (Based on fiscal 2023 sales)

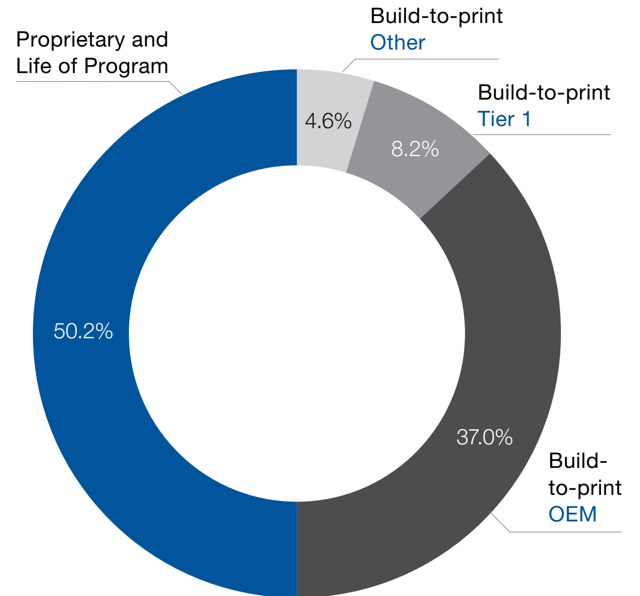
DEFENCE | CIVIL

68.6% Defence | **31.4% Civil**

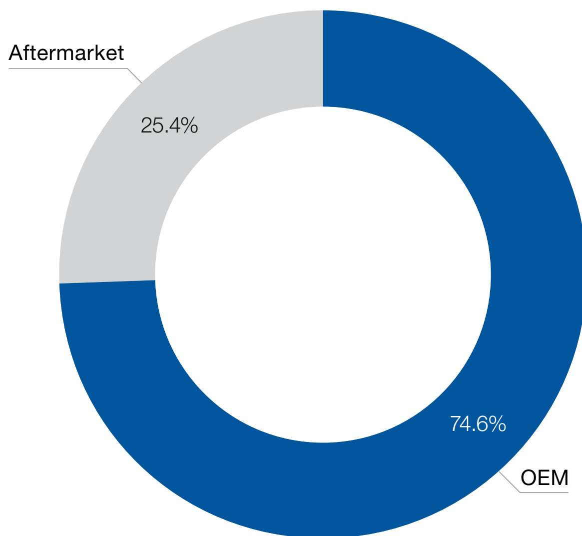


PROPRIETARY | BUILD-TO-PRINT

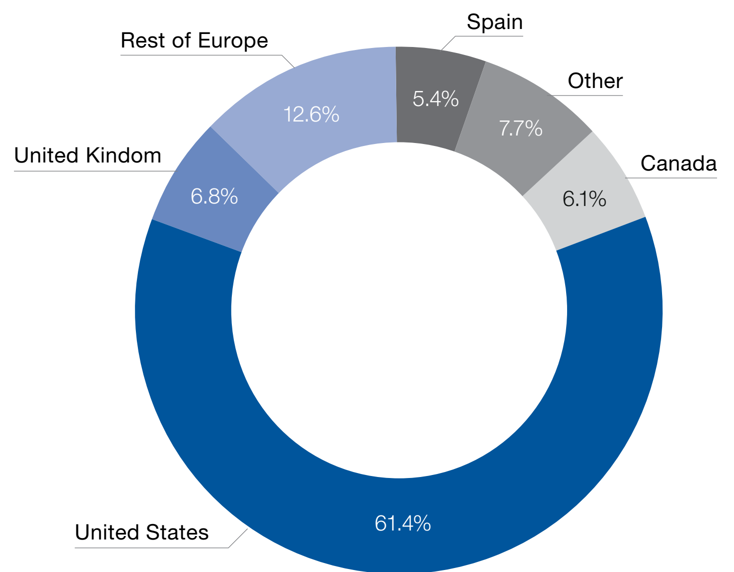
50.2% Proprietary | **49.8% Build-to-print**



OEM/AFTERMARKET



SALES MIX BY END CUSTOMER LOCATION



FINANCIAL HIGHLIGHTS

FISCAL YEAR ENDED MARCH 31	2023	2022	2021	2020	2019
OPERATING RESULTS	(in millions of dollars except per share data and ratios)				
Sales	**543.6**	536.1	570.7	613.0	483.9
Operating income (loss)	**26.2**	44.8	34.1	(30.1)	37.2
as percentage of sales	4.8%	8.4%	6.0%	(4.9)%	7.7%
Adjusted EBITDA [1]	**61.4**	83.0	88.3	96.2	74.2
as percentage of sales	11.3%	15.5%	15.5%	15.7%	15.3%
Net income (loss)	**13.8**	32.1	19.8	(50.7)	26.2
Adjusted net income [1]	**12.6**	33.8	29.0	35.7	30.4
Cash flows related to operating activities	**30.1**	63.2	89.2	52.6	70.0
Free cash flow (usage) [1]	**(1.7)**	45.9	67.7	30.3	58.6
Funded backlog	**864.0**	682.0	717.0	810.0	624.0
PER SHARE DATA					
EPS — basic (loss)	**0.40**	0.91	0.55	(1.38)	0.73
Adjusted EPS [1]	**0.37**	0.95	0.80	1.00	0.84
Weighted-average number of common diluted shares outstanding (in 000's)	**34 485**	36 023	36 523	36 363	36 437
FINANCIAL POSITION					
Cash	**15.0**	86.7	95.5	45.8	35.1
Working capital	**205.6**	235.6	241.4	205.4	173.1
Total assets	**821.3**	813.4	854.8	898.8	872.8
Long-term debt [2]	**180.0**	238.8	253.0	292.7	263.3
Net debt to adjusted EBITDA ratio [1]	**2.7**	1.8	1.8	2.6	3.1
Shareholders' equity	**390.9**	377.3	391.7	349.4	404.1

[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] Excluding net deferred financing costs.

GILLES LABBÉ
Executive Chairman of the Board

> *"OUR CLIENTS RECOGNIZED OUR COMMITMENT TO EXCELLENCE"*

EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS MESSAGE TO SHAREHOLDERS

DEAR SHAREHOLDERS,

The last twelve months saw a sustained recovery in demand for the aerospace sector. The commercial aircraft market, which was hit hard by the COVID-19 pandemic, has seen demand nearly double since travel restrictions were lifted around the world. Still, even better days lay ahead, as some large countries only recently removed travel restrictions. Global passenger traffic, as of February 2023, was still 15% below pre-COVID levels and is expected to fully recover in 2024, highlighting the resilience of the sector. Meanwhile, global spending on military aircraft remains robust, with increasing spending goals driven by the military conflict in Ukraine, ageing global fleets and technological advancements propelling the development of sixth-generation fighter jets.

STRENGTH THROUGH CHALLENGES: HÉROUX-DEVTEK'S COMMITMENT TO EXCELLENCE

In the past year, our business of supplying aircraft manufacturers with systems and components was faced with exceptional realities which impacted the pace of our throughput. Global supply chains encountered several headwinds, including the availability of raw materials, labor and parts, along with surging energy prices and transportation costs. These obstacles contributed to an exceptionally challenging year for aerospace production. Despite these challenges, the management team at Héroux-Devtek took swift action to address the pain points in production. They re-allocated resources as needed and worked closely with both suppliers and customers. I would like to extend my appreciation to the management team and employees for managing production in an exceptionally difficult environment.

Although our delivery capabilities and profitability were affected, our clients recognized our commitment to excellence. Looking ahead, we remain focused on strengthening our position as a trusted partner to aircraft manufacturers.

As we enter FY2024 with a near-record backlog, I have full confidence in our management team's ability to navigate the ongoing volatility in production and input costs, as we strive to return to historical levels of profitability. Armed with a strong balance sheet, Héroux-Devtek is also well-positioned to capitalize on any opportunities that come our way, whether through organic growth or strategic acquisitions. As we continue to execute our strategic initiatives and capitalize on the growth opportunities in the aerospace sector, we remain committed to enhancing shareholder value. We are actively engaging with investors and analysts to ensure they have a comprehensive understanding of our business, its underlying strengths, and the value we bring to the market.

SHARING OUR ESG JOURNEY

I want to extend my gratitude to our shareholders for their ongoing support during this volatile period in our industry and in equity markets. As the development of landing gears and actuation systems can take several years from conception to delivery, resource management from a long-term perspective is engrained in the way we operate. As such, in conjunction with this annual report, we are also publishing our inaugural ESG report, which provides insight into our sustainability initiatives and highlights the benchmarks and measurement guidelines we are adopting to adhere to ESG principles. As ESG considerations increasingly factor into investment decisions, we are committed to fulfilling our responsibilities to investors, clients, and stakeholders by sharing our approach to ESG and sustainability.

As ESG reporting principles continue to evolve, we're committed to adapting our reporting accordingly. ESG principles are regularly discussed at our Board meetings, and we are pleased to be able to provide investors with a first look at our values going forward. Furthermore, in line with our commitment to strengthening our Board, I am delighted to announce the appointment of Ted Di Giorgio as our new Board Member and Member of the Audit Committee earlier this calendar year. We warmly welcome Ted to the team and look forward to his valuable contributions.

As we turned the page on our 80th year of operation last year, we look to the future with the benefit of experience and cautious optimism. The long-term outlook for the aerospace sector is bright and by focusing on our product's quality and reliability and serving our customers, we are positioning ourselves to benefit from rising demand and continue to play an integral role providing essential systems and components for the world's most advanced aircraft.

GILLES LABBÉ
Executive Chairman of the Board

MARTIN BRASSARD
President and Chief Executive Officer

> *"AGILITY AND ADAPTABILITY — KEY TO SUCCEED IN A CHANGING WORLD"*

PRESIDENT & CEO MESSAGE TO SHAREHOLDERS

NAVIGATING UNPREDICTABLE TIMES

Last year, I mentioned that our responsibility was to continue to display agility and adaptability while creating value for our clients and shareholders in an unpredictable environment. With this objective in mind, we continued to work closely with our suppliers and clients to reinforce our reputation as a trusted partner of choice. Our revenues reached $544 million, bolstered by a strong second-half performance of $297 million, demonstrating a strong recovery after a slow start to the fiscal year. However, our profitability was hampered by the instability of the global production environment, and by the effect of inflation on general production supplies, transportation, and utility costs.

Fiscal 2023 was a year of adjustment for the industry overall as demand for civil products rebounded after a severe two-year drop. Today, OEM order books are filled with orders for new aircraft and aftermarket parts and services. This increased demand is putting pressure on the entire industry that must deliver products steadily and efficiently.

PRIORITIZING OPERATIONAL EFFICIENCY AND SUPPLY CHAIN RESILIENCE

At Héroux-Devtek, we are embracing these challenges as we focus on three priorities: first, we are working on ways to restore health to our supply chain and stabilize our production system. We will achieve this by continuing to qualify new sources and by strengthening supplier relations, enabling us to better track and manage quality and delivery.

Second, we are reexamining our production processes to identify efficiency gains, whether through streamlining processes or by optimizing automation in our machining centres of excellence. These measures can all be implemented with limited additional capital requirements.

Third, we are reviewing our pricing and supply agreements to offset the effects of inflation. We are confident these actions will return our profitability to higher levels.

To achieve these priorities, we are fortunate to be able to draw on Héroux-Devtek's long-standing history as a successful company. Our strong balance sheet allows us to take steps to facilitate production, such as increasing inventories on hand to improve the linearity of our revenues and to contemplate larger-scale projects where warranted. Also, despite the industry-wide challenge of skilled labor availability, we have been successful in maintaining 99% of our positions filled by leveraging Héroux-Devtek's strong reputation to attract and retain employees.

STRENGTHENING CUSTOMER PARTNERSHIPS AND IMPROVING ENVIRONMENTAL STEWARDSHIP

While we are improving our operations, we continue to better our relationships with our customers. During fiscal 2023, we achieved significant milestones, including a contract with Embraer to design, develop, and manufacture the main deck cargo door actuation system for the E190F and E195F freighter conversion program and a long-term contract with Boeing to repair and overhaul the main landing gear for the F/A-18 E/F Super Hornets and EA-18G Growlers. These contracts not only serve as a testament to our expertise in design but also emphasize the enduring nature of our client partnerships. These partnerships are key to making Héroux-Devtek the great company that is, and will continue to grow as we study new aircraft programs with industry leaders.

Environmental stewardship was another area of progress for us this past year as we made great strides in minimizing our footprint. For instance, we launched an initiative to convert our fossil fuel energy sources to green or renewable energy sources. As a result, we were able to reduce the direct greenhouse gas emissions of our operations by one third. We are committed to pursuing this initiative and achieving further meaningful reductions in the upcoming year.

A STRONG TEAM AND NEAR-RECORD BACKLOG POSITION HÉROUX-DEVTEK FOR SUCCESS

With a near-record backlog, a strong team and opportunities for margin improvements, I am confident in our ability to materially improve our profitability in the next several quarters. Our end-markets are underpinned by strong fundamentals which will result in an attractive growth rate in demand for defence, large civil and business aircraft over the next decade. As a trusted supplier of systems and components for critical platforms, we are well-positioned to capitalize on this growth.

I would like to express my deep appreciation and gratitude to our 1,800 employees worldwide who have put in countless hours of hard work and effort, allowing us to remain agile for the benefit of our clients. I would also like to extend my heartfelt thanks to the Board Members for their unwavering support during this exceptional year.

MARTIN BRASSARD
President and Chief Executive Officer

SUPPLY CONTRACTS

The strategy of diversifying our customer base and program portfolio across the civil and defence market segment has proven to provide us with some degree of shelter from the challenges that the industry is currently facing. We believe that this approach not only helps us to mitigate risk, but also enables us to leverage our expertise across a wider range of applications and markets. As we continue to strengthen our partnerships with our customers, we remain committed to delivering high-quality products and services that meet their evolving needs and expectations.

GROWTH PLATFORMS

1 **Boeing F/A-18 E/F Super Hornet and EA-18G Growler**
Supply, assemble, repair and overhaul the main landing gear and sIde brace production and spares for the F/A-18E/F Super Hornet and EA-18G Growler.

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

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

* Proprietary programs

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DESIGN AND MANUFACTURING OF COMPLETE LANDING GEAR SYSTEMS AND COMPONENTS

Designing and manufacturing complete landing gear systems is a complex and highly specialized process. The process typically starts with the initial design phase, in which engineers work closely with customers to identify the specific requirements for their aircraft.

Once the design has been finalized, the manufacturing process begins. This typically involves a range of precision machining and fabrication techniques, such as forging and casting to create the various components of the landing gear system. These components may include struts, shock absorbers and hydraulic systems. Once the components have been manufactured, they are assembled and tested to ensure they meet the requirements for safe and reliable operation. This may involve rigorous testing and simulation under a range of operating conditions, as well as extensive quality control measures to ensure that each component and subsystem meets the required specifications.

CIVIL PROGRAMS

- Dassault Falcon 6X
- 4 Dassault Falcon 10X
- 2 Embraer Praetor 500/600
- Leonardo AW609

DEFENCE PROGRAMS

- Airbus A400M
- Airbus C295
- 3 Boeing MQ-25
- Eurofighter Typhoon
- KAI KF-21
- Northrop Grumman RQ4B / MQ4C
- 1 Saab Gripen E-series
- Sikorsky CH-53K

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BUILD TO PRINT LANDING GEAR SYSTEMS AND COMPONENTS

Build-to-print landing gear systems are manufactured to meet specific requirements developed by the customer. The process starts with the customer providing a detailed set of drawings and technical specifications. We then manufacture the landing gear system to those instructions provided by the customer. This typically involves sourcing materials, fabricating and machining components, and assembling them into the final product.

CIVIL PROGRAMS

Airbus A350
2 Boeing 777/777X
Sikorsky S-92

DEFENCE PROGRAMS

Boeing F/A-18 / EA-18G
Boeing F-15
1 Boeing CH-47
3 Lockheed Martin C-130

ECONOMIC OUTLOOK

TRAVEL RECOVERY AND INCREASED DEFENCE SPENDING SUPPORT POSITIVE LONG-TERM AIRCRAFT OUTLOOK

With several countries beginning to remove COVID-related travel restrictions early in 2022, global passenger traffic staged a strong recovery last year. Consumers returned in numbers after years of travel restrictions in spite of high-ticket prices and long queues caused by inherent lag times to readapt the global air travel infrastructure to meet surging demand.

According to data from IATA, global passenger numbers in 2022 rose over 60% from 2021 levels and are expected to surpass the 2019 peak by 2024, as the last few major countries to maintain travel restrictions removed them at the end of 2022 and beginning of 2023.

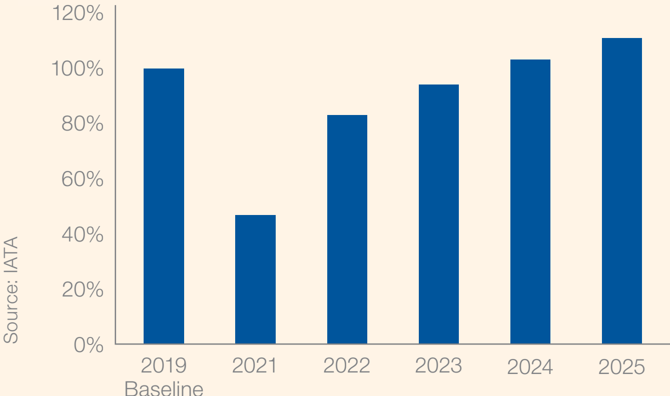
This rebound in demand for global passenger travel underscores the resilience of the airline sector and supports a favourable long-term outlook for commercial aircraft driven by factors such as population growth, increased use of aircraft for intra-city travel, an ageing global fleet and demand for more fuel-efficient aircraft.

Boeing, in its latest Commercial Market Outlook (CMO), released in July 2022, forecasts that the order value of new airplane deliveries will amount to $7.2 trillion for the next two decades.

In terms of number of aircraft, Boeing expects the global fleet to nearly double reaching 47,080 airplanes by 2041. On top of the fleet expansion, more than 75% of the existing fleet would need to be replaced, increasing the demand by approximately 20,000 aircraft. Over 2,100 deliveries will be needed in average per year to reach this level, compared to only 1,143 in 2022. Single aisle aircraft is expected to be the fastest-growing category with a fleet expected to reach 32,770 airplanes in 2041 compared to 16,530 airplanes in service in 2019 while widebody aircraft is supposed to go from 4,660 in 2019 to 8,360 in 2041.

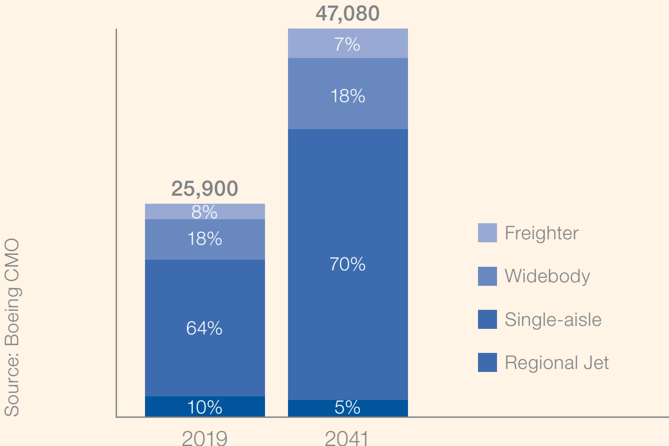
These long-term commercial passenger trends continue to have positive implications for Héroux-Devtek as a result of its long-standing association with Boeing and Airbus on a number of established programs. As a supplier of components for key platforms like the Boeing 777 and Airbus A350, Héroux-Devtek is particularly well positioned to benefit from the growth in deliveries of these widebody aircraft. For example, since its introduction in service, the widebody A350 has received a positive reception and deliveries for this aircraft are expected to almost triple in the next decade from current levels, according to estimates from Teal group. Similarly, Héroux-Devtek is poised to benefit from the entry into service of the highly anticipated Boeing 777X, for which it will supply the landing gear.

GLOBAL PASSENGER NUMBERS



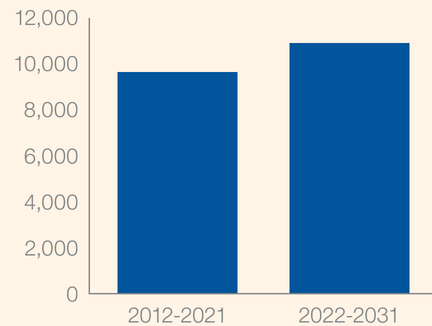
COMMERCIAL AIRCRAFT OUTLOOK

SINGLE-AISLES GROW TO 70% SHARE OF FLEET



The long-term demand outlook for business jets is similarly attractive. Honeywell, in its Global Business Aviation Outlook, forecasts up to 8,500 new business jet deliveries worth $274 billion from 2023 to 2032, which is up 15% in both deliveries and expenditures from the same 10-year forecast a year ago. Héroux-Devtek is well positioned to benefit from this growth in demand as it designed, developed and manufactures the landing gear system for the Embraer Praetor. In addition, the Corporation is the landing gear supplier for the Falcon 6X and Falcon 10X from Dassault Aviation. The Falcon 6X is expected to be certified and delivered in 2023, while the Falcon 10X is anticipated to enter service as soon as 2025.

BUSINESS JET PRODUCTION



Source: Honeywell

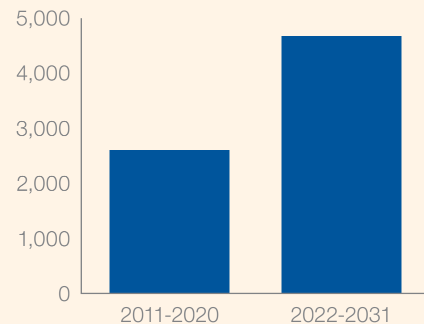
DEFENCE MARKET SEGMENT

Héroux-Devtek is also a major supplier of aerospace components to defence aircraft. Total global military expenditure increased by 3.7% in real terms in 2022, to reach a new high of $2,240 billion, growing for the eighth consecutive year. Notably, military expenditure in Europe saw its steepest year-on-year increase in at least 30 years. The United Kingdom had the highest military spending in Central and Western Europe and was up 3.7% compared to 2021. In 2022, the United States accounted for 39% of the world's total military expenditure, which is more than the next 10 countries combined, according to the new data on global spending published by the Stockholm International Peace Research Institute (SIPRI). With facilities in Spain, the UK, Canada and the US, Héroux-Devek is well positioned to serve these markets. The real-terms increase in world military spending in 2022 was slowed by the effects of inflation, which in many countries soared to levels not seen for decades. In nominal terms (i.e. in current prices without adjusting for inflation), the global total increased by 6.5 per cent.

The invasion of Ukraine by Russia in February 2022 has brought potential for military conflicts to light and led many countries to significantly increase their military spending, while others announced plans to raise spending levels over periods of up to a decade.

According to Teal Group, fighter jet production is expected to increase by 80% from 2,605 to 4,677 over the course of 10 years (2022-2031), with demand for the Lockheed Martin F-35, already the most produced aircraft, expected to grow further still; Héroux-Devtek supplies the landing gear door uplocks system for the F-35 which should be an important revenue contributor for the life of the program. Héroux-Devtek is also the sole-source supplier of landing gear systems for the Boeing F-15 and Saab Gripen E, as well as the main landing gear and side braces for the Boeing F-18 E/F and EA-18G.

FIGHTER JET PRODUCTION

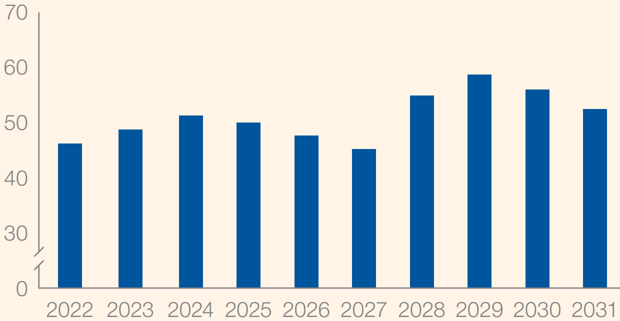


Source: Teal Group

MILITARY TRANSPORT AIRCRAFT PRODUCTION

Military transport aircraft production is set to grow modestly by the end of this decade. That said, Héroux-Devtek supplies the three most produced military transport aircraft currently, representing over 80% of units produced last year: the Lockheed Martin C130J (Landing gear systems and spare parts) and Airbus C295 and A400M (Landing gear components, actuation systems and other components).

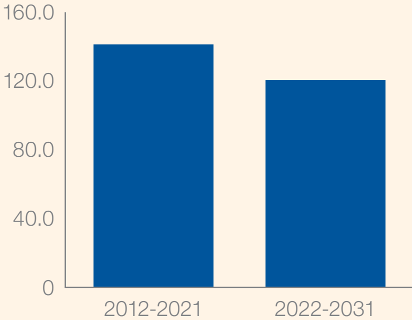
MILITARY TRANSPORT AIRCRAFT PRODUCTION UNITS



THE MILITARY HELICOPTER MARKET

The military helicopter market is expected to grow modestly in terms of units produced from 448 units in 2023 to 460 units by 2030 however from a dollar perspective, the value of units produced in the next decade to 2031 will be lower than 2012-2021 at $120b vs. $140b. Looking at specific programs however, production for the recently introduced Sikorsky CH-53K is expected to grow substantially over the next few years. Héroux-Devtek designed, developed and supplies the landing gear system and tail bumpers for production and spares for the CH-53K. Héroux-Devtek also supplies and assembles the landing gear for the Boeing CH-47 Chinook as well as provides spares requirements; this widely appreciated transport helicopter has been in operation since the early 1960s.

MILITARY HELICOPTER - BILLIONS



NEAR-TERM PRODUCTION ENVIRONMENT CHALLENGES REMAIN

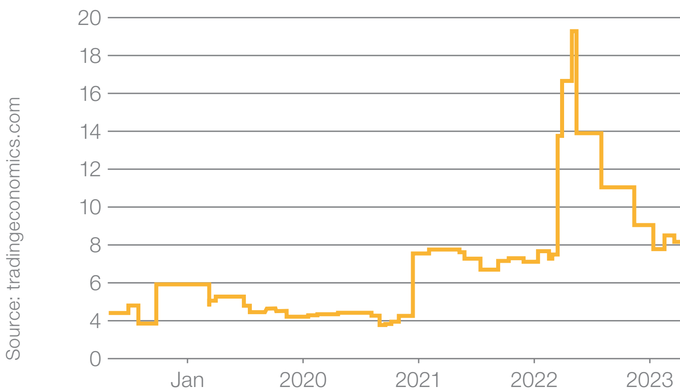
Strong aircraft orders led Héroux-Devtek to close FY2023 with a near-record backlog of $864 million, up 27% from $682 million in FY2022.

Global supply chain challenges that arose post-pandemic were exacerbated by the Russia-Ukraine conflict, especially in the aerospace sector, for which these two countries are major producers of rare metals, including titanium. As a result, lead times for the procurement of these metals increased significantly in 2022, limiting the supply. These delays have impacted the production process, resulting in increased transportation costs to expedite delivery times and higher overtime compensation to meet throughput delivery commitments.

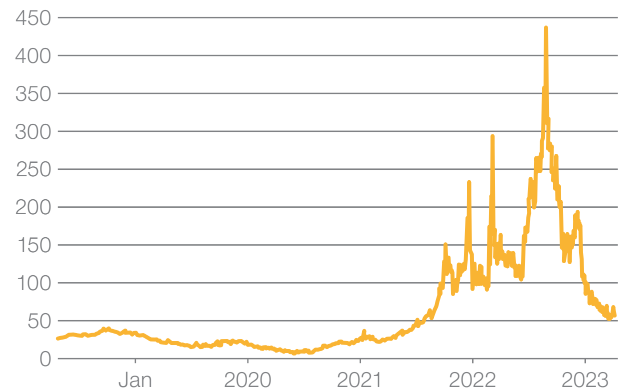
Energy costs rose sharply as a consequence of the Russia-Ukraine conflict as well, particularly in Europe, where many countries are striving to find alternative energy supplies to oil and gas from Russia. The lower supply and redistribution of demand to other sources drove up prices and contributed to the overall inflationary pressures affecting production costs.

Héroux-Devtek's manufacturing operations in the UK and Spain have not been immune and have seen their energy costs increase significantly, by 40% and 94% respectively.

TITANIUM PRICE USD/KG



EUROPEAN NATURAL GAS PRICE EUR/MWH



Rising energy costs were one of the factors that contributed to the overall inflationary pressures affecting production costs. In 2021, the onset of inflationary pressures in North America, which reached 7% during the year, marked a significant departure from the relatively low inflationary environment of the previous decade, where annual US inflation mostly stayed below 2%.

As can be seen from the different charts, the excess pricing levels seen in raw material prices, energy and freight rates have come down from their peak and presage a more manageable cost environment going forward. That said, two cost drivers remain obstinately high: labor costs and inflation.

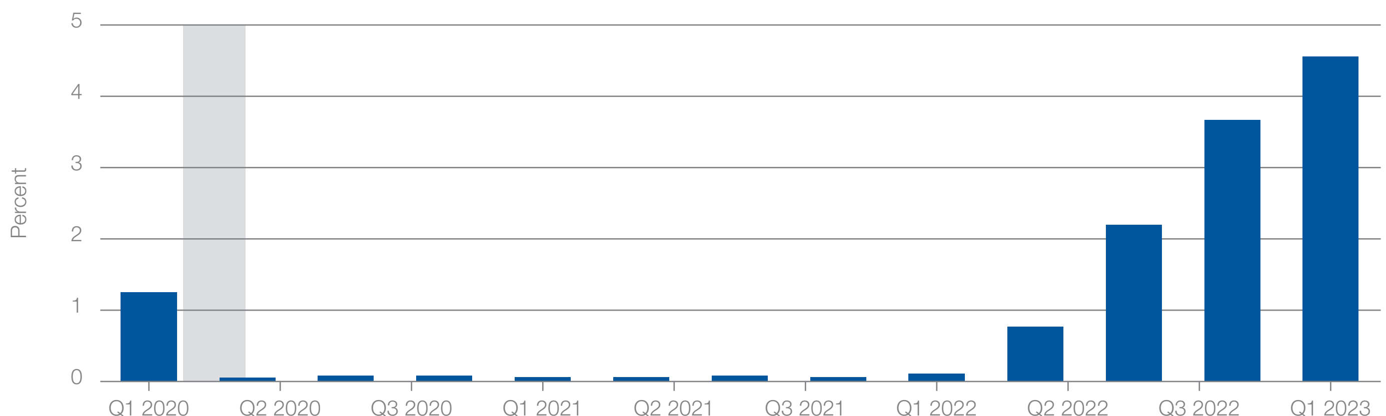
US INBOUND AIR FREIGHT PRICE INDEX

Shaded areas indicate U.S. recessions.

The tightness of North America's labor markets, coupled with rapid demand recovery, presented operational challenges for Héroux-Devtek in FY2023. Despite being almost fully staffed, production inefficiencies have occurred due to the limited availability of skilled aerospace technicians and machinists. To address this shortage, the company increased spending on training and development to upskill new employees without prior aerospace experience. However, the higher turnover rate among these new employees has led to production inefficiencies, as recruiting and training new staff is time-consuming.

Many central banks including in the Euro zone and in North America have responded to the inflationary and employment pressures by increasing interest rates. Héroux-Devtek, despite having little leverage by its own historical standards and compared to some of its peers, is not immune to the effects of these rate increases, as higher cost of capital may put some financially fragile suppliers at risk.

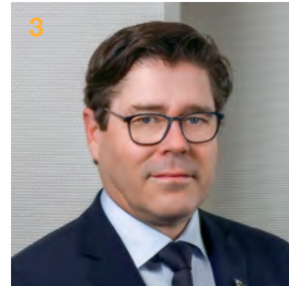
FEDERAL FUNDS EFFECTIVE RATE

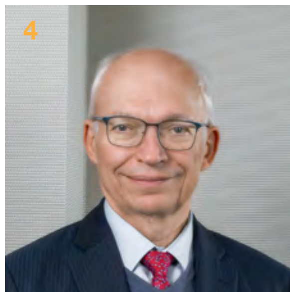


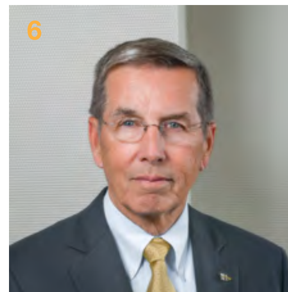
Shaded areas indicate U.S. recessions.

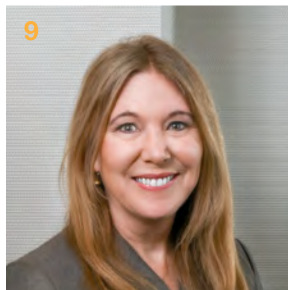
BOARD OF DIRECTORS

The Héroux-Devtek Board of Directors is comprised of 10 members coming from diverse sectors, including the aerospace industry and the business world. This diverse mix of professionals offers the management team valuable perspectives and expertise to draw from in making critical decisions. The Board's extensive collective experience ensures that the company is guided by the best possible strategic vision and management practices.









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
Independent Director since 2019
Member of the Audit Committee

10 Ted Di Giorgio
Corporate Director
Independent Director since 2023
Member of the Audit Committee

CORPORATE MANAGEMENT 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 & Environment

Guy Delisle
Vice-President, IT

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

Patrick Gagnon
Vice-President, Corporate Controller

Jean-Philippe Sanche
Vice-President, Legal Affairs

Olivier Perron
Senior Director, Tax & Treasury

Guillaume Lamy
Director, Financial Reporting

Katie Nolan
Director, Internal Audit & Corporate Governance

Sylvie Hébert
Director, Human Resources

OPERATIONS MANAGEMENT TEAM

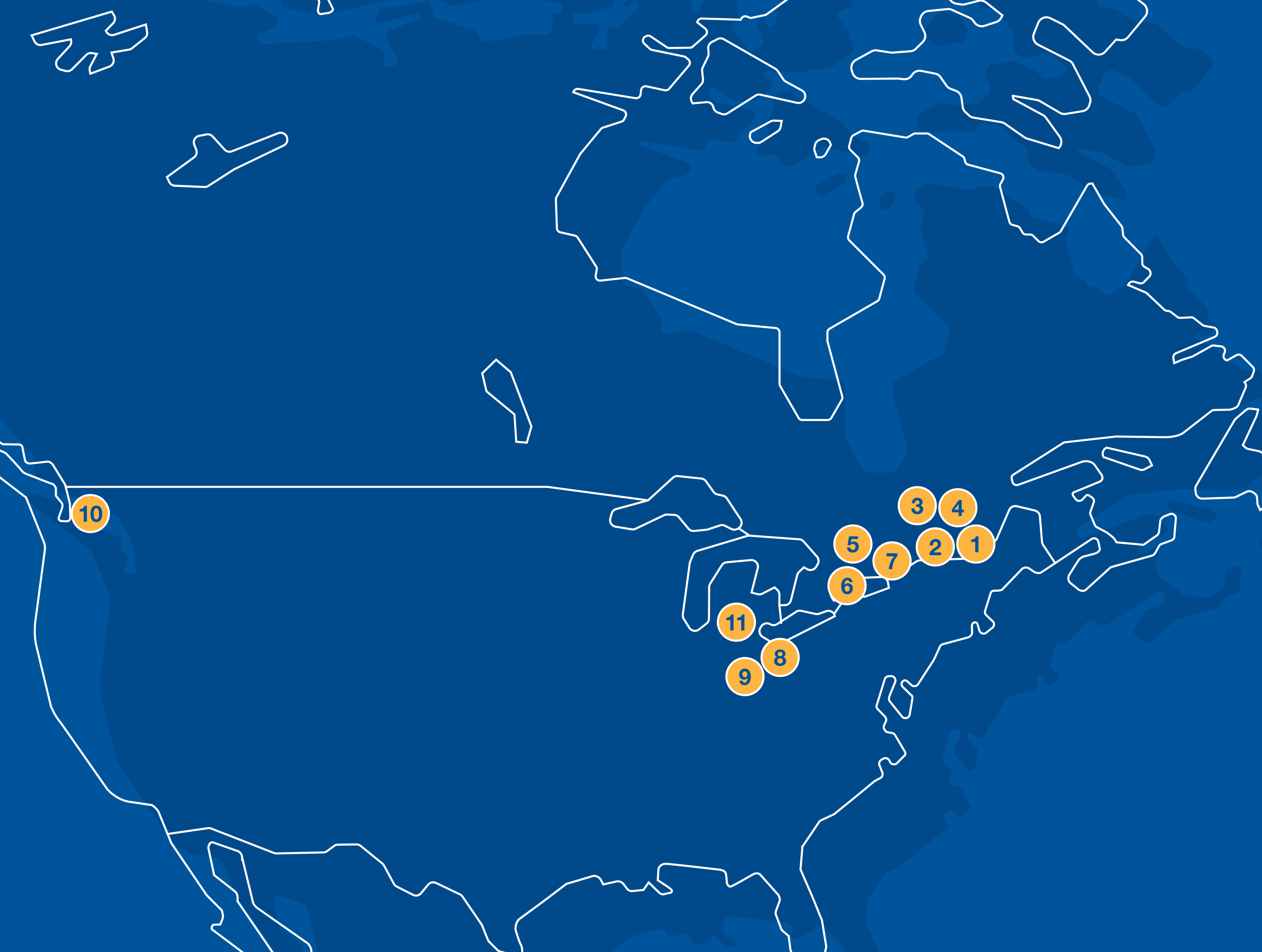
Dominique Dallaire
Vice-President, Central Region

Anne-Marie Bertrand
Vice-President, Eastern Region

Marc-Olivier Gagnon
Vice-President, Engineering & Product Support

Hugo Lorrain
Vice-President, Spain

Daniel Normandin
Vice-President, United Kindom



GLOBAL CENTRES OF EXCELLENCE

With a presence in 4 countries around the world, our 15 Centres of Excellence have proven their agility and resilience in the face of the ever-changing business environment. Our global locations have allowed us to work closely with our customers, providing them with tailored solutions that meet their specific needs. Our team of experts across the globe are dedicated to ensuring that our products and services meet the highest standards of quality, safety and performance.

CANADA

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

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

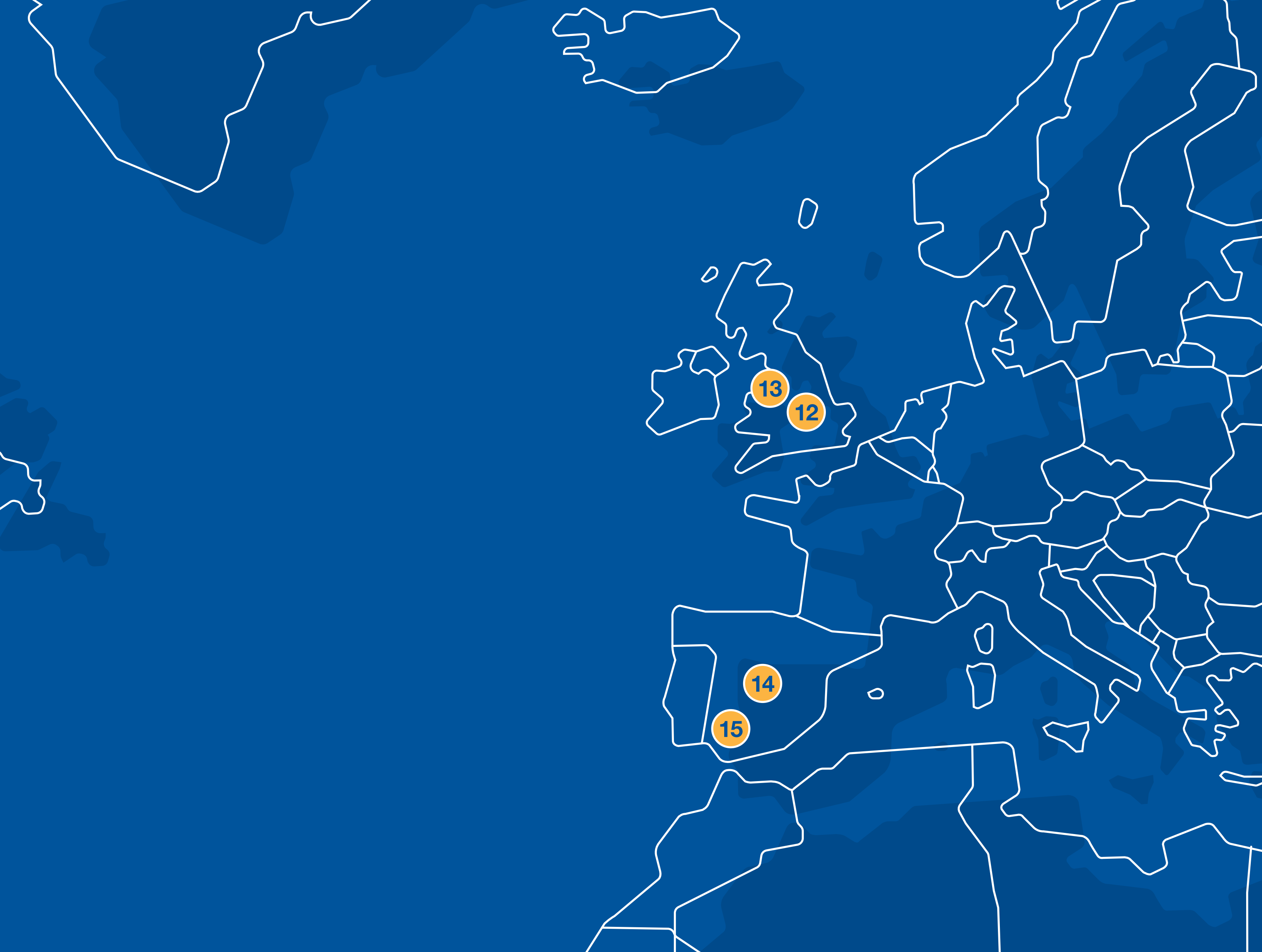
3 **Laval, Québec**
Manufacturing and assembly of small to medium landing gear components and systems

4 **Montréal, Québec**
Surface treatment services

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

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

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



USA

8 Strongsville, Ohio
Finishing and assembly of landing gear

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

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

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

UNITED KINGDOM

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

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

SPAIN

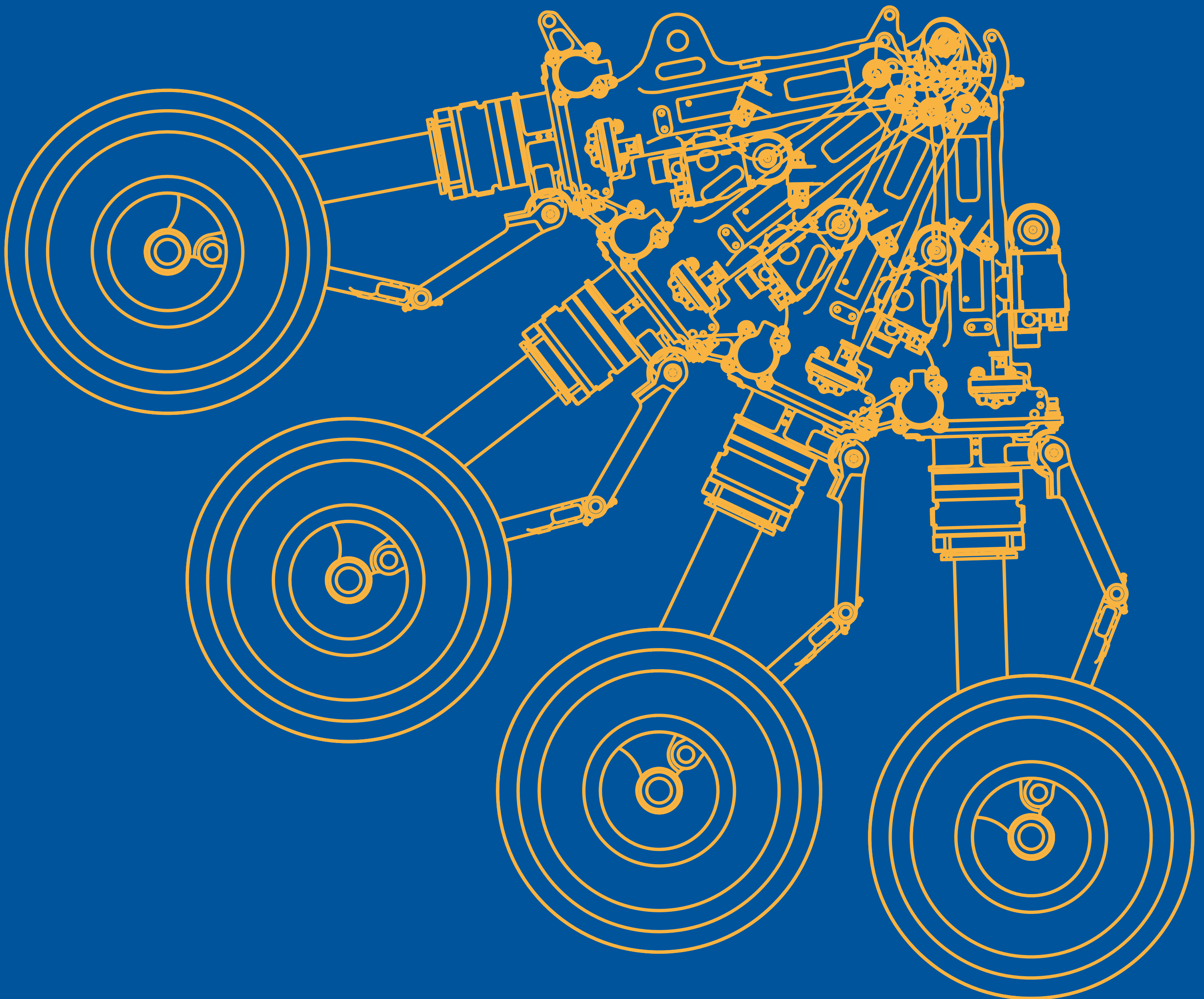
14 Getafe
Design, manufacturing, assembly and support for landing gear and actuation systems

15 Seville
Assembly and installation of aircraft components at customer assembly lines

Kahina

CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended March 31, 2023



HÉROUX DEVTEK

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MANAGEMENT'S REPORT

The accompanying consolidated financial statements and Management's 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 disclosure controls and procedures ("DC&P"), or have caused them to be designed under their supervision, to provide reasonable assurance that material information related to the Corporation has been made known to them and has been properly disclosed or submitted by it under applicable securities legislation has been recorded, processed, summarized and reported within the time periods specified in securities legislation. The Corporation's CEO and CFO have also designed internal controls over financial reporting ("ICFR"), or 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.

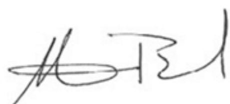
Héroux-Devtek Inc.'s CEO and CFO have also evaluated the effectiveness of such ICFR and DC&P as at the end of fiscal year 2023, or caused them to be evaluated under their supervision. As at March 31, 2023, management has concluded that the ICFR and DC&P were effective based on this evaluation, and had no material weaknesses. 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 17, 2023

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, 2023 and 2022, 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, 2023 and 2022, 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, 2023, the Group had goodwill amounting to $112.4 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 of each CGU 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 expected future cash flows, perpetual growth rate used and the discount rates. The risks surrounding the current business environment resulting from supply chain issues, inflation and workforce shortage have added complexity and subjectivity to the expected future cash flows determined by management. 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 impairment test for the Group's CGUs is a key audit matter.

How our audit addressed the key audit matter

Our audit procedures included, amongst others, reviewing management's assumptions relating to the expected future cash flows 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. We obtained information with respect to contract negotiations and management's actions to face production and supply chain issues and compared these to supporting evidence.

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 of cash flow projections and growth rates by comparing management's past projections to actual and historical performance. We compared management's revenue and earnings projections per CGU for each of the next five years to market data and analysts' expectations for the Group and industry, 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 17, 2023

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

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars)

As at March 31,	Notes	2023	2022
Assets	20		
Current assets			
Cash		$ 15,020	$ 86,692
Accounts receivable		126,721	105,389
Income tax receivable		2,176	1,108
Inventories	12	262,995	200,342
Derivative financial instruments	13	386	5,500
Other current assets	14	22,215	16,419
		429,513	415,450
Property, plant and equipment, net	15	205,490	208,838
Finite-life intangible assets, net	16	53,654	47,320
Derivative financial instruments	13	468	14,329
Deferred income tax assets	24	9,308	6,557
Goodwill	17	112,384	108,200
Other long-term assets	14	10,520	12,664
Total assets		$ 821,337	$ 813,358
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	18	$ 131,019	$ 114,508
Provisions	19	16,632	21,925
Customer advances and progress billings		58,904	29,875
Income tax payable		466	826
Derivative financial instruments	13	5,493	1,852
Current portion of long-term debt	20	11,425	10,835
		223,939	179,821
Long-term debt	20	166,483	225,691
Provisions	19	15,576	14,828
Derivative financial instruments	13	4,895	830
Deferred income tax liabilities	24	11,377	8,567
Other liabilities	21	8,148	6,339
		430,418	436,076
Shareholders' equity			
Issued capital	22	82,459	82,189
Contributed surplus		6,739	5,767
Accumulated other comprehensive income	23	12,072	6,865
Retained earnings		289,649	282,461
		390,919	377,282
Total liability and shareholder's equity		$ 821,337	$ 813,358

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	2023	2022
Sales	6	$ 543,622	$ 536,087
Cost of sales	7, 8, 12	470,087	444,992
Gross profit		73,535	91,095
Selling and administrative expenses	7, 8	48,556	44,028
Other expenses (gains)	9	(1,219)	2,309
Operating income		26,198	44,758
Net financial expenses	10	7,575	4,270
Income before income tax expense		18,623	40,488
Income tax expense	24	4,798	8,348
Net income		$ 13,825	$ 32,140
Attributable to:			
Equity holders of the parent		13,825	32,525
Non-controlling interests		—	(385)
		$ 13,825	$ 32,140
Earnings per share – basic and diluted	11		
Basic		$ 0.40	$ 0.91
Diluted		0.40	0.90

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	2023	2022
Other comprehensive income (loss):			
Items that may be reclassified to net income			
Gains (losses) arising from conversion of the financial statements of foreign operations	23	$ 20,363	$ (11,059)
Cash flow hedges:	23		
Net losses on valuation of derivative financial instruments		(21,615)	(817)
Net losses (gains) on derivative financial instruments transferred to net income		7,193	(4,471)
Deferred income taxes		3,808	1,394
		(10,614)	(3,894)
(Losses) gains on hedges of net investments in foreign operations	23	(5,229)	6,378
Deferred income taxes		687	(839)
		(4,542)	5,539
Items that are never reclassified to net income			
Defined benefit pension plans:	25		
(Losses) gains from remeasurement		(1,709)	5,507
Deferred income taxes		451	(1,455)
		(1,258)	4,052
Other comprehensive income (loss)		$ 3,949	$ (5,362)
Comprehensive income			
Net income		$ 13,825	$ 32,140
Other comprehensive income (loss)		3,949	(5,362)
Comprehensive income		$ 17,774	$ 26,778
Attributable to:			
Equity holders of the parent		17,774	27,163
Non-controlling interests		—	(385)
		$ 17,774	$ 26,778

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, 2022		$82,189	$5,767	$ 6,865	$282,461	$377,282	$ —	$377,282
Common shares issued under the stock option plan	22	1,437	(334)	—	—	1,103	—	1,103
Repurchase and cancellation of common shares	22	(1,167)	—	—	(5,379)	(6,546)	—	(6,546)
Stock-based compensation expense	22	—	1,306	—	—	1,306	—	1,306
Net income		—	—	—	13,825	13,825	—	13,825
Other comprehensive income	23	—	—	5,207	(1,258)	3,949	—	3,949
Balance as at March 31, 2023		$82,459	$6,739	$12,072	$289,649	$390,919	$ —	$390,919

	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	5	—	—	—	(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

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	2023	2022
Cash provided by (used for):			
Operating activities			
Net income		$ 13,825	$ 32,140
Items not requiring an outlay of cash:			
Amortization expense	15, 16	36,387	35,982
Deferred income taxes	24	6,021	71
Gain on disposal of property, plant and equipment		—	(850)
Net non-cash financial expenses	10	2,908	1,139
Stock-based compensation expense	22	1,306	1,173
		60,447	69,655
Net change in non-cash items	27	(30,387)	(6,489)
Cash flows related to operating activities		30,060	63,166
Investing activities			
Net additions to property, plant and equipment	15	(18,641)	(17,306)
Proceeds of disposal of property, plant and equipment		—	2,881
Net increase in finite-life intangible assets	16	(13,137)	(2,847)
Proceeds from a business divestiture	5	3,486	2,041
Purchase of minority interest	5	—	(900)
Cash flows related to investing activities		(28,292)	(16,131)
Financing activities			
Proceeds from long-term debt	20	7,046	3,145
Repayment of long-term debt	20	(75,747)	(16,310)
Increase in deferred financing costs	20	(245)	(555)
Repurchase and cancellation of shares	22	(6,546)	(43,000)
Issuance of common shares under the stock option plan	22	1,103	1,499
Cash flows related to financing activities		(74,389)	(55,221)
Effect of changes in exchange rates on cash		949	(592)
Change in cash during the year		(71,672)	(8,778)
Cash at beginning of year		86,692	95,470
Cash at end of year		$ 15,020	$ 86,692
Interest and income taxes reflected in operating activities:			
Interest paid		$ 6,946	$ 7,460
Interest received		$ 2,279	$ 522
Income taxes paid		$ 2,636	$ 4,895

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, 2023 and 2022
(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 17, 2023.

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.

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 typical payment term is between 30 and 60 days and 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
When 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 costs such as depreciation.

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 by the Corporation. 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 payment equal to the quoted price of the Corporation's common share multiplied by the number of vested DSUs.

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. Intercompany sales are eliminated. 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

Right-of-use assets and lease liabilities are recognized at the lease commencement date. Certain exemptions apply for short-term leases and leases of low-value assets.

Right-of-use of assets

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

The cost of right-of-use assets are periodically reduced by depreciation expenses and impairment losses, if any, and adjusted for certain remeasurement of the lease liability. Right-of-use assets are amortized to the lesser of the useful life or the lease term using the straight-line method as this reflects the expected pattern of consumption of the future economic benefits. The lease term includes the renewal option only if it is reasonably certain to exercise that option. Lease terms range from 1 to 20 years for buildings and 1 to 7 years for machinery, equipment and tooling.

Lease liabilities

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

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

NOTE 4. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

Key estimates and assumptions are as follows:

A. 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 the highest of the fair value less costs of disposal and the value in use, 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; and,
- 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 was subject to the achievement of certain commercial objectives. The transaction did not result in a material gain or loss on disposal at the time.

The commercial objectives related to the transaction were met during fiscal 2023, resulting in a $1,219 net gain included in Other expenses (gains) (note 9).

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:

	2023	2022
Civil	$ 170,680	$ 149,368
Defence	372,942	386,719
Total sales	$ 543,622	$ 536,087

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

	2023	2022
United States	$ 333,914	$ 313,218
Canada	33,257	32,970
United Kingdom	36,875	39,320
Spain	29,599	36,424
Rest of Europe	68,463	73,282
Other countries	41,514	40,873
	$ 543,622	$ 536,087

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:

	2023	2022
Finite-life intangible assets (note 16)	$ 1,010	$ 650
Property, plant and equipment (note 15)	78	585
Cost of sales and, selling and administrative expenses	5,656	11,124

Government assistance mainly includes research and development tax credits, other credits and grants, including in fiscal 2022 the Canadian Emergency Wage Subsidy and other pandemic relief measures (none in fiscal 2023).

NOTE 8. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

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

	2023	2022
Raw materials and purchased parts	$ 203,379	$ 199,421
Employee costs	191,723	181,494
Amortization of property, plant and equipment and finite-life intangible assets (notes 15, 16)	36,387	35,982
Supplies and small tools	22,737	19,577
Maintenance and machinery repair	16,104	14,708
Others	48,313	37,838
	$ 518,643	$ 489,020
Included in cost of sales, selling and administrative expenses:		
Foreign exchange gain (loss) upon conversion of net monetary items	(105)	842

NOTE 9. OTHER EXPENSES (GAINS)

Other expenses (gains) are comprised of items whose separate disclosure may be useful to users of the financial statements in interpreting the Corporation's financial performance. These items do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance.

	2023	2022
Other items in operating income		
Legal ruling	$ —	$ 2,309
Gain on a business divestiture (note 5)	(1,219)	—
	$ (1,219)	$ 2,309

Gain on a business divestiture

The commercial objectives included in the agreement for the fiscal 2022 sale of Bolton operations to Ontic Engineering & Manufacturing UK Limited were achieved in September 2022, resulting in a net gain of $1,219 in fiscal 2023.

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 during the fourth quarter of fiscal 2022.

NOTE 10. NET FINANCIAL EXPENSES

Net financial expenses comprise the following, for fiscal year:

	2023	2022
Interest accretion on governmental authorities loans	$ 3,140	$ 3,162
Revision of governmental authorities loans repayment estimates (note 20)	(1,207)	(3,062)
Interest on defined benefit obligations (note 25)	(194)	23
Interest on leases (note 20)	840	1,010
Amortization of deferred financing costs	475	554
Other net non-cash financial income	(146)	(548)
Net non-cash financial expenses	2,908	1,139
Interest expense on long-term debt	6,946	3,653
Interest income on cash	(2,279)	(522)
	$ 7,575	$ 4,270

NOTE 11. EARNINGS PER SHARE

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

	2023	2022
Weighted-average number of common shares outstanding	34,384,106	35,748,639
Effect of dilutive stock options of the Corporation	100,857	274,423
Weighted-average number of common diluted shares outstanding	34,484,963	36,023,062
Options excluded from diluted earnings per share calculation[1]	1,288,000	189,000

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

NOTE 12. INVENTORIES

As at	March 31, 2023	March 31, 2022
Raw materials and purchased parts	$ 130,618	$ 83,396
Work in progress	129,625	115,172
Finished goods	2,752	1,774
	$ 262,995	$ 200,342

An amount of $357,105 of inventory was recognized as cost of sales during the fiscal year 2023 ($342,525 for fiscal 2022).

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

	2023	2022
Reserves recognized as cost of sales	$ 3,599	$ 2,847
Reversal of prior-period reserves	2,317	1,081

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, 2023	March 31, 2022
Current Assets		
Forward foreign exchange contracts	$ 386	$ 4,338
Cross-currency interest rate swap agreements	—	1,162
	$ 386	$ 5,500
Long-term Assets		
Forward foreign exchange contracts	$ 468	$ 4,790
Cross-currency interest rate swap agreements	—	8,469
Equity swap agreement	—	1,070
	$ 468	$ 14,329
Current Liabilities		
Forward foreign exchange contracts	$ 5,493	$ 1,852
	$ 5,493	$ 1,852
Long-term Liabilities		
Forward foreign exchange contracts	$ 4,771	$ 830
Equity swap agreement	124	—
	$ 4,895	$ 830

NOTE 14. OTHER ASSETS

As at	March 31, 2023	March 31, 2022
Investment and other tax credits receivable	$ 9,907	$ 5,635
Prepaid expenses	5,917	3,931
Sales tax receivable	4,504	3,243
Balance of sale receivable (note 5)	376	2,463
Others	1,511	1,147
Other current assets	$ 22,215	$ 16,419
Investment and other tax credits receivable	2,514	3,047
Long-term receivable	3,299	3,229
Net pension plan asset (note 25)	4,707	6,388
Other long-term assets	$ 10,520	$ 12,664

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, 2022	$ 15,758	$ 128,144	$ 280,581	$ 20,782	$ 2,443	$ 447,708
Additions	—	3,280	11,749	3,868	1,101	19,998
Government assistance (note 7)	—	—	—	(78)	—	(78)
Retirements and disposals	—	(103)	—	(982)	—	(1,085)
Effect of changes in exchange rates	645	5,452	4,016	698	26	10,837
As at March 31, 2023	$ 16,403	$ 136,773	$ 296,346	$ 24,288	$ 3,570	$ 477,380
Accumulated amortization:						
As at March 31, 2022	$ —	$ 47,618	$ 176,382	$ 14,870	$ —	$ 238,870
Amortization expense	—	6,416	19,301	2,117	—	27,834
Retirements and disposals	—	(101)	—	(984)	—	(1,085)
Effect of changes in exchange rates	—	2,227	3,477	567	—	6,271
As at March 31, 2023	$ —	$ 56,160	$ 199,160	$ 16,570	$ —	$ 271,890
Net book value as at March 31, 2023	$ 16,403	$ 80,613	$ 97,186	$ 7,718	$ 3,570	$ 205,490

	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

Right of use assets:

The following tables reconciles the right-of-use assets for the Corporation as at March 31, 2023 and 2022 that are included in Property, Plant and Equipment:

	Building and leasehold improvements	Machinery, equipment and tooling	Other	Total
Cost:				
As at March 31, 2022	$ 17,121	$ 45,942	$ 2,277	$ 65,340
Additions	606	73	470	1,149
Effect of changes in exchange rates	(914)	7	136	(771)
As at March 31, 2023	$ 16,813	$ 46,022	$ 2,883	$ 65,718
Accumulated amortization:				
As at March 31, 2022	$ 6,212	$ 27,734	$ 1,432	$ 35,378
Amortization expense	1,179	4,037	682	5,898
Effect of changes in exchange rates	150	(597)	(767)	(1,214)
As at March 31, 2023	$ 7,541	$ 31,174	$ 1,347	$ 40,062
Net book value as at March 31, 2023	$ 9,272	$ 14,848	$ 1,536	$ 25,656

	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

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

	2023	2022
Gross additions	$ 19,998	$ 17,350
Government assistance (note 7)	(78)	(585)
Additions to property, plant and equipment	19,920	16,765
Non-cash additions to right-of-use assets	(1,149)	(780)
Variation in unpaid additions included in Accounts payable and accrued liabilities at year-end	(130)	1,321
Additions, as per statements of cash flows	$ 18,641	$ 17,306

As at March 31, 2023, the cost of property, plant and equipment still in use and fully depreciated is $131,388 ($111,283 as at March 31, 2022).

NOTE 16. FINITE-LIFE INTANGIBLE ASSETS

	Capitalized development costs	Software	Customer relationships and contracts	Total
Cost:				
As at March 31, 2022	$ 26,337	$ 20,889	$ 65,539	$ 112,765
Additions	15,056	1,750	—	16,806
Customers funding	(2,858)	—	—	(2,858)
Government assistance (note 7)	(1,010)	—	—	(1,010)
Retirements and disposals		(349)	—	(349)
Effect of changes in exchange rates	—	902	3,616	4,518
As at March 31, 2023	$ 37,525	$ 23,192	$ 69,155	$ 129,872
Accumulated amortization:				
As at March 31, 2022	$ 14,464	$ 16,450	$ 34,531	$ 65,445
Amortization expense	2,190	1,298	5,065	8,553
Retirements and disposals	—	(349)	—	(349)
Effect of changes in exchange rates	—	810	1,759	2,569
As at March 31, 2023	$ 16,654	$ 18,209	$ 41,355	$ 76,218
Net book value as at March 31, 2023	$ 20,871	$ 4,983	$ 27,800	$ 53,654

	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

NOTE 17. GOODWILL

Goodwill varied as follows, during fiscal year:

	2023	2022
Balance at beginning of the year	$ 108,200	$ 115,970
Divestiture (note 5)	—	(2,467)
Effect of changes in exchange rates	4,184	(5,303)
Balance, end of year	$ 112,384	$ 108,200

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

	March 31, 2023	March 31, 2022
North America	$ 23,902	$ 22,485
U.K.	59,943	58,835
Spain	28,539	26,880
Goodwill	$ 112,384	$ 108,200

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

	March 31, 2023		March 31, 2022	
	Pre-tax discount rate	**Perpetual growth rate**	**Pre-tax discount rate**	**Perpetual growth rate**
North America	14.7 %	2.5 %	14.4 %	2.5 %
U.K.	15.2 %	2.5 %	14.7 %	2.5 %
Spain	14.9 %	2.5 %	14.8 %	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, 2023 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, 2023:

	Incremental increase in pre-tax discount rate	**Incremental decrease in perpetual growth rate**
North America	2.1 %	4.9 %
U.K.	0.7 %	3.3 %
Spain	3.6 %	5.9 %

NOTE 18. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at	March 31, 2023	March 31, 2022
Trade payables [1]	$ 89,521	$ 71,637
Accrued liabilities [2]	38,155	39,442
Other	3,343	3,429
Accounts payable and accrued liabilities	$ 131,019	$ 114,508

[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	Others (note 26)	Total
As at March 31, 2022	$ 8,034	$ 6,055	$ 9,780	$ 12,884	$ 36,753
Arising during the year	170	228	1,096	2,172	3,666
Accretion expense	—	179	—	—	179
Utilized	(2,023)	(72)	(1,259)	(1,965)	(5,319)
Reversed	(2)	—	(529)	(3,054)	(3,585)
Discount rate adjustment	—	(390)	(53)	(4)	(447)
Effect of changes in exchange rates	522	—	288	151	961
As at March 31, 2023	$ 6,701	$ 6,000	$ 9,323	$ 10,184	$ 32,208
Less: current portion	1,498	—	6,886	8,248	16,632
Long-term portion	$ 5,203	$ 6,000	$ 2,437	$ 1,936	$ 15,576

NOTE 20. LONG-TERM DEBT

As at	March 31, 2023	March 31, 2022
Senior Secured Syndicated Revolving Credit Facility (“Revolving Facility“)	$ —	$ 58,821
Governmental authorities loans	89,032	84,508
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	75,000
Lease liabilities	15,946	20,497
Deferred financing costs, net	(2,070)	(2,300)
	177,908	236,526
Less: current portion	11,425	10,835
Long-term debt	$ 166,483	$ 225,691

Senior Secured Syndicated Revolving Credit Facility

The Revolving Facility has a limit of $250,000, no amount outstanding as at March 31, 2023, and bears interest at SOFR + 1.1% representing an effective rate of 5.9% ($58,821 or US$47,000 Libor + 1.0% representing 1.3% as at March 31, 2022). It includes an accordion feature to increase the limit by an additional $200,000, subject to lenders’ approval, and is secured by essentially all assets of the Corporation and its subsidiaries.

In May 2022, the Corporation reached an agreement to extend the Revolving Facility to a new maturity of June 2027 (as at March 31, 2022 - June 2026), 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, 2023, 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 $1,207 ($3,062 in fiscal 2022), 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 6.6% as at March 31, 2023 (0.0% to 6.8% as at March 31, 2022).

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, 2023 and 2022, this facility was fully drawn.

The Term Loan Facility matures in September 2028, bears interest at a rate of 5.0%, 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, 2023 ranged between 2.1% and 11.0% for leases (2.1% and 7.0% as at March 31, 2022), maturing from April 2023 to May 2039.

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

As at	March 31, 2023	March 31, 2022
Balance at the beginning of the year	$ 20,497	$ 28,274
Additions	1,149	780
Settlement	—	(534)
Lease payments	(6,703)	(8,466)
Interest expense on lease liabilities (note 10)	840	1,010
Effect of changes in exchange rates	163	(567)
	$ 15,946	$ 20,497

The expense related to short-term leases and low-value assets leases during the years ended March 31, 2023 and 2022 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 its covenants as at March 31, 2023.

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

	March 31, 2023	March 31, 2022
Long-term debt, at beginning of the fiscal year	$ 236,526	$ 250,699
Increase in long-term debt	8,195	3,925
Repayment of long-term debt	(75,747)	(16,310)
Settlement of lease liabilities	—	(534)
Amortization of deferred financing costs (note 10)	475	554
Increase in deferred financing cost	(245)	(555)
Interest accretion and adjustments on governmental authorities loans (note 10)	1,933	100
Interest accretion in lease liability (note 10)	840	1,010
Effects of fluctuations in exchange rates	5,931	(2,363)
Long-term debt, at end of the fiscal year	$ 177,908	$ 236,526

NOTE 21. OTHER LIABILITIES

As at	March 31, 2023	March 31, 2022
Progress billings	$ 5,617	$ 3,377
Deferred revenue	—	725
Net defined benefit obligations (note 25)	953	1,063
Other	1,578	1,174
Other Liabilities	$ 8,148	$ 6,339

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:

		2023		2022
	Number	Issued capital	Number	Issued capital
Balance at the beginning of the year	34,486,776	$ 82,189	36,764,710	$ 86,222
Issued for cash on exercise of stock options	103,000	1,437	134,345	2,031
Repurchase and cancellation	(482,703)	(1,167)	(2,412,279)	(6,064)
Balance at the end of the year	34,107,073	$ 82,459	34,486,776	$ 82,189

On May 19, 2022, the Corporation announced a Normal Course Issuer Bid ("NCIB") for the purchase for cancellation of up to 1,896,079 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2022, and was set to end on May 24, 2023, 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, 2023, the Corporation has purchased and cancelled 482,703 common shares for a cash consideration of $6,546 representing a weighted average price of $13.56 per share (2,412,279 common shares for a cash consideration of $43,000 representing a weighted average price of $17.83 per share as at March 31, 2022). The $5,379 excess of purchase price over the carrying value was charged to retained earnings.

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:

	2023		2022	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Balance at the beginning of the year	1,503,750	$ 14.19	1,449,095	$ 13.48
Granted	247,000	15.42	197,000	17.45
Exercised	(103,000)	10.71	(134,345)	11.16
Expired	(2,250)	10.71	—	—
Cancelled / forfeited	(10,000)	15.42	(8,000)	17.45
Balance at the end of the year	1,635,500	$ 14.59	1,503,750	$ 14.19

Stock option expense for fiscal 2023 was $1,306 ($1,173 in 2022). The weighted-average share price at the date of exercise of stock options in fiscal 2023 was $15.85 ($17.86 in 2022).

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

	2023	2022
Number of stock options granted	247,000	197,000
Weighted average fair value per stock option	$ 6.12	$ 6.30
Total fair value	$ 1,512	$ 1,241
Expected life	5.5 years	5.4 years
Expected volatility	36 %	36 %
Expected forfeiture	1.3 %	1.1 %
Expected dividend distribution	None	None
Compounded risk-free interest rate	2.8 %	1.0 %

As at March 31, 2023, 1,635,500 stock options were issued and outstanding, detailed as follows:

	Outstanding options			Vested options	
Exercise price	Number	Weighted-average years to maturity	Weighted-average exercise price	Number	Weighted-average exercise price
$9.83	347,500	4.16	$9.83	173,000	$9.83
$14.93 to $15.42	569,000	3.42	15.15	332,000	14.95
$16.03 to $17.45	719,000	3.42	16.45	493,375	16.24
	1,635,500	3.58	$14.59	998,375	$14.70

As at March 31, 2023, 2,808,257 common shares are reserved for issuance upon exercise of stock options, of which 2,122,662 remained to be issued, compared to 2,225,662 as at March 31, 2022.

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

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

	2023	2022
In number of DSUs		
Balance, beginning of year	199,471	192,108
Issued	56,935	31,676
Settled	—	(24,313)
Closing balance of DSUs outstanding	256,406	199,471
DSU expense	$ (95)	$ 540
Fair value of outstanding DSUs, end of year	$ 3,242	$ 3,332

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

	2023	2022
In number of PSUs		
Balance, beginning of year	285,350	300,150
Issued	129,300	88,150
Settled	(98,200)	(86,800)
Cancelled/forfeited	(11,600)	(16,150)
Closing balance of PSUs outstanding	304,850	285,350
PSU expense	$ 388	$ 1,420
Fair value of vested outstanding PSUs, end of year	$ 3,185	$ 3,999

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, 2022	$ 3,005	$ 4,637	$ (777)	$ 6,865
Other comprehensive (loss) income	20,363	(10,614)	(4,542)	5,207
Balance as at March 31, 2023	$ 23,368	$ (5,977)	$ (5,319)	$ 12,072

	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 income (loss)	(11,059)	(3,894)	5,539	(9,414)
Balance as at March 31, 2022	$ 3,005	$ 4,637	$ (777)	$ 6,865

NOTE 24. INCOME TAXES

Income tax expense is as follows, for fiscal year:

	2023	2022
Consolidated statements of income		
Current income tax expense (recovery)	$ (1,223)	$ 8,277
Deferred income tax expense	6,021	71
Income tax expense reported in the consolidated statements of income	$ 4,798	$ 8,348
Consolidated statements of changes in shareholders' equity		
Expense (recovery) related to items charged or credited directly to retained earnings	$ (451)	$ 1,455
Recovery related to items charged or credited directly to other comprehensive income	(4,495)	(555)
Income tax expense reported directly in shareholders' equity	$ (4,946)	$ 900

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

	2023	2022
Income taxes at combined Federal and Provincial statutory rates of 26.4% (26.4% in 2022)	$ 4,935	$ 10,689
Income tax rate differential – foreign subsidiaries	(152)	(2,010)
Permanent differences	183	(475)
Write-down (recognition) of deferred tax asset	656	(301)
Other items	(824)	445
Income tax expense	$ 4,798	$ 8,348

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

As at	March 31, 2023	March 31, 2022
Deferred income tax assets		
Non-deductible reserves	$ 6,605	$ 7,752
Inventories	5,984	5,729
Receivables	150	(25)
Derivative financial instruments	2,323	—
Lease liabilities	1,908	2,090
Governmental authorities loans	665	284
Deferred tax benefits from tax losses and deductible expenses carried forward	14,854	19,261
Total deferred income tax assets	$ 32,489	$ 35,091
Deferred income tax liabilities		
Investment and other tax credits	(830)	(547)
Property, plant and equipment	(25,030)	(24,945)
Customer relationships and contracts	(8,698)	(9,002)
Derivative financial instruments	—	(2,607)
Total deferred income tax liabilities	$ (34,558)	$ (37,101)
Net deferred income tax liabilities	$ (2,069)	$ (2,010)

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

As at	March 31, 2023	March 31, 2022
Deferred income tax assets	$ 9,308	$ 6,557
Deferred income tax liabilities	(11,377)	(8,567)
Net deferred income tax liabilities	$ (2,069)	$ (2,010)

As at March 31, 2023, net deferred income tax assets of $12,015 were recognized ($9,791 as at March 31, 2022) 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, 2023, 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 $36,919 ($32,962 as at March 31, 2022).

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

As at	March 31, 2023	March 31, 2022
Canada	$ 14,364	$ 23,397
United States	83,017	75,302
United Kingdom	12,431	9,106
Spain	3,765	5,480
	$ 113,577	$ 113,285

As at March 31, 2023, deferred income tax assets of $8,217 and deferred income tax liabilities of $4,679 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, 2023, the temporary differences associated with investments in subsidiaries for which a deferred income tax liability has not been recognized aggregate to $23,840 ($22,100 in 2022).

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 2023, 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 $1,028 ($1,097 in 2022) while the cash contributed to its defined contribution plans amounted to $3,746 ($3,287 in 2022).

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 each plan actuarial valuation date 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 52% in equity funds, 30% in debt securities, 14% annuity buy-in insurance contracts and 4% 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, 2023	March 31, 2022
Present value of defined benefit obligations of funded plans	$ 58,966	$ 64,443
Fair value of plan assets	68,980	70,241
Irrecoverable surplus (Effect of asset ceiling)	(5,876)	—
Funded status of the plans – surplus	4,138	5,798
Present value of defined benefit obligations of unfunded plan	(384)	(473)
Net pension plan asset	$ 3,754	$ 5,325
Amount recognized in other long-term assets (note 14)	4,707	6,388
Amount recognized in other long-term liabilities (note 21)	(953)	(1,063)

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

	2023	2022
Current service cost	$ 791	$ 1,085
Interest on net defined benefit obligations (note 10)	(194)	23
Administrative cost	293	227
Defined benefit pension expense recognized in the consolidated statements of income	$ 890	$ 1,335

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

	2023	2022
Remeasurements		
Gains from changes in demographic assumptions	$ —	$ 1,203
Gains from changes in financial assumptions	6,565	5,524
Experience (losses) gains	(166)	5
Return on plan assets, excluding interest income on plan assets	(2,232)	(1,225)
Change in irrecoverable surplus other than interest	(5,876)	—
Other comprehensive income	$ (1,709)	$ 5,507

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

	2023	2022
Actual return on the fair value of plan assets	$ 422	$ 1,071

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

As at	March 31, 2023	March 31, 2022
Defined benefit obligations at the beginning of the year	$ 64,916	$ 69,932
Current service cost	791	1,085
Interest expense	2,460	2,319
Contributions by plans' participants	699	744
Gains from changes in demographic assumptions	—	(1,203)
Gains from changes in financial assumptions	(6,565)	(5,524)
Experience gains	166	(5)
Benefits paid	(3,117)	(2,432)
Defined benefit obligations at the end of the year	$ 59,350	$ 64,916

The fair value of plan assets is as follows:

As at	March 31, 2023	March 31, 2022
Fair value of plans' assets at the beginning of the year	$ 70,241	$ 69,988
Interest income on plans' assets	2,654	2,296
Return on plans' assets, excluding interest income on plans' assets	(2,232)	(1,225)
Contributions by the employer	1,028	1,097
Contributions by plans' participants	699	744
Benefits paid	(3,117)	(2,432)
Administrative costs	(293)	(227)
Fair value of plans' assets at the end of the year	$ 68,980	$ 70,241

The plans' assets consist of:

As at	March 31, 2023	March 31, 2022
Equity securities	52%	62%
Debt securities	30%	20%
Annuity buy-in insurance contracts	14%	15%
Other	4%	3%
Total	100%	100%

Significant assumptions

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

	2023	2022
Defined benefit obligations as at March 31:		
Discount rate	4.85%	3.98%
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	87
Female, 45 years of age at reporting date	89	89
Male, 65 years of age at reporting date	86	86
Female, 65 years of age at reporting date	88	88

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, 2023:

Increase (Decrease)	Defined benefit obligations
	%
Discount rate	
Increase of 0.5%	(4.6)
Decrease of 0.5%	5.1
Rate of compensation	
Increase of 0.5%	—
Decrease of 0.5%	—
Average life expectancies	
Increase of 1 year	2.0
Decrease of 1 year	(2.1)

Corporation's pension benefits future cash flows

The cash contributions expected to be made to these plans in fiscal year 2024 amount to $844.

The duration of the defined benefit obligations at March 31, 2023 is 10.5 years (13.4 years in 2022). The expected maturity of undiscounted pension benefits for the Unionized Pension Plan is presented as follows:

As at	March 31, 2023	March 31, 2022
Less than a year	$ 2,399	$ 2,233
Between 1-2 years	2,563	2,357
Between 2-5 years	8,616	8,290
Between 5-10 years	16,962	16,857
Total	$ 30,540	$ 29,737

Defined contribution pension plans

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

	2023	2022
Defined contribution pension plan costs	$ 3,746	$ 3,287

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:

	2024	2025 and thereafter
Building, machinery and equipment acquisition commitments	$ 1,984	$ —

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, 2023, the duration of these indemnification agreements could extend up to fiscal year 2024. As at March 31, 2023, an amount of $4,795 ($4,795 in 2022) 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, 2023, the Corporation has outstanding letters of credit amounting to $19,024 ($18,824 in 2022).

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:

	2023	2022
Accounts receivable	$ (18,003)	$ (8,515)
Inventories	(55,323)	11,026
Other assets	3,955	(7,248)
Accounts payable and accrued liabilities	19,558	10,418
Provisions	(5,394)	(5,333)
Customer advances and progress billings	27,658	(9,823)
Other Liabilities	(2,838)	2,986
	$ (30,387)	$ (6,489)

NOTE 28. GEOGRAPHIC INFORMATION

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

As at					March 31, 2023
	Canada	U.S.	U.K.	Spain	Total
Property, plant and equipment, net	$ 89,479	$ 64,161	$ 16,449	$ 35,401	$ 205,490
Finite-life intangible assets, net	18,236	4,544	925	29,949	53,654
Goodwill	5,404	18,502	59,941	28,537	112,384
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

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:

	2023	2022
Short-term benefits and other benefits	$ 3,438	$ 3,872
Pension and other post-retirement benefits	74	97
Share-based compensation	1,958	2,349
	$ 5,470	$ 6,318

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, 2023			March 31, 2022		
	Fair value hierarchy	**Carrying amount**	**Fair Value**	**Fair value hierarchy**	**Carrying amount**	**Fair Value**
Financial assets						
Cash	Level 1	$ 15,020	$ 15,020	Level 1	$ 86,692	$ 86,692
Derivative financial instruments	Level 2	854	854	Level 2	19,829	19,829
		$ 15,874	$ 15,874		$ 106,521	$ 106,521
Financial liabilities						
Derivative financial instruments	Level 2	$ 10,388	$ 10,388	Level 2	$ 2,682	$ 2,682
Long-term debt, including current portion	Level 2	179,978	178,367	Level 2	238,826	243,081
		$ 190,366	$ 188,755		$ 241,508	$ 245,763

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

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

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 approximates 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 when transacting in a currency other than the functional currency of a business unit. This primarily occurs in the case of transactions denominated in U.S. Dollars carried out in the Corporation's operations in Canada, Spain and the United Kingdom. In an effort to mitigate these exposures, the Corporation makes use of derivative contracts.

The Corporation's foreign exchange policy requires the hedging of 50% to 100% of the identified foreign currency exposure, after accounting for any natural hedge arising from opposing cash flows of the same foreign currency.

As at March 31, 2023, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $438,331 denominated in USD, EUR and GBP ($341,604 in 2022). This amount includes mainly contracts with nominal value of US$241,550 convertible into Canadian dollars at an average rate of 1.3143 and contracts with nominal value of US$48,000 convertible into GBP at an average rate of 0.8067. These contracts mature at various dates between April 2023 and March 2028, with the majority maturing in fiscal years 2024 and 2025.

As at March 31, 2023, 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	$ (353)	$ (60)	$ (78)
Increase (decrease) in other comprehensive income (loss)	1,185	(1,612)	(703)

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 the variable interest rate on its Revolving Facility (see note 20). In addition, interest rate fluctuations could also have an impact on the interest income earned on Héroux-Devtek's cash deposits.

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

As at March 31,2022, the Corporation had three 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 matured between May 2022 and September 2028, and mainly bore interest at a weighted average fixed rate of 2.4%.

During the fiscal year ended March 31, 2023, one of these swaps expired and the other two were unwound for cash proceeds totaling $11,260.

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, 2023, the equity swap agreement covered 400,000 common shares of the Corporation at a price of $13.39 per share and matures in June 2024 (300,000 common shares at a price of $13.52 per share, and maturity of June 2023 as at March 31,2022).

Credit and credit concentration risks

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

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

Credit concentration risks are related to the fact that approximately 46% of the Corporation's fiscal 2023 sales are made to the top four customers (44% in 2022). More specifically, in fiscal 2023, the Corporation had one customer representing 15% of its consolidated sales (one customer representing 15% in 2022).

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 2023 (3.5% in 2022) of the Corporation's consolidated sales.

The Corporation has historically not made any significant write-off of accounts receivable, and as at March 31, 2023, 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, 2023:

	2023	2022
Balance, beginning of year	$ 505	$ 1,694
Arising during the year	90	—
Reversed	(165)	(1,092)
Amounts written off	—	(97)
Effect of changes in foreign exchange rates	(1)	—
Balance at the end of the year	$ 429	$ 505

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

As at	March 31, 2023	March 31, 2022
Not past due	$ 117,349	$ 99,687
Past due less than 90 days	6,609	4,669
Past due more than 90 days	3,192	1,538
	127,150	105,894
Allowance for doubtful accounts	(429)	(505)
Balance at the end of the year	$ 126,721	$ 105,389

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, 2023, the maximum exposure to credit and credit concentration risks for financial instruments represented the following (see note 30):

	FVTOCI [(1)]	A.C.
Cash	$ —	$ 15,020
Accounts receivable	—	126,721
Derivative financial instruments	854	—

[(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, 2023, 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	$ 131,019	$ —	$ —	$ —	$ 131,019
Customer advances	29,725	—	—	—	29,725
Long-term debt including interest payments[(1)]	15,964	36,984	31,816	139,611	224,375
Derivative financial instruments	5,493	4,820	75	—	10,388

[(1)] *The carrying amount of the long-term debt is $179,978 (note 20) .*

NOTE 32. CAPITAL RISK MANAGEMENT

The general objectives of the Corporation, in terms of capital management, reside in the preservation of Héroux-Devtek's capacity to continue operating and provide an adequate return on investment to its stakeholders while 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, 2023, 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.

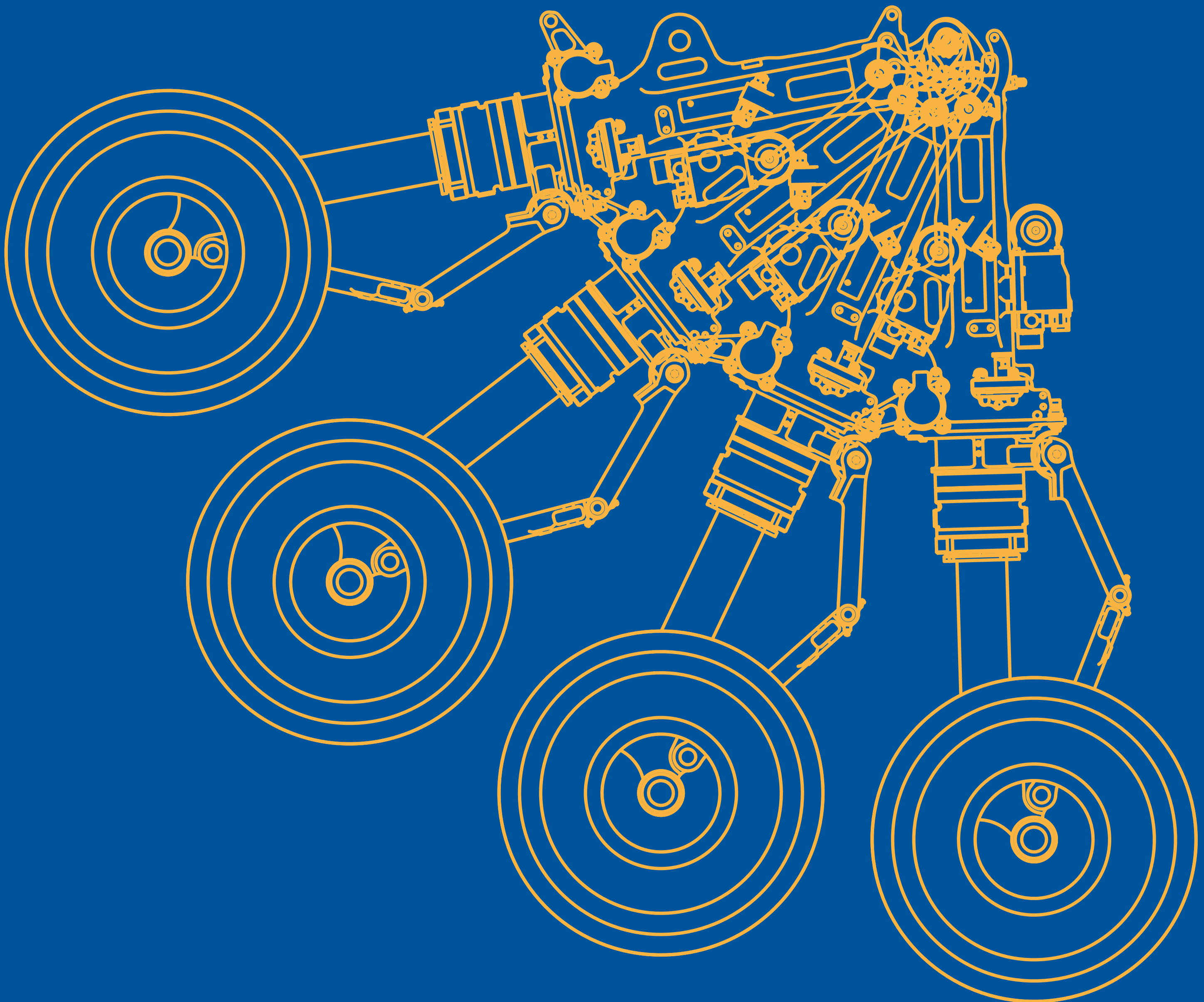
The Corporation's net debt-to-equity ratio was as follows:

As at	March 31, 2023	March 31, 2022
Current portion of long-term debt	$ 11,425	$ 10,835
Long-term debt	166,483	225,691
Deferred financing costs, net	2,070	2,300
Less: Cash	15,020	86,692
Net debt	$ 164,958	$ 152,134
Shareholders' equity	390,919	377,282
Net debt-to-equity ratio	0.4:1	0.4:1

The Corporation is not subject to any regulatory capital requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the fiscal year ended March 31, 2023



HÉROUX DEVTEK

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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, 2022 and March 31, 2023. It also compares the operating results and cash flows for the quarter and fiscal year ended March 31, 2023 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, 2023, 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, 2023 and 2022 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 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	2023	2022
Sales	$ 543,622	$ 536,087
Operating income	26,198	44,758
Adjusted EBITDA [(1)]	61,366	83,049
Net income	13,825	32,140
Adjusted net income [(1)]	12,606	33,839
Cash flows related to operating activities	30,060	63,166
Free cash flow [(1)]	(1,718)	45,894
In dollars per share		
Earnings share - diluted	$ 0.40	$ 0.90
Adjusted EPS [(1)]	0.37	0.95
As at	March 31, 2023	March 31, 2022
Funded backlog [(2)]	$ 864,000	$ 682,000

(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.*

Operating Environment

After a difficult first quarter with $114.0 million of sales, Héroux-Devtek's throughput improved throughout the year, reaching a high of $156.0 million in Q4 for a total of $543.6 million for the year compared to $536.1 million last year. The positive impact of this improvement in sales on profitability however was more than offset by the continued effect of supply chain disruptions and inflation on production costs. These factors resulted in a decrease in operating income and net income compared to the last fiscal year.

The operating environment remains volatile and several factors are still rendering the consistent generation of throughput challenging:

- Lead times for the procurement of raw material continue to increase and Russia's invasion of Ukraine limits the supply of certain material;
- Although the inflation peak is behind us, the impact of higher costs, rising interest rates and raw material lead times continue putting pressure on the aerospace supply chain; and,
- Skilled workforce availability remains a challenge as the tight labour market continues to impact both Héroux-Devtek and its supply chain.

The Corporation's order book stood at $864 million, compared to $682 million last year, bolstered by both civil and defence orders. This amount is nearly a record high and speaks to the health of Héroux-Devtek's customer relationships; the challenge remains delivering on these orders in a timely and efficient manner given the difficult environment.

Key Events

- The Corporation generated sales of $543.6 million compared to sales of $536.1 million last fiscal year, or a 1.6% improvement, due mainly to the positive impact of foreign exchange rates on sales denominated in foreign currencies.
- These sales resulted in operating income and adjusted EBITDA of $26.2 million and $61.4 million, respectively, compared to $44.8 million and $83.0 million, last fiscal year. The decrease in profitability is mainly the result of inflation and production system inefficiencies driven by the challenging environment described above and a less favourable product mix. Last year's COVID-19 disruptions were partly compensated for by government relief measures bearing a positive impact of 1.4% of sales (none this year).
- The fiscal year closed with diluted earnings per share at $0.40 and adjusted EPS of $0.37, compared to $0.90 and $0.95 last fiscal year.
- Héroux-Devtek generated cash flows related to operating activities of $30.1 million and free cash flow usage of $1.7 million during fiscal 2023, compared to $63.2 million and free cash flow of $45.9 million in fiscal 2022. The decreases are mainly related to the investment in inventory levels made to stabilize the production system and mitigate the effect of supply chain delays.

- In August 2022, the Corporation announced a major contract with Boeing for the repair and overhaul of the main landing gear and side braces for the F/A-18 E/F super Hornet and the EA-18G Growler. The first phase of the contract covers 40 aircraft and is expected to be followed by options for the sustainment of the complete U.S. Navy fleet of over 600 aircraft.
- In November 2022, the Corporation announced a contract with Embraer to design, develop and manufacture the main deck cargo door actuation system for the E190F and E195F Freighter conversion program. The agreement will be fulfilled by Héroux-Devtek's team in Spain and includes the delivery of spare parts and aftermarket services for the life of the program.
- Subsequent to year end, in April 2023, the unionized employees of the Corporation's Longueuil, Québec, facility voted in favour of the renewal of a three-year collective agreement which extends through April 30, 2026. The renewal concerns approximately 200 employees.

OVERVIEW OF THE BUSINESS

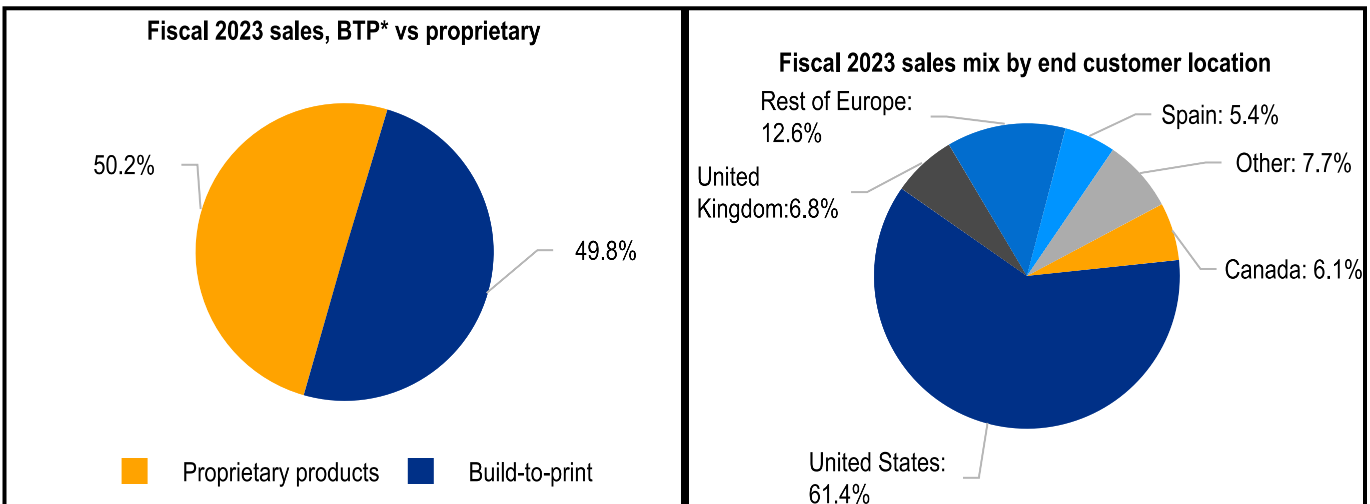
Héroux-Devtek Inc. (TSX: HRX) is an international company specializing in the design, development, manufacture and repair and overhaul of landing gear, hydraulic and electromechanical flight control actuators, custom ball screws and fracture-critical components. The Corporation has also built a strong,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

In the defence market segment, 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 market segment, 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 2023, the Corporation's four largest customers represented approximately 46% 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

Travel recovers and defence spending increases amid rising geopolitical tensions

With several countries removing COVID-related travel restrictions early in 2022, global passenger traffic staged a strong recovery last year. International air travelers returned in numbers, more than doubling from prior year levels, even though travel conditions were more difficult[1]. Consumer demand highlighted the resilience of the airline sector, despite higher ticket prices and prolonged airport queues as a result of the capacity constraints and delays restoring global air travel infrastructure to pre-COVID levels.

Meanwhile, defence spending maintained its momentum in 2022, growing for the eighth consecutive year. Russia's invasion of Ukraine has brought attention to the potential for military conflicts and prompted numerous countries to substantially increase their military expenditures, with some announcing long-term plans to increase their spending levels over periods spanning up to a decade.

Production environment impacted by supply challenges and inflation

These positive advances in commercial air travel and global defence spending boosted the backlog of aircraft manufacturers and suppliers to near record levels, setting the industry up nicely for years to come. The aerospace production environment on the other hand had a challenging year in 2022. Russia and Ukraine are major producers of rare metals essential for critical aerospace components, including titanium. As a result of their conflict, lead times for the procurement of these rare metals increased significantly in 2022, limiting their supply and causing the aerospace supply chain to incur costs and inefficiencies due to shortages and efforts to find and qualify new sources.

Energy costs rose sharply as a consequence of the Russia-Ukraine conflict as well, particularly in Europe, where many countries are striving to find alternative energy supplies to oil and gas from Russia. The lower supply and redistribution of demand to other sources drove up prices and contributed to the overall inflationary pressures affecting production costs.

In North America, government stimulus combined with supply chain disruptions and high demand from consumers drove inflation over 6%, a significant departure from the relatively low inflationary environment of the previous decade.

Lastly, central banks worldwide increased benchmark interest rates in an effort to curb inflationary pressures, increasing the cost of capital for leveraged firms and putting some financially fragile suppliers at risk. It is anticipated that supply chain obstacles will persist throughout the year.

Civil Market

Passenger activity

According to data from IATA, global passenger traffic in 2022 (measured in revenue passenger kilometers or RPKs) rose 64.4% compared to 2021[2]. Full-year 2022 traffic was at 68.5% of pre-pandemic (2019) levels. Within this, international traffic in 2022 climbed 152.7% versus 2021 and reached 62.2% of 2019 levels.

Global production backlog and long-term perspectives

Globally, the civil aircraft backlog stood at 11,817[3] at the end of December 2022, a 3.2% decline from the same time last year, but still representing many years of production at current rates. Deliveries totaled 1,185, a 24.6% increase from 2021, as production capabilities improved following the lifting of pandemic restrictions. According to Boeing's projections, the global aviation industry is expected to require a total of 41,170 new airplanes over the next 20 years in order to meet growing demand and improve the global fleet's fuel efficiency. Single-aisle aircraft are estimated to account for approximately 75% of this total, while widebody aircraft are projected to represent around 18%[4].

Business jets

In contrast to the impact of COVID-19 on the market for large commercial aircraft, the delivery of business jets has shown notable resilience. Business jet manufacturers managed to deliver a total of 712 units in 2022, representing a marginal increase of only two units compared to 2021. However, it is worth noting that their collective billings experienced a significant growth of 5.8%, amounting to US$22.9 billion in 2022[5].

[1] Source : Passenger Demand Recovery Continued in December 2022 & for the Full Year, IATA, February 6, 2023
[2] Source : Passenger Demand Recovery Continued in December 2022 & for the Full Year, IATA, February 6, 2023
[3] Source: Airbus and Boeing Report December and Full-Year 2022 Commercial Aircraft Orders and Deliveries, January 16, 2023
[4] Source: Commercial Market Outlook 2022–2041, Boeing, July 16, 2022
[5] Source: GAMA Releases 2022 Aircraft Shipment and Billing Report , GAMA, February 22, 2023

Honeywell's Global Business Aviation Outlook projects an increase in the demand for new business jets. The forecast indicates that between 2023 and 2032, up to 8,500 new business jet deliveries are anticipated, with an estimated value of US$274 billion. These figures reflect a significant 15% rise in both deliveries and expenditures compared to the corresponding 10-year forecast made one year prior.[6]

Air cargo

Global demand for air cargo took a step back in 2022 from 2021 levels which were unusually elevated due to the onset of COVID-19, but overall the levels were close to the 2019 performance. Throughout the entire year, the global demand, measured in cargo tonne-kilometers (CTKs*), decreased by 8.0% compared to 2021, with a slightly larger decline of 8.2% for international operations. When compared to 2019, there was a decrease of 1.6% in both global and international air cargo demand[7].

Boeing forecasts that air cargo will grow more than 60% through 2041, implying an average compound rate of 4.1% per year, an upward revision of 0.1% compared their 2021 forecast. They estimate that robust market growth in East Asia, acceleration of global e-commerce and evolution of supply chains will be key drivers over the forecast period[8].

Defence Market

Military expenditures

Total global military expenditure rose 3.7% in 2022 to reach a new high of US$2,240 billion, with the three largest spenders — the United States, China and Russia—accounted for 56% of the total[9].

Global spending grew by 19% from 2013 to 2022 and has risen every year since 2015. Russia's invasion of Ukraine was a major driver of the growth in spending in 2022, with military expenditure in Europe rose by 13% during the year, which was the largest annual increase in the post-cold war era[10]. The exceptional growth was largely driven by substantial increases in Russian and Ukrainian spending, but many other European countries, such as France, Germany and the UK boosted their military budgets as well. This trend is expected to continue, as a number of countries made pledges to boost their military spending, in some cases for several years[11].

Between 2021 and 2022, US military expenditure grew by 8.8% in nominal terms, but the 8.1% inflation rate in the same period, the highest annual level since 1981, meant that real-terms expenditure went up by only 0.7%[12]. In spite of the marginal real-terms increase, spending still totaled US$877 billion, representing 3.5% of GDP.

Early indications suggest additional budget increases, as on March 9, 2023, the Biden-Harris Administration submitted a proposed Fiscal 2024 Budget request of US$842 billion for the Department of Defense, an increase of US$26 billion over 2023 levels and US$100 billion more than 2022. Of this amount, US$61.1 billion is earmarked for air power, including fighter jets[13].

Fighter jets

According to Teal Group, the fighter and attack aircraft segment is currently experiencing its strongest performance in nearly three decades. This growth is primarily attributed to factors such as aging fleets, heightened global tensions, extensive aircraft utilization, and the ramp-up of the F-35 program. As a result, the demand for fighters is expected to continue expanding in the foreseeable future. They forecast the production of 4,677 fighters worth US$349.8 billion in 2022 dollars between 2022 and 2031. For comparison, a total of 2,605 fighter jets worth US$207.3 billion, in 2021 dollars, were built between 2011 and 2020[14].

The Lockheed Martin F-35 has come to dominate this market and, according to Teal Group, will capture 46% of the market by value over the next ten years. Other programs, such as the F-18, F-15, Gripen and Eurofighter are expected to make up 10% of the balance[15].

[6] Source: Honeywell Forecast Shows Strong Growth For Business Aviation As Purchase Plans Increase Sharply, Honeywell, October 16, 2022

[7] Source: Air Cargo Closes 2022 Near Pre-Pandemic Levels, IATA, February 6, 2023

[8] Source: World Air Cargo Freighter Industry Forecast (WACF) 2022-2041, Boeing, November 1, 2022

[9] Source: World military expenditure reaches new record high as European spending surges, SIPRI, April 24, 2023

[10] Source: Trends in world military expenditure, 2022, SIPRI, April 2023

[11] Source: World military expenditure passes $2 trillion for first time, Stockholm International Peace Research Institute, April 25, 2022

[12] Source: Trends in world military expenditure, 2022, SIPRI, April 2023

[13] Source: Department of Defense Releases the President's Fiscal Year 2024 Defense Budget, US Department of Defense, March 2023

[14] Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, December 2022

[15] Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, December 2022

Military transport aircraft

Production of military transport aircraft is set to remain stable over the next decade. Smaller transport aircraft such as the Airbus CN-235/ C295, which is projected to reach its production peak in 2027, will represent nearly 44% of total production. This growth will drive the small transport aircraft segment to surpass the production of medium-sized aircraft like the Lockheed C-130J, which is anticipated to decline by half over the next decade. Limited aircraft production represents an opportunity for the MRO (Maintenance, Repair, and Overhaul) and spare parts businesses[16].

Military helicopter

The military rotorcraft market is projected to experience a marginal increase over the next 10 years, with the number of rotorcraft produced rising from 409 in 2022 to 427 by 2031. The peak production is expected to occur in 2027, reaching a total of 525 units. Similar to the military transport aircraft segment, the market is still dominated by older helicopter models such as the Boeing AH-64, which was first introduced in 1965, and the Sikorsky UH60L/M, with its initial model introduced in 1974. In 2009, to address the need for modernization, the US Army undertook the Future Vertical Lift program. This initiative aims to develop a new family of military helicopters for various purposes, including attack, reconnaissance, and long-range assault, with the intention of replacing the majority of existing Army helicopters[17].

On the other hand, the United States Navy declared Full Rate Production for the CH-53K program in December 2022, a decision that is expected to increase the production to more than 20 helicopters annually in the coming years[18].

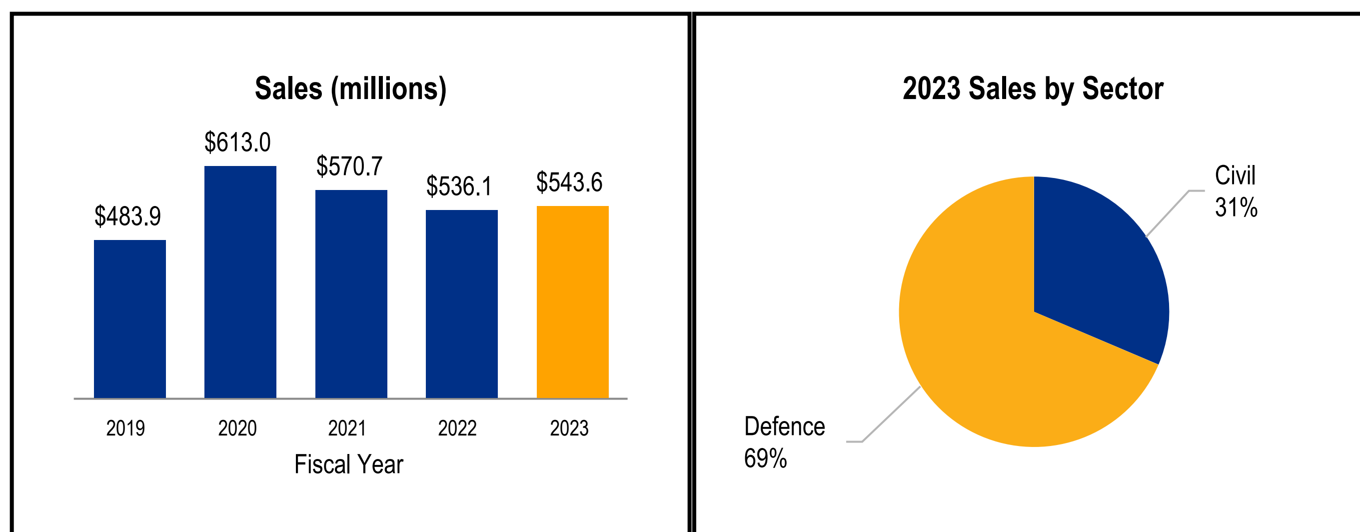
[16] Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, July 2022
[17] Source: World Military & Civil Aircraft Briefing, Teal Group Corporation, December 2022
[18] Source: US Marines' CH-53K King Stallion cleared for full-rate production, The Defense Post, Dec 27, 2022

OPERATING RESULTS

	Quarters ended March 31,			Fiscal years ended March 31,		
	2023	2022	*Variance*	2023	2022	*Variance*
Sales	$ 155,978	$ 147,459	*$ 8,519*	$ 543,622	$ 536,087	*$ 7,535*
Gross profit	22,741	25,891	*(3,150)*	73,535	91,095	*(17,560)*
Selling and administrative expenses	12,862	12,119	*743*	48,556	44,028	*4,528*
Other expenses (gains)	—	2,309	*(2,309)*	(1,219)	2,309	*(3,528)*
Operating income	9,879	11,463	*(1,584)*	26,198	44,758	*(18,560)*
Net financial (income) expenses	1,175	(1,643)	*2,818*	7,575	4,270	*3,305*
Income tax expense	2,416	1,647	*769*	4,798	8,348	*(3,550)*
Net income	$ 6,288	$ 11,459	*$ (5,171)*	$ 13,825	$ 32,140	*$ (18,315)*
Adjusted net income(1)	$ 6,288	$ 13,158	*$ (6,870)*	$ 12,606	$ 33,839	*$ (21,233)*
Adjusted EBITDA(1)	$ 19,595	$ 22,149	*$ (2,554)*	$ 61,366	$ 83,049	*$ (21,683)*
As a percentage of sales						
Gross profit	14.6%	17.6%	*-300 bps*	13.5%	17.0%	*-350 bps*
Selling and administrative expenses	8.2%	8.2%	*— bps*	8.9%	8.2%	*70 bps*
Operating income	6.3%	7.8%	*-150 bps*	4.8%	8.3%	*-350 bps*
In dollars per share						
Earnings per share	$ 0.18	$ 0.33	*$ (0.15)*	$ 0.40	$ 0.91	*$ (0.51)*
Diluted earnings per share	$ 0.18	$ 0.33	*$ (0.15)*	$ 0.40	$ 0.90	*$ (0.50)*
Adjusted EPS(1)	$ 0.18	$ 0.38	*$ (0.20)*	$ 0.37	$ 0.95	*$ (0.58)*

(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 market segment as follows:

	Fiscal years ended March 31,				
	2023	2022	FX Impact	Net variance	
Defence	$ 372,942	$ 386,719	$ 6,301	$ (20,078)	(5.2)%
Civil	170,680	149,368	2,883	18,429	12.3 %
Total	$ 543,622	$ 536,087	$ 9,184	$ (1,649)	(0.3)%

	Quarters ended March 31,				
	2023	2022	FX Impact	Net variance	
Defence	$ 107,078	$ 109,518	$ 4,126	$ (6,566)	(6.0)%
Civil	48,900	37,941	1,888	9,071	23.9 %
Total	$ 155,978	$ 147,459	$ 6,014	$ 2,505	1.7 %

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

Defence

The $20.1 million and $6.6 million net decreases for the fiscal year and the fourth quarter, respectively, were mainly driven by the current operating environment as described in the highlight section partly offset by the ramp up of the deliveries for the F-18 program with Boeing for the fiscal year and the CH-53k program with Sikorsky during the fourth quarter.

Civil

The respective $18.4 million and $9.1 million net increases, compared to last year, for the fiscal year and fourth quarter, respectively, were mainly driven by the increase in deliveries for the Boeing 777, Embraer Praetor and Falcon 6x programs.

Gross Profit

Gross profit decreased from 17.0% of sales last year to 13.5% this year, and from 17.6% to 14.6% for the quarter, mainly due to:

- Inefficiencies resulting from the production system disruptions mentioned above;
- The effect of inflation, more specifically on general production supplies and utilities; and,
- A less favourable product mix.

During the fiscal year and quarter ended March 31, 2022, Covid-related disruptions were also partly compensated for by government relief measures bearing respective 1.4% and 0.7% favourable impacts on gross profit (none this year).

Selling and Administrative Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Selling and Administrative Expenses	$ 12,862	$ 12,119	$ 48,556	$ 44,028
Less: Net gains (losses) on conversion of net monetary items	680	(235)	(105)	842
	$ 13,542	$ 11,884	$ 48,451	$ 44,870
As a percentage of sales	8.7%	8.1%	8.9%	8.4%

When excluding net gains (losses) on conversion of net monetary items, the increases in Selling and Administrative Expenses as a percentage of sales fiscal year and fourth quarter when compared to last year mainly relate to higher employee-related costs, including the effect of share price fluctuations on stock-based compensation expense, and higher professional fees.

Other Expenses (gains)

Other expenses (gains) are comprised of items whose separate disclosure may be useful to users of the financial statements and MD&A in interpreting the Corporation's financial performance. These items do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance.

Other expenses (gains) comprise the following:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Other expenses (gains) in operating income				
Gain on business divestiture	$ —	$ —	$ (1,219)	$ —
Legal ruling	—	2,309	—	2,309
	$ —	$ 2,309	$ (1,219)	$ 2,309

Gain on a business divestiture

The commercial objectives included in the agreement for the fiscal 2022 sale of Bolton operations to Ontic Engineering & Manufacturing UK Limited were achieved in September 2022, resulting in a net gain of $1.2 million in fiscal 2023. See *Business Divestiture and Purchase of Minority Interest* under *Additional Information* for further details.

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 during the fourth quarter of fiscal 2022.

Operating Income

Operating income decreased from 8.3% to 4.8% of sales this fiscal year and from 7.8% to 6.3% of sales for the quarter compared to the same periods last fiscal year mainly as a result of the factors described above.

Year-over-year, foreign exchange fluctuations had a favourable net impact on operating income totaling $1.7 million, or 0.3% of sales, for the fiscal year and $1.6 million, or 1.0% of sales, for the fourth quarter.

Net Financial Expenses

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Interest accretion on governmental authorities loans	$ 822	$ 816	$ 3,140	$ 3,162
Adjustments to estimates related to governmental authorities loans	(1,207)	(3,062)	(1,207)	(3,062)
Interest on defined benefit obligations	(250)	(49)	(194)	23
Interest on leases	231	237	840	1,010
Amortization of deferred financing costs	117	124	475	554
Other accretion and adjustments	185	(425)	(146)	(548)
Net non-cash financial expenses	$ (102)	$ (2,359)	$ 2,908	$ 1,139
Interest on long-term debt	$ 2,111	$ 815	$ 6,946	$ 3,653
Interest income on cash	(834)	(99)	(2,279)	(522)
	$ 1,175	$ (1,643)	$ 7,575	$ 4,270

The increase in prevailing interest rates had the effects of increasing the effective interest rate payable on the Corporation's Revolving Facility from 1.1% to 5.9% over the course of the fiscal year, while increasing the interest rate received on average cash balances outstanding from 0.8% to 5.1%. These factors largely offset each other during the fiscal year and fourth quarter.

Net financial expenses increased, otherwise, due to the following two main factors:

- A lower gain on revision of government loan repayment estimates (see Government Authorities Loans under Liquidity and Capital Resources for further details); and,
- The effect of the unwinding of the Corporation's cross-currency interest rate swaps on interest on long-term debt ($0.4 million per quarter) (see *Derivative Financial Instruments* under *Additional Information* for further details).

Income Tax Expense

	Quarters ended ended March 31,				Fiscal years ended March 31,			
	2023		2022		2023		2022	
Income before income tax expense	$ 8,705		$ 13,106		$ 18,623		$ 40,488	
Income tax expense at Canadian blended statutory tax	2,307	26.5%	3,460	26.4%	4,935	26.5%	10,689	26.4%
Results coming from foreign jurisdictions	(198)		(537)		(152)		(2,010)	
Non-deductible expenses	168		50		501		283	
Non-taxable income	(72)		(563)		(318)		(758)	
Prior year adjustments	(445)		131		(824)		445	
Net non-recognition of tax benefits	656		(894)		656		(301)	
Income tax expense	$ 2,416	27.8%	$ 1,647	12.6%	$ 4,798	25.8%	$ 8,348	20.6%

Net Income

Net income decreased from $32.1 million to $13.8 million this fiscal year compared to last and decreased from $11.5 million to $6.3 million during the quarter compared to the same quarter last fiscal year mainly as a result of the factors described above. Excluding Other expenses (gains) net of taxes, adjusted net income decreased from $33.8 million to $12.6 million over the fiscal year, and from $13.2 million to $6.3 million during the quarter.

NON-IFRS FINANCIAL MEASURES

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

Adjusted EBITDA:	Operating income excluding amortization expense and Other expenses (gains)
Adjusted net income:	Net income excluding Other expenses (gains) 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 EBITDA is calculated as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Operating income	$ 9,879	$ 11,463	$ 26,198	$ 44,758
Amortization expense	9,716	8,377	36,387	35,982
Other expenses (gains)	—	2,309	(1,219)	2,309
Adjusted EBITDA	$ 19,595	$ 22,149	$ 61,366	$ 83,049

Management believes adjusted EBITDA provides valuable insight into the Corporation's day-to-day operations as they exclude from earnings factors that are more reflective of long-term financing or investing decisions than of current performance.

Adjusted EBITDA, in addition, provides an alternative assessment of future operating results as it excludes the impact of items that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. 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,	
	2023	2022	2023	2022
Net income	$ 6,288	$ 11,459	$ 13,825	$ 32,140
Other expenses (gains), net of taxes	—	1,699	(1,219)	1,699
Adjusted net income	$ 6,288	$ 13,158	$ 12,606	$ 33,839
Non-controlling interests	—	—	—	(385)
Adjusted net income attributable to the equity holders of the parent	$ 6,288	$ 13,158	$ 12,606	$ 34,224
In dollars per share				
Earnings per share - diluted	$ 0.18	$ 0.33	$ 0.40	$ 0.90
Other expenses (gains) net of taxes	—	0.05	(0.03)	0.05
Adjusted earnings per share	$ 0.18	$ 0.38	$ 0.37	$ 0.95

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 items that do not share the same function as those included in other financial statement captions and generally are not as indicative of the Corporation's past or future operating performance. 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 subject to the approval of the lenders.

In May 2022, the Corporation reached an agreement to extend the Revolving Facility to a new maturity of June 2027 (previously June 2026). The other terms and conditions remained relatively unchanged.

As at March 31, 2023, the facility had no amount outstanding, compared to $58.8 million (US$47.0 million) as at March 31, 2022. During the fourth quarter of this fiscal year, Héroux-Devtek repaid the US$47.0 million outstanding balance to reduce interest expense.

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% and matures in September 2028. The Term Loan Facility is repayable at maturity, and the Corporation has the option to make early repayments as of September 2024, subject to certain fees.

Net Debt Position

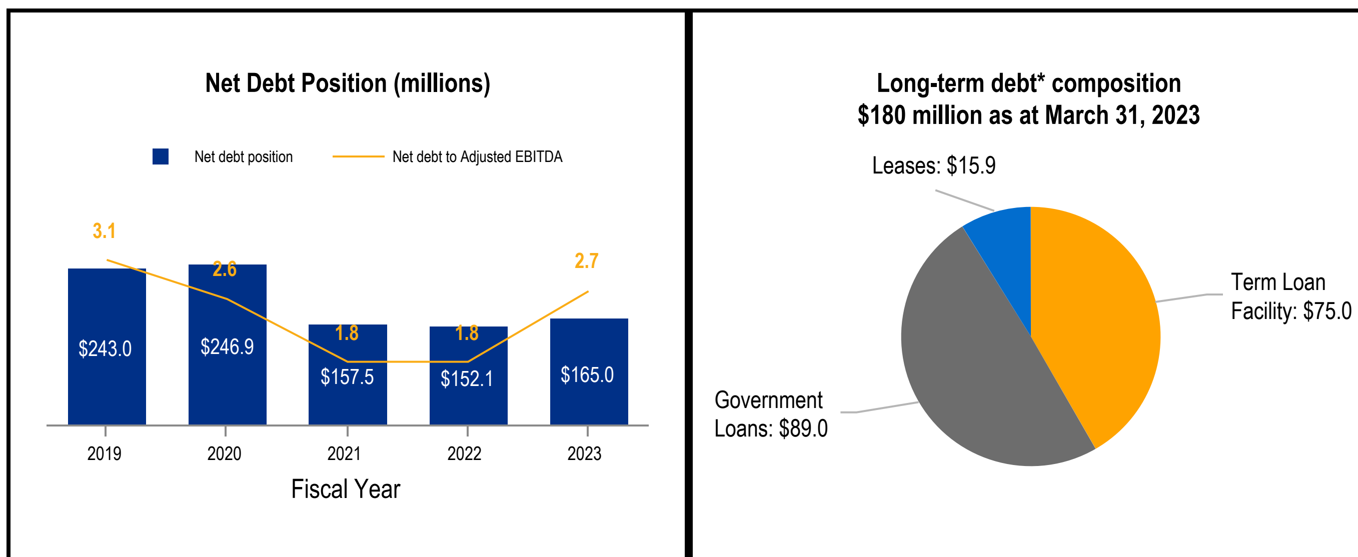
The Corporation’s net debt position is calculated as follows, as at:

	March 31, 2023	March 31, 2022
Long-term debt, including current portion[1]	$ 179,978	$ 238,826
Less: Cash	15,020	86,692
Net debt position	$ 164,958	$ 152,134
Adjusted EBITDA[2]	$ 61,366	$ 83,049
Net debt to adjusted EBITDA ratio	2.7:1	1.8:1

[1] *Excluding net deferred financing costs of $2.1 million and $2.3 million as at March 31, 2023 and March 31, 2022, 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 increased throughout the fiscal year mainly due to the allocation of $6.5 million to share repurchases under a Normal Course Issuer Bid (“NCIB”) and negative free cash flow. See *Normal Course Issuer Bid* under *Financial Position* for further details.



*Excluding net deferred financing costs of $2.1 million as at March 31, 2023 and $2.3 million as at March 31, 2022.

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 its covenants during the fiscal year ended March 31, 2023 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 meet its financial needs.

The Corporation has no obligatory capital repayments required on its term loan facilities until September 2028.

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 repay. When not on a fixed schedule, repayments 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, 2023 and 2022 the Corporation updated the estimated repayment schedule of its government authorities' loans, taking into account updated assumptions and data. As these assumptions resulted in a more favourable repayment profile than previously accounted for, respective non-cash gains of $1.2 million and $3.1 million were included in net financial expenses this and last fiscal year.

As at March 31, 2023, the Corporation had a present value of $89.0 million outstanding under these agreements ($84.5 million as at March 31, 2022), bearing effective interest rates between 0.0% to 6.6% as at March 31, 2023 (0.0% to 6.8% as at March 31, 2022). These loans have repayment terms extending to fiscal 2035 at the latest.

VARIATIONS IN CASH

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Cash at beginning of periods	$ 90,837	$ 86,836	$ 86,692	$ 95,470
Cash flows related to operating activities	4,518	10,016	30,060	63,166
Cash flows related to investing activities	(12,888)	(3,173)	(28,292)	(16,131)
Cash flows related to financing activities	(67,446)	(6,555)	(74,389)	(55,221)
Effect of changes in exchange rates on cash	(1)	(432)	949	(592)
Cash at end of periods	$ 15,020	$ 86,692	$ 15,020	$ 86,692

Operating Activities

The Corporation generated cash flows from its operating activities as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Net income	$ 6,288	$ 11,459	$ 13,825	$ 32,140
Items not requiring an outlay of cash:				
Amortization expense	9,716	8,377	36,387	35,982
Deferred income taxes	2,780	(1,781)	6,021	71
(Gain) loss on disposal of property, plant and equipment	—	60	—	(850)
Net non-cash financial expenses	(102)	(2,359)	2,908	1,139
Stock-based compensation expense	329	295	1,306	1,173
	19,011	16,051	60,447	69,655
Net change in non-cash items	(14,493)	(6,035)	(30,387)	(6,489)
Cash flows related to operating activities	$ 4,518	$ 10,016	$ 30,060	$ 63,166

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Accounts receivable	$ (22,180)	$ (20,700)	$ (18,003)	$ (8,515)
Inventories	(14,408)	8,966	(55,323)	11,026
Other assets	(3,052)	(7,660)	3,955	(7,248)
Accounts payable and accrued liabilities	20,685	13,376	19,558	10,418
Provisions	(770)	1,561	(5,394)	(5,333)
Customer advances and progress billings	2,510	(6,982)	27,658	(9,823)
Other liabilities	2,722	5,404	(2,838)	2,986
Net change in non-cash items	$ (14,493)	$ (6,035)	$ (30,387)	$ (6,489)

For the quarter and fiscal year ended March 31, 2023, the negative net change in non-cash items mainly reflects:

- An investment in inventory levels to stabilize the production system and mitigate the effect of supply chain delays; and,
- An increase in accounts receivable mainly related to the non-linear profile of fourth quarter deliveries.

These negative items were partly offset by an increase in accounts payable and accrued liabilities and customer advances.

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; and,
- An increase in accounts receivable mainly related to the non-linear profile of fourth quarter deliveries.

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.

Investing Activities

The Corporation's investing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Net additions to property, plant and equipment	$ (6,976)	$ (4,399)	$ (18,641)	$ (17,306)
Proceeds of disposal of property, plant and equipment	—	2,562	—	2,881
Net increase in finite-life intangible assets	(6,282)	(1,336)	(13,137)	(2,847)
Proceeds from a business divestiture	370	—	3,486	2,041
Purchase of minority interest	—	—	—	(900)
Cash flows related to investing activities	$ (12,888)	$ (3,173)	$ (28,292)	$ (16,131)

Proceeds from a business divestiture relate to the sale of the Corporation's Bolton operations (Refer to *Business Divesture and Purchase of Minority Interest* under *Additional Information* for further details), while last year's proceeds from disposal of property, plant and equipment essentially relate to the sale of the building upon closure of APPH Wichita.

The increase in investments in finite-life intangible assets mainly relates to the ongoing development of civil aircraft programs.

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

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Gross additions to property, plant and equipment	$ 9,469	$ 6,598	$ 19,998	$ 17,350
Government assistance	(21)	(585)	(78)	(585)
Additions to property, plant and equipment	$ 9,448	$ 6,013	$ 19,920	$ 16,765
Variation in unpaid additions included in Accounts Payable	(1,548)	(1,539)	(130)	1,321
Non-cash additions of right-of-use assets	(924)	(75)	(1,149)	(780)
Additions, as per statements of cash flows	$ 6,976	$ 4,399	$ 18,641	$ 17,306

Financing Activities

The Corporation's financing activities were as follows:

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Increase in long-term debt	$ 807	$ 86	$ 7,046	$ 3,145
Repayment of long-term debt	(66,113)	(2,315)	(75,747)	(16,310)
Issuance of common shares	—	53	1,103	1,499
Repurchase and cancellation of shares	(2,140)	(4,379)	(6,546)	(43,000)
Increase in deferred financing cost	—	—	(245)	(555)
Cash flows related to financing activities	$ (67,446)	$ (6,555)	$ (74,389)	$ (55,221)

Repayment of long-term debt during the fourth quarter and fiscal 2023 is comprised of the full reimbursement of the revolving facility, lease payments and scheduled reimbursements of governmental loans.

Refer to the *Normal Course Issuer Bid* section under *Financial Position* for further details regarding the repurchase and cancellation of shares.

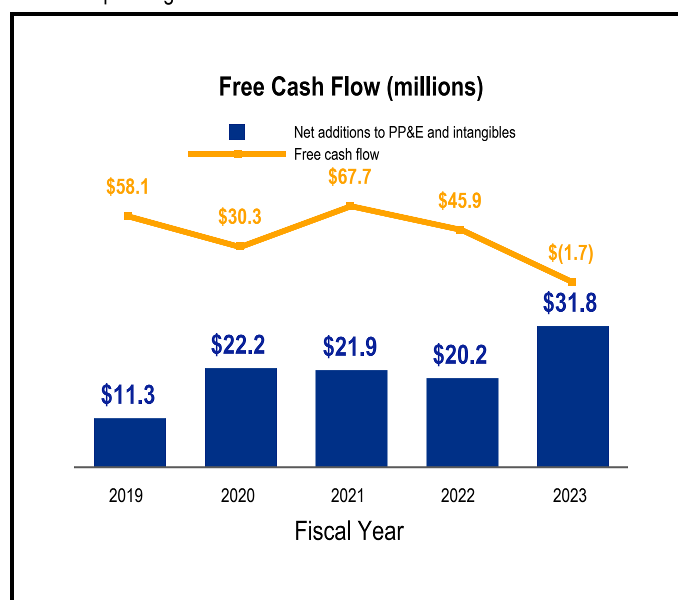
FREE CASH FLOW [(1)]

	Quarters ended March 31,		Fiscal years ended March 31,	
	2023	2022	2023	2022
Cash flows related to operating activities	$ 4,518	$ 10,016	$ 30,060	$ 63,166
Net additions to property, plant and equipment	(6,976)	(4,399)	(18,641)	(17,306)
Net increase in finite-life intangible assets	(6,282)	(1,336)	(13,137)	(2,847)
Proceeds of disposal of property, plant and equipment	—	2,562	—	2,881
Free cash flow (usage)[(1)]	$ (8,740)	$ 6,843	$ (1,718)	$ 45,894

[(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 the strategic investment in inventory in order to stabilize the production system and mitigate the effect of supply chain delays as well as high investment in finite-life intangible assets related to the ongoing development of civil aircraft programs..



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, 2023:

		Payments due by period			
Contractual obligations	Total	1 year	2-3 years	4-5 years	> 5 years
Governmental authorities' loans	$ 108,281	$ 7,928	$ 24,292	$ 21,046	$ 55,015
Lease liabilities	20,674	4,323	5,266	3,345	7,740
Term Loan Facility	95,420	3,713	7,426	7,425	76,856
Repayments of long term debt, including interest	224,375	15,964	36,984	31,816	139,611
Purchase obligations	365,053	280,825	80,860	2,416	952
Accounts payable	89,521	89,521	—	—	—
Building, machinery and equipment acquisition commitments	1,984	1,984	—	—	—
Total contractual obligations(1)	**$ 680,933**	**$ 388,294**	**$ 117,844**	**$ 34,232**	**$ 140,563**

(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, 2023, 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, 2023	March 31, 2022
Long-term debt	$ 177,908	$ 236,526
Deferred financing costs, net	2,070	2,300
Less: Cash	15,020	86,692
Net debt	$ 164,958	$ 152,134
Shareholders' equity	390,919	377,282
Net debt-to-equity ratio	0.4:1	0.4:1

Normal Course Issuer Bid

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.

Fiscal 2023 NCIB

On May 19, 2022, the Corporation announced a Normal Course Issuer Bid (NCIB) for the purchase for cancellation of up to 1,896,079 common shares on the open market through the TSX or alternative trading facilities. The NCIB began on May 25, 2022, and will end on May 24, 2023, 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, 2022	107,835	$ 15.40	$ 1,661
Quarter ended September 30, 2022	90,825	12.96	1,177
Quarter ended December 31, 2022	120,800	12.98	1,568
Quarter ended March 31, 2023	163,243	13.11	2,140
Through May 17, 2023	101,200	12.87	1,302
Total	583,903	$ 13.44	$ 7,848

Fiscal 2022 NCIB

During Fiscal 2022, the Corporation announced and completed the amount of repurchases and cancellation of 2,412,279 shares at a cost of t $43.0 million, representing an average cost of $17.83 per share. Of this amount, 804,000 shares were repurchased at a price of $18.12 per share, or a total of $14.6 million, from 2945-0228 Québec inc., a company controlled by Mr. Gilles Labbé, Executive Chairman of the Board of Directors of Héroux-Devtek Inc..

ISSUED CAPITAL

Capital stock varied as follows:

	Fiscal year ended March 31, 2023	
	Number of shares	Issued capital
Opening balance	34,486,776	$82,189
Issued for cash on exercise of stock options	103,000	1,437
Repurchase and cancellation	(482,703)	(1,167)
Ending balance	**34,107,073**	**$82,459**

As at May 17, 2023, the number of common shares outstanding stood at 34,005,873.

Stock options varied as follows:

	Fiscal year ended March 31, 2023	
	Number of stock options	Weighted-average exercise price
Opening balance	1,503,750	$ 14.19
Granted	247,000	15.42
Exercised	(103,000)	10.71
Expired	(2,250)	10.71
Cancelled / forfeited	(10,000)	15.42
Ending balance	**1,635,500**	**$ 14.59**

As at March 31, 2023, 2,122,662 common shares remained reserved for issuance upon exercise of stock options compared to 2,225,662 at March 31, 2022. As a result, the Corporation may issue a further 487,162 stock options within the current reserve.

As at May 17, 2023, the number of stock options outstanding stood at 1,635,500.

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, 2023	March 31, 2022	*Variance*	
Current assets	$ 429,513	$ 415,450	*$ 14,063*	*3.4 %*
Current liabilities	223,939	179,821	*44,118*	*24.5 %*
Net working capital	$ 205,574	$ 235,629	*$ (30,055)*	*(12.8)%*
Working capital ratio	1.92	2.31		

The $14.1 million increase in current assets is mainly due to a $62.7 million investment in inventories and a $21.3 million increase in accounts receivable partly offset by $71.7 million decrease in cash as described under *Liquidity and Capital Resources*.

The $44.1 million increase in current liabilities is mainly due to a $29.0 million increase in customer advances and progress billing and a $16.5 million increase in accounts payable and accrued liabilities.

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, 2023	March 31, 2022	*Variance*	
Long-term assets	$ 391,824	$ 397,908	*$ (6,084)*	*(1.5)%*
Long-term liabilities	206,479	256,255	*(49,776)*	*(19.4)%*
Shareholder's equity	$ 390,919	$ 377,282	*13,637*	*3.6 %*

The $6.1 million decrease in long-term assets over the fiscal year mainly relates to the expiry and unwinding of the Corporation's cross-currency interest swaps, partly offset by net investment in finite-life intangible assets.

The $49.7 million decrease in long-term liabilities mainly results from the $64.4 million repayment of the Revolving Facility, partly offset by increases in government authorities loans and long-term progress billings.

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:

	2023	2022
Net pension plan assets (defined benefit obligations), beginning of year	$ 5,325	$ 56
Net gains from remeasurement	(1,709)	5,507
Employer contributions	1,028	1,097
Current service cost	(791)	(1,085)
Interest on net defined benefit obligations	194	(23)
Other	(293)	(227)
Net pension plan assets, end of year	$ 3,754	$ 5,325
Amount recognized in other long-term assets	4,707	6,388
Amount recognized in other long-term liabilities	(953)	(1,063)

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

	March 31, 2023	March 31, 2022
Present value of defined benefit obligations of funded plans	$ 58,966	$ 64,443
Fair value of plan assets	68,980	70,241
Funding ratio	117.0 %	109.0 %

The Corporation made contributions of $1.0 million and $3.7 million to its defined benefit and defined contribution benefit plans, respectively, during fiscal 2023, and expects to make respective contributions of $0.8 million and $3.1 million during fiscal 2024. The decrease in the present value of the defined benefit obligations is mainly due from the change in the discount rate and demographic assumptions. Refer to Note 25 - *Pension and Other Retirement Benefit Plans* to the Consolidated Financial Statements for further details regarding these 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 was subject to the achievement of certain commercial objectives. The transaction did not result in a material gain or loss on disposal at the time

The commercial objectives related to the transaction were met during fiscal 2023, resulting in a $1.2 million net gain included in Other expenses (gains).

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, 2023	March 31, 2022
USD (Canadian equivalent of US$1.0)	1.3533	1.2496
EUR (Canadian equivalent of €1.0)	1.4708	1.3853
GBP (Canadian equivalent of £1.0)	1.6726	1.6417

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,**	
	2023	2022	2023	2022
USD (Canadian equivalent of US$1.0)	1.3518	1.2663	1.3231	1.2536
EUR (Canadian equivalent of €1.0)	1.4507	1.4218	1.3775	1.4570
GBP (Canadian equivalent of £1.0)	1.6429	1.6995	1.5941	1.7130

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 2023 featured an increase during the year in the value of the EUR and GBP compared to CAD and USD. Approximately 85% of the Corporation's sales are denominated in USD, compared to approximately 60% 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 46% of consolidated sales, including one customer representing 15%. 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 rigorously negotiated with the goal in mind to mitigate key acquisition risks via mutually agreeable conditions, warranties and contingent pricing agreements. The Corporation also 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 leasing facilities. These agreements subject the Corporation to financial covenants as described in the *Liquidity and Capital Resources* section. They also restrict the Corporation's ability to sell all or substantially all of its assets, incur certain forms of indebtedness, engage in mergers or consolidations or engage in transactions with affiliates without lender consent 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 continuously. 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 Revolving 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
Supply chain	The pressure on the supply chain resulting from the Covid-19 pandemic, geopolitical tensions or other events 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, increased lead times and reliability of supply, including raw materials 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 or re-source manufacturing or finishing of many key parts in the event of critical issues in the supply chain. The Corporation also manages inventory levels with the objective of having safety stock of key components where more supply chain risk is perceived.
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.

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.
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.
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. 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.

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 in the event of such an outbreak:
		- 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.

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 aftereffects of the COVID-19 pandemic, and the fallout of Russia's invasion of Ukraine have combined disrupt global supply chains and create significant economic uncertainty and disruption of financial and commodity 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 market 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.

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.

Forward foreign exchange contracts

As at March 31, 2023, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $438.3 million denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US$241.6 million convertible into Canadian dollars at an average rate of 1.3143. These contracts mature at various dates between April 2023 and March 2028, with the majority maturing in fiscal years 2024 and 2025.

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 related gain or loss on conversion of the hedged items. As at March 31, 2023, a 1% strengthening of the CAD versus the USD would result in a $0.4 million decrease in the Corporation's fiscal 2023 net income.

Cross-currency interest rate swaps

As at March 31, 2022, the Corporation had three 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 matured between May 2022 and September 2028, and mainly bore interest at a weighted average fixed rate of 2.4%.

During the fiscal year ended March 31, 2023, one of these swaps expired, and the other two were unwound for cash proceeds of $11.3 million.

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, 2023, the equity swap agreement covered 400,000 common shares of the Corporation at a price of $13.39 (300,000 common share at a price of $13.52 as at March 31, 2022). In February 2023, the agreement was amended and now matures in June 2024. All other conditions of the agreement stayed unchanged compared to March 31, 2022. 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, 2023, 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, 2023, 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, 2023 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 the highest of the fair value less costs of disposal and the value in use, 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; and,
- 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	2023				2022			
	Fourth quarter	Third quarter	Second quarter	First quarter	Fourth quarter	Third quarter	Second quarter	First quarter
Sales	$155,978	$140,875	$132,680	$114,089	$147,459	$131,147	$131,293	$126,188
Operating income	9,879	5,111	8,562	2,646	11,463	10,545	11,953	10,797
Adjusted EBITDA (1)	19,595	14,129	16,216	11,426	22,149	19,694	21,157	20,049
Net Income	6,288	1,773	4,799	965	11,459	6,468	7,510	6,703
Adjusted Net Income (1)	6,288	1,773	3,580	965	13,158	6,468	7,510	6,703
In dollars per share								
Earnings per share diluted	$ 0.18	$ 0.05	$ 0.14	$ 0.03	$ 0.33	$ 0.18	$ 0.21	$ 0.19
Adjusted Earnings per share (1)	0.18	0.05	0.10	0.03	0.38	0.18	0.21	0.19
In millions of shares								
Weighted average number of common diluted shares outstanding	34.3	34.5	34.6	34.6	34.9	35.7	36.6	37.0

(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 seasonal factors such as plant shutdowns and summer vacations.

Selected financial information is as follows, for fiscal years:

	2023	2022	2021
Sales	$ 543,622	$ 536,087	$ 570,685
Operating income	26,198	44,758	34,096
Adjusted EBITDA(1)	61,366	83,049	88,297
Net income	13,825	32,140	19,813
Adjusted net income(1)	12,606	33,839	29,034
Earnings per share ($) - basic	0.40	0.91	0.55
Earnings per share ($) - diluted	0.40	0.90	0.55
Adjusted earnings per share(1) ($)	0.37	0.95	0.80
Cash	15,020	86,692	95,470
Total assets	821,337	813,358	854,831
Long-term financial liabilities(2)	183,756	238,419	251,243

(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.*

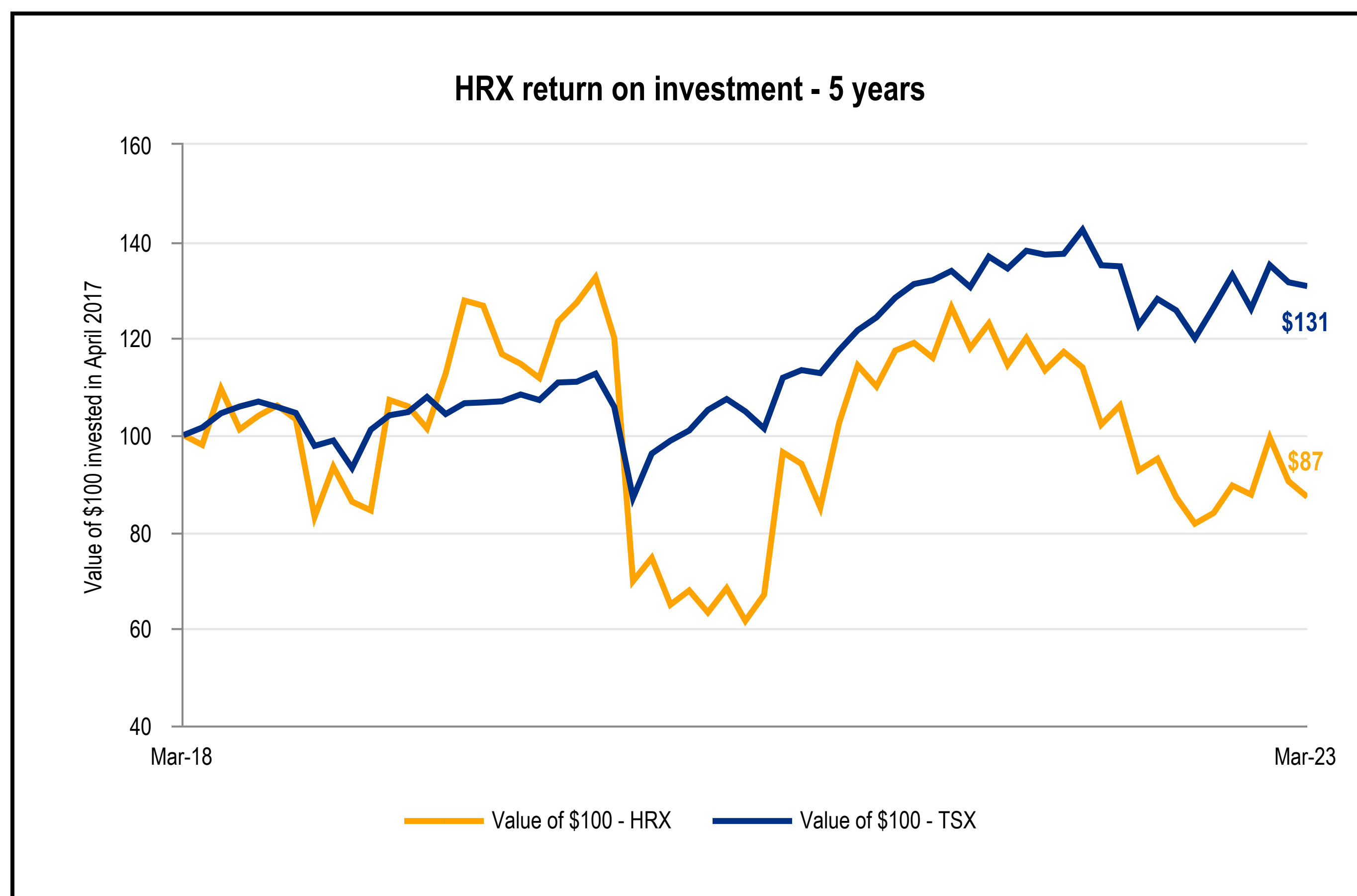
(2) *Represents long-term debt including the current portion, long-term derivative financial instruments, and the pension and other retirement benefit liabilities included in other liabilities.*

SHAREHOLDER INFORMATION

ISSUED CAPITAL	May 17, 2023
Common shares issued and outstanding	34,005,873
Stock options issued and outstanding	1,635,500

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 2024	
First quarter	August 8, 2023
Second quarter	November 10, 2023
Third quarter	February 7, 2024
Fourth quarter	May 22, 2024



ADDITIONAL INFORMATION AND CONTINUOUS DISCLOSURE

This MD&A was approved by the Audit Committee and by the Board of Directors on May 17, 2023. 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.

SHAREHOLDER INFORMATION

ANNUAL MEETING OF SHAREHOLDERS

Tuesday, August 8, 2023, at 10:00 A.M. Held virtually via webcast. The webcast can be accessed through the Events section of our website.

REGISTRAR AND TRANSFER AGENT

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AUDITORS

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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