



CONSOLIDATED FINANCIAL STATEMENTS / MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended December 31, 2020

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

	Notes	Three months ended December 31,		Nine months ended December 31,	
		2020	2019	2020	2019
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		\$ 8,486	\$ 8,705	\$ 11,011	\$ 21,455
Items not requiring an outlay of cash:					
Amortization expense	5	9,586	11,097	31,959	32,611
Deferred income taxes		658	(600)	(463)	(1,519)
Gains on sale of property, plant and equipment		—	—	—	(221)
Net non-cash financial expenses	7	1,014	1,313	3,033	3,457
Stock-based compensation expense	11	291	302	859	821
Cash flows from operations		20,035	20,817	46,399	56,604
Net change in non-cash items	13	6,688	(11,153)	11,224	(30,741)
Cash flows related to operating activities		26,723	9,664	57,623	25,863
Investing activities					
Net additions to property, plant and equipment		(4,988)	(5,152)	(14,495)	(13,307)
Net change in finite-life intangible assets		(1,368)	3,427	846	1,043
Cash payment related to business acquisition		—	—	—	(17,149)
Capital contribution from a non-controlling interest in a subsidiary		—	495	—	495
Proceeds on disposal of property, plant and equipment		—	—	—	4,025
Cash flows related to investing activities		(6,356)	(1,230)	(13,649)	(24,893)
Financing activities					
Proceeds from long-term debt		1,238	2,906	64,589	25,950
Repayment of long-term debt		(4,410)	(4,842)	(58,597)	(35,197)
Increase in deferred financing costs		—	(469)	—	(817)
Issuance of common shares		175	—	175	—
Cash flows related to financing activities		(2,997)	(2,405)	6,167	(10,064)
Effect of changes in exchange rates on cash and cash equivalents		(589)	(313)	(482)	(688)
Change in cash and cash equivalents during the periods		16,781	5,716	49,659	(9,782)
Cash and cash equivalents at beginning of periods		78,719	19,630	45,841	35,128
Cash and cash equivalents at end of periods		\$ 95,500	\$ 25,346	\$ 95,500	\$ 25,346
Interest and income taxes reflected in operating activities:					
Interest paid		\$ 1,799	\$ 1,613	\$ 5,626	\$ 4,996
Interest received		\$ 155	\$ 20	\$ 592	\$ 74
Income taxes paid		\$ 897	\$ 3,732	\$ 783	\$ 7,553

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the quarters and nine-month periods ended December 31, 2020 and 2019
(In thousands of Canadian dollars, except per share data) (Unaudited)

NOTE 1. NATURE OF ACTIVITIES AND CORPORATE INFORMATION

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

The Corporation only operates in one reporting segment, which is the Aerospace segment.

The Corporation's common shares are traded on the Toronto Stock Exchange under the symbol "HRX".

NOTE 2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the quarter ended December 31, 2020 were prepared in accordance with IAS 34, *Interim Financial Reporting*, therefore certain information and disclosures have been omitted or condensed. The same accounting policies and methods of computation were followed in the preparation of these interim condensed consolidated financial statements as were followed in the preparation of the most recent annual audited consolidated financial statements. Accordingly, these interim condensed consolidated financial statements should be read together with the annual audited consolidated financial statements and notes thereto included in the Corporation's Annual Report for the fiscal year ended March 31, 2020.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 4, 2021.

NOTE 3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Geographic markets				
Canada	\$ 15,437	\$ 14,977	\$ 41,484	\$ 41,804
United States of America	80,922	85,553	218,599	239,223
United Kingdom	11,013	14,020	36,082	44,795
Spain	12,097	12,781	35,217	34,524
Rest of Europe	20,878	19,476	55,206	49,140
Other countries	9,951	10,446	29,108	36,710
	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196
Sectors				
Civil	48,518	73,203	\$ 145,543	\$ 211,782
Defence ⁽¹⁾	101,780	84,050	270,153	234,414
	\$ 150,298	\$ 157,253	\$ 415,696	\$ 446,196

⁽¹⁾ Includes defence sales to civil customers and governments.

NOTE 4. GOVERNMENT ASSISTANCE

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Finite-life intangible assets	\$ 165	\$ 125	\$ 631	\$ 518
Property, plant and equipment	—	30	—	30
Cost of sales and selling and administrative expenses	4,047	1,024	14,347	2,330

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

During the quarter and nine-month period ending December 31, 2020, government assistance accounted for in cost of sales and selling and administrative expenses was largely comprised of the Canadian Emergency Wage Subsidy.

NOTE 5. COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES

The main components of these expenses were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Raw materials and purchased parts	\$ 59,240	\$ 57,475	\$ 155,910	\$ 161,849
Employee costs	43,496	51,698	129,312	148,755
Amortization of property, plant and equipment and finite-life intangible assets	9,586	11,097	31,959	32,611
Others	23,831	23,517	67,152	68,010
	\$ 136,153	\$ 143,787	\$ 384,333	\$ 411,225
Including:				
Foreign exchange losses upon conversion of net monetary items	1,140	607	2,270	673
Amortization of customer relationships	1,455	1,822	4,166	5,604

NOTE 6. NON-RECURRING ITEMS

Non-recurring items in operating income comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Restructuring charges	\$ 783	\$ —	\$ 9,496	\$ —
Acquisition-related costs	—	—	—	615
	\$ 783	\$ —	\$ 9,496	\$ 615

Restructuring charges

Since the beginning of the fiscal year, Héroux-Devtek has announced restructuring initiatives in light of the ongoing COVID-19 pandemic. These initiatives will affect 15% of the workforce, or approximately 315 employees, and include the closure of Alta Précision and APPH Wichita.

To date, \$9,496 of related costs have been recorded as restructuring charges, mainly comprised of employee-related charges and costs to dismantle and relocate machinery, and 76% of staff reductions have been completed. The remaining reductions will occur after the closure of Alta Precision and APPH Wichita.

NOTE 7. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Interest accretion on governmental authorities loans	\$ 750	\$ 963	\$ 2,369	\$ 2,226
Interest on net defined benefit obligations	99	62	302	186
Amortization of deferred financing costs	189	202	593	676
Other interest accretion and discount rate adjustments	(24)	86	(231)	369
Net non-cash financial expenses	1,014	1,313	3,033	3,457
Interest expense	1,799	1,613	5,626	4,996
Interest income on cash and cash equivalents	(155)	(20)	(592)	(74)
	\$ 2,658	\$ 2,906	\$ 8,067	\$ 8,379

NOTE 8. EARNINGS PER SHARE

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

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Weighted-average number of common shares outstanding	36,371,775	36,362,210	36,368,737	36,362,210
Dilutive effect of stock options	138,196	338,202	56,429	339,871
Weighted-average number of common diluted shares outstanding	36,509,971	36,700,412	36,425,166	36,702,081
Options excluded from diluted earnings per share calculation	862,000	—	1,274,500	—

NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at December 31, 2020, the Corporation had forward foreign exchange contracts outstanding for a notional amount of \$294,155 (\$404,728 at March 31, 2020) denominated in USD, EUR and GBP. This amount includes contracts with nominal value of US\$193,410 (US\$266,355 at March 31, 2020) convertible into Canadian dollars at an average rate of 1.3232 (1.3243 at March 31, 2020). These contracts mature at various dates between January 2021 and March 2025, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

As at December 31, 2020, the Corporation had cross-currency interest rate swap agreements exchanging CAD and USD-denominated debt to EUR for a total notional amount of € 80,768 in order to mitigate foreign exchange and interest rate risks. These agreements mature between May 2022 and September 2025, and mainly bear interest at a weighted average fixed rate of 2.7%.

Equity swap agreement

As at December 31, 2020 and March 31, 2020, the Corporation had entered into an equity swap agreement fixing 300,000 common shares of the Corporation at a price of \$13.52. This agreement manages the Corporation's exposure to fluctuations of its share price and resulting effect on the value of outstanding Performance Share Units and Deferred Share Units. It is a derivative that is not part of a designated hedging relationship and matures in June 2021.

NOTE 10. LONG-TERM DEBT

As at	December 31, 2020	March 31, 2020
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	\$ 86,824	\$ 96,472
Governmental authorities loans	90,378	88,590
Unsecured Subordinated Term Loan Facility ("Term Loan")	75,000	60,000
Lease liabilities	33,009	44,665
Balance of sale - Acquisitions	—	2,983
Deferred financing costs, net	(2,507)	(3,093)
	282,704	289,617
Less: current portion	16,667	16,857
Long-term debt	\$ 266,037	\$ 272,760

Revolving Facility

The revolving facility matures in December 2024, has a limit of \$250,000, of which \$86,824 or US\$68,000 is drawn, and bears interest at a weighted average of 1.4% (\$96,472 or US\$68,000 at 2.5% at March 31, 2020).

Term Loan Facility

The term loan facility matures in September 2025, is fully drawn and bears interest at a weighted average interest rate of 5.2%.

Lease liabilities

Lease liabilities bear fixed interest rates between 2.1% and 7.0% as at December 31, 2020 (2.8% and 7.0% as at March 31, 2020), maturing from January 2021 to May 2039.

NOTE 11. ISSUED CAPITAL

A. Share capital

Capital stock varied as follows:

	Three months ended December 31, 2020		Nine months ended December 31, 2020	
	Number	Issued capital	Number	Issued capital
Opening balance	36,367,210	79,757	36,367,210	79,757
Issued for cash on exercise of stock options	15,000	244	15,000	244
Closing balance	36,382,210	80,001	36,382,210	80,001

B. 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.

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

	2020		2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,846,595	\$ 13.10	1,508,595	\$ 13.87
Exercised	(15,000)	11.71	—	—
Closing balance	1,831,595	\$ 13.11	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 291		\$ 302

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

	2020		2019	
	Number of stock options	Weighted-average exercise price	Number of stock options	Weighted-average exercise price
Opening balance	1,497,595	\$ 13.86	1,167,095	\$ 13.23
Granted	349,000	9.83	341,500	16.03
Exercised	(15,000)	11.71	—	—
Closing balance	1,831,595	\$ 13.11	1,508,595	\$ 13.87
Stock-based compensation expense		\$ 859		\$ 821

2,808,257 common share are reserved for issuance under the stock option plan, of which 2,737,507 had not been issued yet as at December 31, 2020 (2,752,507 at March 31, 2020).

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

Movements in outstanding DSUs and PSUs and related expenses were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
DSUs				
<i>In number of DSUs</i>				
Opening balance	189,164	154,950	154,950	166,334
Issued	—	—	34,214	21,671
Settled	—	—	—	(33,055)
Closing balance of DSUs outstanding	189,164	154,950	189,164	154,950
DSU expense for the periods	\$ 914	\$ 316	\$ 994	\$ 961
Fair value of vested outstanding DSUs, end of periods	\$ 2,593	\$ 2,884	\$ 2,593	\$ 2,884

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
PSUs				
<i>In number of PSUs</i>				
Opening balance	395,050	331,750	278,450	212,450
Issued	—	—	119,100	119,300
Settled	(84,700)	(16,100)	(84,700)	(16,100)
Cancelled/Forfeited	(1,700)	(35,000)	(4,200)	(35,000)
Closing balance of PSUs outstanding	308,650	280,650	308,650	280,650
PSU expense for the periods	\$ 1,795	\$ 887	\$ 1,968	\$ 2,130
Fair value of vested outstanding PSUs, end of periods	\$ 3,053	\$ 3,683	\$ 3,053	\$ 3,683

NOTE 12. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income were as follows:

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2020	\$ 24,214	\$ 1,139	\$ (12,639)	\$ 12,714
Other comprehensive income (loss)	(4,593)	8,486	1,337	5,230
Balance as at December 31, 2020	\$ 19,621	\$ 9,625	\$ (11,302)	\$ 17,944
Balance as at March 31, 2020	\$ 34,845	\$ (13,902)	\$ (13,783)	\$ 7,160
Other comprehensive income (loss)	(15,224)	23,527	2,481	10,784
Balance as at December 31, 2020	\$ 19,621	\$ 9,625	\$ (11,302)	\$ 17,944

	Exchange differences on conversion of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2019	\$ 6,845	\$ (2,673)	\$ (5,201)	\$ (1,029)
Other comprehensive income	3,386	4,440	1,114	8,940
Balance as at December 31, 2019	\$ 10,231	\$ 1,767	\$ (4,087)	\$ 7,911
Balance as at March 31, 2019	\$ 19,266	\$ (1,772)	\$ (6,992)	\$ 10,502
Other comprehensive income (loss)	(9,035)	3,539	2,905	(2,591)
Balance as at December 31, 2019	\$ 10,231	\$ 1,767	\$ (4,087)	\$ 7,911

NOTE 13. NET CHANGE IN NON-CASH ITEMS

The net change in non-cash items were as follows:

	Three months ended December 31,		Nine months ended December 31,	
	2020	2019	2020	2019
Accounts receivable	\$ 10,182	\$ (1,011)	\$ 29,649	\$ 13,944
Income tax receivable	(445)	(747)	(788)	(938)
Inventories	12,170	(12,034)	(176)	(35,364)
Other assets	3,075	1,461	3,979	341
Accounts payable, accrued and other liabilities	(17,163)	(3,329)	(26,232)	(6,372)
Provisions	(2,216)	167	1,831	(2,178)
Customer advances and progress billings	(1,203)	3,983	4,191	4,138
Income tax payable	(116)	(514)	1,573	(602)
Effect of changes in exchange rates	2,404	871	(2,803)	(3,710)
	\$ 6,688	\$ (11,153)	\$ 11,224	\$ (30,741)