HÉROUX DEVTEK

From: **Héroux-Devtek Inc.**
Gilles Labbé
President and Chief Executive Officer
Tel.: (450) 679-3330

Contact: **Héroux-Devtek Inc.**
Stéphane Arsenault
Chief Financial Officer
Tel.: (450) 679-3330

MaisonBrison
Pierre Boucher
Tel.: (514) 731-0000

PRESS RELEASE

FOR IMMEDIATE RELEASE

HÉROUX-DEVTEK REPORTS FISCAL 2019 THIRD QUARTER RESULTS

Financial Highlights

- Sales increased 49.0% to $144.5 million compared to last year, driven by the CESA and Beaver acquisitions and strong internal growth
- Operating income increased 79.6% to $11.9 million, or 8.2% of sales, compared with $6.6 million, or 6.8%
- Adjusted EBITDA[1] also improved reaching $22.9 million, or 15.8% of sales, compared to $13.6 million or 14.0%
- Cash flows generated from operating activities at $12.7 million, compared with $19.3 million

Operational and Commercial Highlights

- Integration of Beaver and CESA progressing well
- Boeing's customer certification for final surface treatment process received
- Funded backlog at $629 million, up from $466 million as at March 31, 2018

Longueuil, Québec, February 7, 2019 — Héroux-Devtek Inc. (TSX: HRX), ("Héroux-Devtek" or the "Corporation"), a leading international manufacturer of aerospace products, today reported its results for the third quarter of fiscal 2019 ended December 31, 2018. Unless otherwise indicated, all amounts are in Canadian dollars.

"We are very pleased with our third quarter financial and operational performance. The results from Beaver and CESA exceeded our expectations and all our major business units performed well, contributing 8% organic revenue growth. Operating income also improved significantly due to this higher throughput, which led to better absorption of manufacturing costs," said Gilles Labbé, President and CEO of Héroux-Devtek. "We reached a significant milestone by receiving customer approval for the final surface treatment process for the Boeing 777/777X contract; this will enable us to realize our full margin potential."

"We are entering the last quarter of fiscal 2019 with a strong pipeline of potential business and a solid backog. We are continuing to dedicate significant resources to ensure the successful integration of Beaver and CESA, both of which are advancing well. We are clearly embarking on our next expansion phase and we remain dedicated to improving shareholder value by focussing on creating cross-selling opportunities, extracting operational leverage, maintaining strong cash flows and reimbursing debt," concluded Mr. Labbé.

FINANCIAL HIGHLIGHTS	Quarters ended Dec. 31,		Nine months ended Dec. 31,	
(in thousands of dollars, except per share data)	**2018**	**2017**	**2018**	**2017**
Sales	**144,528**	97,006	**325,963**	273,540
Operating income	**11,904**	6,629	**22,050**	16,681
Adjusted EBITDA[1]	**22,883**	13,563	**48,303**	37,535
Net income	**7,390**	626	**14,236**	7,816
Per share – diluted ($)	**0.20**	0.02	**0.39**	0.22
Adjusted net income[1]	**9,367**	5,690	**17,558**	13,774
Per share ($)	**0.26**	0.16	**0.48**	0.38

[1] This is a non-IFRS measure. Please refer to the "Non-IFRS Measures" section at the end of this press release.

THIRD QUARTER RESULTS

Consolidated sales increased 49.0% to $144.5 million, compared with $97.0 million last year, driven by CESA and Beaver which together have contributed $39.6 million, as well as 8% organic growth. We achieved higher sales in both defence and commercial aerospace markets and have a net positive impact on third-quarter sales of $1.6 million, resulting from year-over-year fluctuations in the value of the Canadian currency versus foreign currencies.

Commercial sales increased 25.7% to $65.5 million, compared with $52.1 million last year. This was mainly driven by Beaver and CESA's sales, increased deliveries to Boeing for the 777 and 777X programs, as well as higher business jet sales, mostly related to the ramp-up of deliveries for the Embraer 450/500 program and higher sales of spares.

Defence sales increased 76.0% to $79.0 million, from $44.9 million. This was essentially due to Beaver and CESA's sales, higher spares requirements from the U.S. Government and higher manufacturing sales to certain civil customers. These factors were partially offset by the ramp-down of repair and overhaul ("R&O") activities for the United States Air Force following completion of the contract.

Gross profit increased to $24.9 million, or 17.2% of sales, versus $15.8 million, or 16.3% of sales, last year. The increase was mainly driven by the impact of the Beaver and CESA acquisitions and higher throughput which led to better absorption of manufacturing costs, partially offset by exchange rate fluctuations which had a negative impact of 0.6% of sales during the quarter.

Operating income increased to $11.9 million, or 8.2% of sales, compared with $6.6 million, or 6.8% of sales, last year, reflecting mainly the Beaver and CESA contributions. This year and last year's operating income included acquisition-related costs of $2.1 million and $0.6 million, respectively, in connection with the acquisitions of CESA and Beaver. Adjusted EBITDA, which excludes non-recurring items, also grew, reaching $22.9 million, or 15.8% of sales, compared with $13.6 million, or 14.0% of sales, a year ago.

Financial expenses increased to $2.8 million, compared with $0.4 million last year. This variation mainly reflects the interest charge on new debt incurred to finance the CESA acquisition and higher interest rates. Last year's financial expenses also included a $0.6 millon net gain on certain derivative financial instruments.

Net income for the third quarter of fiscal 2019 was $7.4 million, or $0.20 per diluted share, compared with $0.6 million, or $0.02 per diluted share, a year ago. Excluding non-recurring items net of taxes, adjusted net income reached $9.4 million, or $0.26 per share, versus $5.7 million, or $0.16 per share, last year.

As at December 31, 2018, Héroux-Devtek's funded (firm orders) backlog stood at $629 million or $515 million excluding Beaver and CESA, versus $466 million as at March 31, 2018.

NINE-MONTH RESULTS

For the first nine months of fiscal 2019, consolidated sales reached $326.0 million, versus $273.5 million last year. Year-over-year fluctuations in the value of the Canadian currency versus foreign currencies increased sales by $0.9 million. Commercial sales reached $158.3 million, versus $137.6 million a year ago, while defence sales totalled $167.7 million compared with $135.9 million last year.

Gross profit for the first nine months of fiscal 2019 amounted to $53.5 million, equivalent to 16.4% of sales, compared with $42.3 million, or 15.5% of sales last year. Operating income was $22.1 million, or 6.8% of sales, versus $16.7 million, or 6.1% of sales a year ago. Year-over-year fluctuations in the value of the Canadian currency versus foreign currencies increased operating income by $1.6 million. Adjusted EBITDA reached $48.3 million, or 14.8% of sales, versus $37.5 million, or 13.7% of sales, a year earlier.

Net income was $14.2 million, or $0.39 per diluted share, compared with $7.8 million, or $0.22 per diluted share last year. Adjusted net income stood at $17.6 million, or $0.48 per share, versus $13.8 million, or $0.38 per share, last year.

SOLID CASH FLOWS AND HEALTHY FINANCIAL POSITION

Cash flows related to operating activities amounted to $12.7 million in the third quarter of fiscal 2019, versus $19.3 million in the third quarter of fiscal 2018. This mainly reflects a net unfavourable variation in non-cash working capital items. As a result, Héroux-Devtek generated free cash flow of $11.9 million in the third quarter of fiscal 2019, down from $17.1 million last year. For the first nine months of fiscal 2019, cash flows related to operating activities were $32.8 million, compared with $37.6 million a year earlier, while free cash flow amounted to $26.4 million, versus $30.8 million last year.

As at December 31, 2018, cash and cash equivalents stood at $28.6 million, while total long-term debt was $285.9 million, including the current portion, but excluding net deferred financing costs. Long-term debt includes $118.7 million drawn against the Corporation's authorized credit facility of $250.0 million. As a result, the net debt position was $257.3 million at the end of the third quarter, up from $38.8 million as at March 31, 2018, mainly reflecting the Beaver and CESA acquisitions.

GUIDANCE REITEREATED

For fiscal 2019 management reiterates its annual guidance provided on October 1, 2018 with the closing of the CESA acquisition. For fiscal 2019 sales are expected to be between $460 to $470 million. Capital expenditures are expected to be approximately $20 million. Long-term sales for fiscal 2022 are expected to be in the range of $620 to $650 million.

Please see "Forward-Looking Statements" below and the Guidance section in the Corporation's MD&A for the quarter ended December 31, 2018, for further details regarding the material assumptions underlying the foregoing guidance.

CONFERENCE CALL

Héroux-Devtek Inc. will hold a conference call to discuss these results on Thursday, February 7, 2019 at 10:00 AM Eastern Time. Interested parties can join the call by dialling 1-877-223-4471 (North America) or 1-647-788-4922 (overseas). The conference call can also be accessed via live webcast at Héroux-Devtek's website, www.herouxdevtek.com/investor-relations/events or http://www.gowebcasting.com/9858

An accompanying presentation will also be available on Héroux-Devtek's website, www.herouxdevtek.com/investor-relations/events.

If you are unable to call in at this time, you may access a tape recording of the meeting by calling 1-800-585-8367 and entering the passcode 1498853 on your phone. This tape recording will be available on Thursday, February 7, 2019 as of 3:00 PM Eastern Time until 11:59 PM Eastern Time on Thursday, February 14, 2019.

PROFILE

Héroux-Devtek Inc. (TSX: HRX) is an international company specializing 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 for the Aerospace market. The Corporation is the third largest landing gear company worldwide, supplying both the commercial and defence sectors. Approximately 90% of the Corporation's sales are outside of Canada, including about 50% in the United States. The Corporation's head office is located in Longueuil, Québec with facilities in the Greater Montreal area (Longueuil, Laval and St-Hubert); Kitchener, Cambridge and Toronto, Ontario; Springfield and Strongsville, Ohio; Wichita, Kansas; Everett, Washington; Livonia, Michigan; Runcorn, Nottingham and Bolton, United Kingdom; and Madrid and Seville, Spain.

FORWARD-LOOKING STATEMENTS

Except for historical information provided herein, this press release contains information and statements of a forward-looking nature concerning the future performance of the Corporation. Forward looking statements are based on assumptions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Corporation's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results. Please see the Guidance section in the Corporation’s MD&A for the quarter ended December 31, 2018, for further details regarding the material assumptions underlying the forecasts and guidance. Such forecasts and guidance are provided 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, and the reader is cautioned that such statements may not be appropriate for other purposes.

NON-IFRS MEASURES

Earnings before interest, taxes, depreciation and amortization (“EBITDA”), adjusted EBITDA, adjusted net income, adjusted earnings per share and free cash flow are financial measures not prescribed by International Financial Reporting Standards (“IFRS”) and are not likely to be comparable to similar measures presented by other issuers. Management considers these to be useful information to assist investors in evaluating the Corporation's profitability, liquidity and ability to generate funds to finance its operations. Refer to Non-IFRS financial measures under Operating Results in the Corporation’s MD&A for definitions of these measures and reconciliations to the most comparable IFRS measures.

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Note to readers: Complete unaudited interim condensed consolidated financial statements and Management’s Discussion & Analysis are available on Héroux-Devtek’s website at www.herouxdevtek.com.

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Third quarter ended December 31, 2018

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DISCLOSURE OF NON-REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE QUARTERS ENDED DECEMBER 31, 2018 AND 2017.

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if the external auditors have not performed a review of the financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by the external auditors.

The accompanying unaudited interim condensed consolidated financial statements of the Corporation for the quarters ended December 31, 2018 and 2017 have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting,* and are the responsibility of the Corporation's management.

The Corporation's external auditors, Ernst & Young LLP, have not performed a review of these interim condensed consolidated financial statements in accordance with the standards established by Chartered Professional Accountants Canada for a review of financial statements by the external auditors of an entity.

February 6, 2019.

CONSOLIDATED BALANCE SHEETS

(In thousands of Canadian dollars) (Unaudited)

As at	Notes	December 31, 2018	March 31, 2018
Assets			
Current assets			
Cash and cash equivalents	4	**$ 28,639**	$ 93,209
Accounts receivable		**109,208**	73,469
Income tax receivable		**2,353**	1,412
Inventories		**183,004**	134,327
Derivative financial instruments	11	**142**	1,776
Prepaid expenses and other current assets		**16,773**	6,456
		340,119	310,649
Property, plant and equipment, net	6	**224,753**	179,503
Finite-life intangible assets, net	6	**67,938**	35,856
Derivative financial instruments	11	**3,168**	3,421
Deferred income tax assets		**13,584**	7,388
Goodwill	4	**177,536**	91,137
Tax credits receivable and other long-term assets		**25,954**	4,208
Total assets	4	**$ 853,052**	$ 632,162
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**$ 88,951**	$ 67,591
Provisions		**27,519**	16,869
Customer advances and progress billings		**18,488**	15,522
Income tax payable		**1,508**	3,023
Derivative financial instruments	11	**4,314**	389
Current portion of long-term debt	12	**12,880**	5,356
		153,660	108,750
Long-term debt	12	**269,828**	125,685
Provisions		**14,337**	5,921
Derivative financial instruments	11	**5,774**	2,389
Deferred income tax liabilities		**8,287**	3,767
Other liabilities		**8,369**	6,616
		460,255	253,128
Shareholders' equity			
Issued capital	13	**79,361**	78,105
Contributed surplus		**4,541**	4,227
Accumulated other comprehensive income	14	**11,521**	14,217
Retained earnings		**297,374**	282,485
		392,797	379,034
Total liabilities and shareholders' equity	4	**$ 853,052**	$ 632,162

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

CONSOLIDATED STATEMENTS OF INCOME

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

	Notes	Three months ended December 31, 2018	Three months ended December 31, 2017	Nine months ended December 31, 2018	Nine months ended December 31, 2017
Sales	5	**$ 144,528**	$ 97,006	**$ 325,963**	$ 273,540
Cost of sales	6, 7	**119,601**	81,167	**272,497**	231,222
Gross profit		**24,927**	15,839	**53,466**	42,318
Selling and administrative expenses	6, 7	**10,954**	8,601	**28,111**	24,082
Non-recurring items	8	**2,069**	609	**3,305**	1,555
Operating income		**11,904**	6,629	**22,050**	16,681
Net financial expenses	9	**2,764**	395	**5,409**	2,926
Income before income tax expense		**9,140**	6,234	**16,641**	13,755
Income tax expense		**1,750**	5,608	**2,405**	5,939
Net income		**$ 7,390**	$ 626	**$ 14,236**	$ 7,816
Earnings per share – basic and diluted	10	**$ 0.20**	$ 0.02	**$ 0.39**	$ 0.22

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of Canadian dollars) (Unaudited)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	**2018**	2017	**2018**	2017
	14				
Other comprehensive income (loss):					
Items that may be reclassified to net income					
Gains (losses) arising from conversion of the financial statements of foreign operations		**$ 17,544**	$ 2,722	**$ 8,490**	$ (5,672)
Cash flow hedges:					
Net gains (losses) on valuation of derivative financial instruments		**(7,608)**	(2,678)	**(6,738)**	6,741
Net gains (losses) on derivative financial instruments transferred to net income		**79**	(1,810)	**(164)**	(2,618)
Deferred income taxes		**2,008**	1,198	**1,843**	(1,103)
		(5,521)	(3,290)	**(5,059)**	3,020
Gains (losses) on hedge of net investments in foreign operations		**(6,166)**	(273)	**(6,380)**	3,166
Deferred income taxes		**231**	27	**253**	(322)
		(5,935)	(246)	**(6,127)**	2,844
Items that are never reclassified to net income					
Defined benefit pension plans:					
Gains (losses) from remeasurement		**(1,074)**	(863)	**891**	(2,491)
Deferred income taxes		**287**	228	**(238)**	666
		(787)	(635)	**653**	(1,825)
Other comprehensive income (loss)		**$ 5,301**	$ (1,449)	**$ (2,043)**	$ (1,633)
Comprehensive income					
Net income		**$ 7,390**	$ 626	**$ 14,236**	$ 7,816
Other comprehensive income (loss)		**5,301**	(1,449)	**(2,043)**	(1,633)
Comprehensive income (loss)		**$ 12,691**	$ (823)	**$ 12,193**	$ 6,183

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands of Canadian dollars) (Unaudited)

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2018		$	**78,105**	$	**4,227**	$	**14,217**	$	**282,485**	$	**379,034**
Common shares:	13										
Issued under the stock option plan			825		(326)		—		—		499
Issued under the stock purchase and ownership incentive plan			431		—		—		—		431
Stock-based compensation expense	13		—		640		—		—		640
Net income			—		—		—		14,236		14,236
Other comprehensive income (loss)	14		—		—		(2,696)		653		(2,043)
Balance as at December 31, 2018		$	**79,361**	$	**4,541**	$	**11,521**	$	**297,374**	$	**392,797**

	Notes		Issued capital		Contributed surplus		Accumulated other comprehensive income		Retained earnings		Shareholders' equity
Balance as at March 31, 2017		$	**77,217**	$	**3,735**	$	**6,298**	$	**268,618**	$	**355,868**
Common shares:	13										
Issued under the stock option plan			183		(51)		—		—		132
Issued under the stock purchase and ownership incentive plan			435		—		—		—		435
Stock-based compensation expense	13		—		303		—		—		303
Net income			—		—		—		7,816		7,816
Other comprehensive income (loss)	14		—		—		192		(1,825)		(1,633)
Balance as at December 31, 2017		$	**77,835**	$	**3,987**	$	**6,490**	$	**274,609**	$	**362,921**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of Canadian dollars) (Unaudited)

		Three months ended December 31,		Nine months ended December 31,	
	Notes	2018	2017	2018	2017
Cash and cash equivalents provided by (used for):					
Operating activities					
Net income		$ 7,390	$ 626	$ 14,236	$ 7,816
Items not requiring an outlay of cash:					
Amortization expense	7	8,910	6,325	22,948	19,299
Deferred income taxes		(64)	4,390	(2,042)	1,627
(Gains) losses on sale of property, plant and equipment		(22)	(1)	(30)	1
Net non-cash financial expenses	9	984	344	5,528	1,617
Stock-based compensation expense	13	200	78	640	303
Cash flows from operations		17,398	11,762	41,280	30,663
Net change in non-cash items	15	(4,747)	7,571	(8,492)	6,938
Cash flows related to operating activities		12,651	19,333	32,788	37,601
Investing activities					
Cash payment for business acquisitions	4	(170,930)	—	(194,601)	—
Net additions to property, plant and equipment		(2,991)	(1,657)	(8,345)	(6,186)
Net decrease (increase) in finite-life intangible assets		3,250	(436)	2,223	(2,038)
Proceeds on disposal of property, plant and equipment		23	77	30	107
Cash flows related to investing activities		(170,648)	(2,016)	(200,693)	(8,117)
Financing activities					
Proceeds from long-term debt	4	—	949	116,605	2,218
Repayment of long-term debt		(9,728)	(1,125)	(12,546)	(3,370)
Increase in deferred financing costs		(1,226)	—	(2,567)	—
Issuance of common shares	13	133	274	924	567
Cash flows related to financing activities		(10,821)	98	102,416	(585)
Effect of changes in exchange rates on cash and cash equivalents		740	415	919	(713)
Change in cash and cash equivalents during the periods		(168,078)	17,830	(64,570)	28,186
Cash and cash equivalents at beginning of periods		196,717	52,812	93,209	42,456
Cash and cash equivalents at end of periods		$ 28,639	$ 70,642	$ 28,639	$ 70,642
Interest and income taxes reflected in operating activities:					
Interest paid		$ 1,870	$ 656	$ 3,270	$ 2,077
Interest received		$ 90	$ 160	$ 754	$ 323
Income taxes paid		$ 1,811	$ 786	$ 5,314	$ 4,248

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, 2018 and 2017
(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 658, East 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 flight control 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, 2018 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, 2018.

These interim condensed consolidated financial statements were approved for issue by the Board of Directors of the Corporation on February 6, 2019.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

The notes presented in the interim condensed consolidated financial statements for the quarter ended December 31, 2018 include only significant changes occurring during the nine-month period following the last fiscal year ended March 31, 2018.

New Accounting Standards

The Company adopted the following new accounting standards effective April 1, 2018.

IFRS 9, Financial Instruments
IFRS 9, Financial Instruments (IFRS 9) which replaces IAS 39, Financial Instruments: Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that presents relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance.

Classification and measurement

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows including whether they represent solely payments of principal and interest (SPPI criterion). IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and fair value through profit and loss (FVTPL).

Impairment of financial assets

Under IFRS 9, impairment losses for financial assets are calculated with a forward-looking expected credit loss (ECL) approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows expected to be received. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

Effective April 1, 2018, the Corporation adopted IFRS 9 and this adoption did not have a significant impact on the Company's financial statements. The new classification and measurement of the Company's financial assets and liabilities did not change. These are considered as financial instruments at amortized cost and are comprised of accounts receivable, accounts payable and accrued liabilities and long-term debt. The Company's derivative financial instruments are classified and measured at FVTPL where hedge accounting is not elected or at FVTOCI with recycling into profit and loss when hedge accounting is elected.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, Revenue from contracts with customers supersedes previous accounting standards for revenue, including IAS 11, Construction Contracts, and IAS 18, Revenue, and all existing IFRS revenue interpretations. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. 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.

The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles).

Effective April 1, 2018, the Company adopted IFRS 15 using the full retrospective method and this adoption did not have a material impact on the Company's financial statements or the timing of revenue recognition accounting policies previously disclosed in the 2018 audited annual consolidated financial statements. Consequently, the Company's revenue continues to be recognized at a point in time when performance obligations under the customers' contracts are fulfilled, generally upon delivery of goods.

Future changes in accounting policies

IFRS 16, Leases

In January 2016, the IASB released IFRS 16 - Leases. The new standard, which represents a major revision of the way in which companies account for leases, sets out the principles that both parties to a contract, i.e. the customer ("lessee") and the supplier ("lessor"), apply to provide relevant information about leases in a manner that faithfully represents those transactions. To meet this objective, a lessee is required to recognize assets and liabilities arising from a lease, following a single model where previously leases were classified as either finance leases or operating leases. Most leases will be recognized on the Corporation's consolidated balance sheet. Certain exemptions will apply for short-term leases and leases of low-value assets. The Corporation anticipates the adoption of the IFRS will have an impact on the balance sheet and statement of income as all operating leases will be capitalized with a corresponding lease liability while the rent expense will be replaced by the amortization expense of the right to use the related assets and interest accretion expense from the liability recorded.

The Corporation is required to apply this standard retrospectively for its fiscal year beginning April 1, 2019. Many of the Corporation's leases are already accounted for as finance leases on the Corporation's consolidated balance sheet. Certain other operating leases will be required to be brought on balance sheet. The Corporation continues to assess the impact of adopting this standard on its consolidated financial statements.

NOTE 4. BUSINESS ACQUISITIONS

Acquisition of CESA

On October 1, 2018, the Corporation completed the acquisition of all the shares of Compañia Española de Sistemas Aeronauticos S.A. ("CESA"), a subsidiary of Airbus SE, for €131,681 ($197,785). Headquartered in Madrid, Spain, CESA is a leading European provider of fluid mechanical and electromechanical systems for the aerospace industry. This acquisition will allow the Corporation to broaden its existing aerospace and product offering into actuation, landing gear, and hydraulic systems. The transaction was treated as a business combination.

The acquisition of CESA was financed as follows:

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

In addition, the Corporation assumed CESA's net outstanding debt amounting to approximately €23,884 ($35,875) upon closing.

For the period between October 1, 2018 and December 31, 2018, HDI's sales and net income included €20,889 ($31,428) and €1,341 ($2,027), respectively, generated by CESA. If the acquisition had closed on April 1, 2018, the sales and net income of CESA would have amounted to $85,185 and $786, respectively, for the nine-month period ended December 31, 2018.

This transaction exposes the Corporation to new foreign exchange and interest rate risks. Refer to note 11 for further information on these risks and how they are being mitigated.

Acquisition of Beaver

On July 2, 2018, the Corporation completed the acquisition of all the shares of Beaver Aerospace & Defense Inc. and its wholly-owned subsidiary PowerTHRU Inc. ("Beaver") from Phillips Service Industries Inc. for a purchase price of US$21,476 ($28,280). This price is subject to final working capital adjustments including a US$3,500 ($4,609) balance of sale payable over the next two years which bears interests at 3%. The transaction was financed through the Corporation's cash and was treated as a business combination. This acquisition will allow the Corporation to broaden its existing aerospace and product offering into ball screws and actuation systems as well as expand its footprint in North America.

For the period between July 2, 2018 and December 31, 2018, HDI's sales and net income included US$11,855 ($15,520) and US$1,058 ($1,389), generated by Beaver, respectively. If the acquisition had closed on April 1, 2018, the sales and net income of Beaver would have amounted to $23,904 and $1,803, respectively, for the nine-month period ended December 31, 2018.

In connection with these acquisitions, the Corporation incurred acquisition-related costs which are presented in note 8.

Purchase Prices

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

	CESA	Beaver	Total
Cash payment	$ 170,930	$ 23,671	$ 194,601
Long-term debt assumed	35,875	—	35,875
Working capital adjustment receivable	(9,020)	—	(9,020)
Balance of purchase price payable	—	4,609	4,609
Total purchase price	**$ 197,785**	**$ 28,280**	**$ 226,065**

Purchase Price Allocations

	CESA	Beaver	Total
Accounts receivable	$ 31,259	$ 6,273	$ 37,532
Inventories	36,692	10,165	46,857
Income tax receivable	505	—	505
Prepaid expenses and other current assets	596	478	1,074
	69,052	**16,916**	**85,968**
Property, plant and equipment, net	44,923	3,429	48,352
Finite-life intangible assets, net	33,782	5,201	38,983
Deferred income tax assets	—	2,075	2,075
Tax credits receivable and other long-term assets	22,049	—	22,049
Total identifiable assets	**$ 169,806**	**$ 27,621**	**$ 197,427**
Accounts payable and accrued liabilities	15,780	2,591	18,371
Provisions	9,639	5,246	14,885
Income tax payable	95	—	95
Customer advances and progress billings	4,168	450	4,618
Current portion of long-term debt	—	194	194
	29,682	**8,481**	**38,163**
Long-term debt	—	178	178
Provisions	4,308	3,847	8,155
Deferred income tax liabilities	5,518	—	5,518
Other liabilities	4,365	—	4,365
Total identifiable liabilities	**$ 43,873**	**$ 12,506**	**$ 56,379**
Net identifiable assets and liabilities	**125,933**	**15,115**	**141,048**
Goodwill	71,852	13,165	**85,017**
Total purchase price	**$ 197,785**	**$ 28,280**	**$ 226,065**

These purchase price allocations are preliminary. The final purchase price allocations could result in changes to the fair value of assets acquired and liabilities assumed. These purchase price allocations are expected to be completed as soon as management has gathered all the information considered necessary in order to finalize them.

NOTE 5. 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,	
	2018	2017	**2018**	2017
Geographic markets				
Canada	**$ 10,645**	$ 9,231	**$ 27,306**	$ 27,310
United States of America	**71,741**	64,420	**181,952**	174,528
United Kingdom	**17,006**	11,423	**36,765**	30,828
Spain	**18,332**	—	**18,332**	—
Other countries	**26,804**	11,932	**61,608**	40,874
	$ 144,528	$ 97,006	**$ 325,963**	$ 273,540
Sectors				
Commercial	**65,493**	52,105	**158,279**	137,592
Defence(1)	**79,035**	44,901	**167,684**	135,948
	$ 144,528	$ 97,006	**$ 325,963**	$ 273,540

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

NOTE 6. GOVERNMENT ASSISTANCE

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Finite-life intangible assets	**$ 786**	$ 18	**$ 973**	$ 244
Property, plant and equipment	**—**	—	**—**	267
Cost of sales and, selling and administrative expenses	**1,142**	211	**1,871**	1,546

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

NOTE 7. 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,	
	2018	2017	**2018**	2017
Raw materials and purchased parts	**$ 57,458**	$ 35,360	**$ 117,703**	$ 96,751
Employee costs	**44,013**	31,571	**108,003**	92,759
Amortization of property, plant and equipment and finite-life intangible assets	**8,910**	6,325	**22,948**	19,299
Others	**20,174**	16,512	**51,954**	46,495
	$ 130,555	$ 89,768	**$ 300,608**	$ 255,304

Foreign exchange gains or losses resulting from the conversion of net monetary items denominated in foreign currencies are included in the Corporation's selling and administrative expenses. During the quarter ended December 31, 2018, the foreign exchange gain amounted to $773 (loss of $619 in 2017) compared to a gain of $765 for the nine-month period ended December 31, 2018 (loss of $1,617 in 2017).

NOTE 8. NON-RECURRING ITEMS

Non-recurring items comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Non-recurring items in operating income				
Acquisition-related costs	**$ 2,069**	$ 609	**$ 3,305**	$ 1,555
	$ 2,069	$ 609	**$ 3,305**	$ 1,555
Non-recurring items in financial expenses				
Net losses (gains) on certain derivative financial instruments (see Note 9)	**—**	(609)	**391**	(609)
	$ —	$ (609)	**$ 391**	$ (609)
Non-recurring item in income tax expense				
Impact of US Tax Reform	**—**	4,912	**—**	4,912
	$ —	$ 4,912	**$ —**	$ 4,912

Acquisition-related costs

These costs mainly pertain to professional fees and expenses related to the acquisitions of CESA and Beaver.

Net losses on certain derivative financial instruments

These losses relate to derivative financial instruments acquired in order to mitigate foreign currency and interest rate risks arising from the purchase price and financing related to the acquisition of CESA. See Note 11 for further details.

NOTE 9. NET FINANCIAL EXPENSES

Net financial expenses comprise the following:

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Interest accretion on governmental authorities loans	**$ 682**	$ 537	**$ 1,874**	$ 1,655
Net losses (gains) on certain derivative financial instruments[(1)]	**—**	(163)	**3,026**	(163)
Interest on net defined benefit obligations	**42**	35	**126**	104
Amortization of deferred financing costs (Note 12)	**193**	55	**304**	182
Other interest accretion expense and discount rate adjustments	**67**	(120)	**198**	(161)
Non-cash net financial expenses	**984**	344	**5,528**	1,617
Interest expense	**1,870**	657	**3,270**	2,078
Net gains on certain derivative financial instruments[(1)]	**—**	(446)	**(2,635)**	(446)
Interest income on cash and cash equivalents	**(90)**	(160)	**(754)**	(323)
	$ 2,764	$ 395	**$ 5,409**	$ 2,926

[(1)]Net losses (gains) on derivative financial instruments classified at fair value through profit or loss (refer to Notes 8 and 11).

NOTE 10. 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,	
	2018	2017	**2018**	2017
Weighted-average number of common shares outstanding	**36,336,235**	36,156,670	**36,293,032**	36,142,814
Effect of dilutive stock options of the Corporation	**80,562**	220,237	**124,712**	204,694
Weighted-average number of common diluted shares outstanding	**36,416,797**	36,376,907	**36,417,744**	36,347,508
Options excluded from diluted earnings per share calculation[(1)]	**529,875**	113,000	**529,875**	113,000

(1) Excluded due to anti-dilutive impact

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

Forward foreign exchange contracts

As at December 31, 2018, the Corporation had forward foreign exchange contracts outstanding for a notional amount of $221,284 denominated in USD and GBP. This amount includes contracts with nominal value of US$150,700 convertible into Canadian dollars at an average rate of 1.305. These contracts mature at various dates between January 2019 and March 2023, with the majority maturing this fiscal year and the next.

Cross-currency interest rate swaps

The acquisition of CESA (see Note 4) exposed the Corporation to new foreign currency and interest rate risks related to the investment in Euros. A decrease in value of the Euro compared to the Canadian dollar would decrease the value of the foreign investment, and an increase in interest rates underlying debt would increase related net financial expenses.

As at December 31, 2018, the Corporation had entered into the following cross-currency interest rate swap agreements in order to mitigate foreign exchange and interest rate risks:

	Notional	EURO equivalent	Interest rate	Inception	Maturity
US$	29,370	€ 25,000	1.86 %	October 2017	May 2022
C$	50,000	€ 34,110	3.40 %	October 2017	September 2025
US$	17,523	€ 15,000	Euribor 1 month + 1.74%	September 2018	May 2022
US$	17,100	€ 15,000	Euribor 1 month + 1.76%	November 2018	March 2020

Equity swap agreement

As at December 31, 2018, the Corporation had entered into an equity swap agreement fixing 245,000 common shares of the Corporation (150,000 at March 31, 2018) at a price of $12.68 ($11.45 at March 31, 2018). This agreement is a derivative that is not part of a designated hedging relationship and matures in June 2019.

NOTE 12. LONG-TERM DEBT

As at		**December 31, 2018**		March 31, 2018
Senior Secured Syndicated Revolving Credit Facility ("Revolving Facility")	**$**	**118,686**	$	54,155
Governmental authorities loans		**90,633**		52,540
Unsecured Subordinated Term Loan Facility		**50,000**		—
Balance of sale - Beaver acquisition (note 4)		**4,775**		—
Obligations under finance leases		**21,801**		25,269
Deferred financing costs, net		**(3,187)**		(923)
		282,708		131,041
Less: current portion		**12,880**		5,356
Long-term debt	**$**	**269,828**	$	125,685

Revolving Facility

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

As at	**December 31, 2018**	March 31, 2018
Limit, in Canadian, US$, Euro or British Pound equivalent	**$ 250,000**	$ 200,000
US$ Drawings		
Amount	**US$ 87,000**	US$ 42,000
Rate	**Libor + 2.0%**	Libor + 1.1%
Effective interest rate	**4.5%**	3.0%

On September 24, 2018, the Corporation reached an agreement with its syndicate of banks to increase the Revolving Facility's limit from $200,000 to $250,000. Most of the other terms remained unchanged. Financing costs totaling $1,732 were deferred and are amortized over the term of the related loans using the effective interest rate method.

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. Governmental authorities loans usually bear no or below-market interest. 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 a financial expense.

The Corporation assumed $35,875 of governmental authorities loans with the acquisition of CESA (see Note 4). These loans were granted by Spanish authorities to finance various research and development programs. They bear either no interest or interest at a below-market rate.

Unsecured Subordinated Term Loan Facility

On September 24, 2018, the Corporation signed an unsecured subordinated term loan facility with *Fonds de Solidarité FTQ* for an amount of up to $75,000. The facility consists of a $50,000 term loan related to the acquisition of CESA (see Note 4) and additional financing available until September 30, 2020, of up to $25,000 subject to certain conditions. The initial $50,000 loan was drawn on September 25, 2018, bears interest at 5.7% and is repayable at maturity on September 30, 2025. Starting on September 30, 2021, the Corporation will have the option to make early repayments subject to certain fees. Financing costs totaling $835 were deferred and are amortized over the term of the related loans using the effective interest rate method.

Finance leases

Obligations under finance leases bear fixed interest rates between 2.4% and 5.0% as at December 31, 2018 (2.4% and 3.7% as at March 31, 2018), maturing from July 2019 to December 2023, with amortization periods of seven years, secured by the related property, plant and equipment, net of interest of $1,532 ($1,928 as at March 31, 2018).

NOTE 13. ISSUED CAPITAL

Variations in common shares issued and fully paid were as follows:

	Quarter ended December 31, 2018			Nine months ended December 31, 2018		
	Number		Issued capital	Number		Issued capital
Balance at beginning of periods	36,330,041	$	79,228	36,218,572	$	78,105
Issued for cash on exercise of stock options	—		—	90,200		825
Issued for cash under the stock purchase and ownership incentive plan	11,013		133	32,282		431
Balance at end of periods	36,341,054	$	79,361	36,341,054	$	79,361

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 vest over a period of four years, with the exception of certain key management employees for which the vesting period is one to three years following the grant date. The options are exercisable over a period not greater than seven years after the grant date.

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

	2018			2017		
	Number of stock options		**Weighted-average exercise price**	Number of stock options		Weighted-average exercise price
Balance at beginning of periods	**1,222,595**	**$**	**13.28**	914,295	$	10.88
Exercised	**—**		**—**	(11,250)		11.71
Cancelled / forfeited	**(34,875)**		**15.27**	(3,750)		11.71
Balance at end of periods	**1,187,720**	**$**	**13.22**	899,295	$	10.87
Stock-based compensation expense		**$**	**200**		$	78

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

	2018		2017	
	Number of stock options	**Weighted-average exercise price**	Number of stock options	Weighted-average exercise price
Balance at beginning of periods	**1,105,295**	**$ 12.09**	914,295	$ 10.88
Granted	**207,500**	**16.21**	—	—
Exercised	**(90,200)**	**5.47**	(11,250)	11.71
Cancelled / forfeited	**(34,875)**	**15.27**	(3,750)	11.71
Balance at end of periods	**1,187,720**	**$ 13.22**	899,295	$ 10.87
Stock-based compensation expense		**$ 640**		$ 303

During the nine-month period ended December 31, 2018, following the approval by the shareholders of the Corporation at the last Annual General Meeting of shareholders, the aggregate number of shares available for future issuance under the stock option plan was replenished due to the limited number of common shares remaining under this plan. The number of common shares reserved for issuance represents 2,808,257 of which 2,779,757 shares had not been issued yet at December 31, 2018 (1,514,481 as at March 31, 2018).

B. Stock purchase and ownership incentive plan

	Quarters ended December 31,		**Nine months ended December 31,**	
	2018	2017	**2018**	2017
In number of common shares				
Issued under the stock purchase and ownership incentive plan	**11,013**	11,352	**32,282**	36,457
Attributed to participating employees	**4,582**	4,555	**13,100**	14,384
Expense related to common shares attributed	**$ 60**	$ 66	**$ 183**	$ 195

As at December 31, 2018, 340,000 shares were reserved for issuance under the stock purchase and ownership incentive plan, of which 26,584 remained to be issued, compared to 58,866 as at March 31, 2018.

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

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

	Quarters ended December 31,		**Nine months ended December 31,**	
	2018	2017	**2018**	2017
DSUs				
In number of DSUs				
Opening balance	**170,563**	135,815	**136,170**	135,815
Issued	**—**	—	**34,393**	—
Settled	**(4,512)**	(32,233)	**(4,512)**	(32,233)
Cancelled/Forfeited	**(1,332)**	—	**(1,332)**	—
Closing balance of DSUs outstanding	**164,719**	103,582	**164,719**	103,582
DSU expense for the periods	**$ (339)**	$ 342	**$ 119**	$ 851
Fair value of vested outstanding DSUs, end of periods	**$ 2,130**	$ 1,903	**$ 2,130**	$ 1,903

	Quarters ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
PSUs				
In number of PSUs				
Opening balance	**260,642**	114,434	**187,948**	114,434
Issued	**6,000**	—	**81,350**	—
Settled	**(38,392)**	(23,334)	**(38,392)**	(23,334)
Cancelled/Forfeited	**(15,800)**	(1,843)	**(18,456)**	(1,843)
Closing balance of PSUs outstanding	**212,450**	89,257	**212,450**	89,257
PSU expense for the periods	**$ 160**	$ 560	**$ 843**	$ 266
Fair value of vested outstanding PSUs, end of periods	**$ 1,189**	$ 945	**$ 1,189**	$ 945

NOTE 14. 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, 2018	$ 11,062	$ 486	$ (6,115)	$ 5,433
Other comprehensive income (loss)	17,544	(5,521)	(5,935)	6,088
Balance as at December 31, 2018	$ 28,606	$ (5,035)	$ (12,050)	$ 11,521
Balance as at March 31, 2018	$ 20,116	$ 24	$ (5,923)	$ 14,217
Other comprehensive income (loss)	8,490	(5,059)	(6,127)	(2,696)
Balance as at December 31, 2018	$ 28,606	$ (5,035)	$ (12,050)	$ 11,521

	Exchange differences on translation of foreign operations	Cash flow hedges	Hedge of net investments in foreign operations	Total
Balance as at September 30, 2017	$ 5,862	$ 5,789	$ (4,347)	$ 7,304
Other comprehensive income (loss)	2,722	(3,290)	(246)	(814)
Balance as at December 31, 2017	$ 8,584	$ 2,499	$ (4,593)	$ 6,490
Balance as at March 31, 2017	$ 14,256	$ (521)	$ (7,437)	$ 6,298
Other comprehensive income (loss)	(5,672)	3,020	2,844	192
Balance as at December 31, 2017	$ 8,584	$ 2,499	$ (4,593)	$ 6,490

NOTE 15. NET CHANGE IN NON-CASH ITEMS

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

	Three months ended December 31,		Nine months ended December 31,	
	2018	2017	**2018**	2017
Accounts receivable	**$ (24,741)**	$ 6,124	**$ (78)**	$ 16,970
Income tax receivable	**(375)**	159	**(345)**	(232)
Inventories	**2,417**	3,671	**(1,820)**	2,019
Other current and long-term assets	**156**	(1,306)	**818**	(1,286)
Accounts payable and accrued liabilities	**11,194**	927	**(1,220)**	(3,446)
Provisions	**(60)**	(419)	**(4,173)**	(3,544)
Customer advances and progress billings	**2,004**	(2,448)	**(2,609)**	(1,816)
Income tax payable	**86**	237	**(1,610)**	172
Effect of changes in exchange rates[1]	**4,572**	626	**2,545**	(1,899)
	$ (4,747)	$ 7,571	**$ (8,492)**	$ 6,938

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