VELAN
Annual report 2017

2017 highlights

Employees of Velan Valves India PVT. Ltd., together with Velan's top executives visit with employees from Reliance Industries at the J3 expansion project in Jamnagar, India. Velan supplied nearly $40 million of valves to this project which is part of the largest refining and petrochemical site in the world.

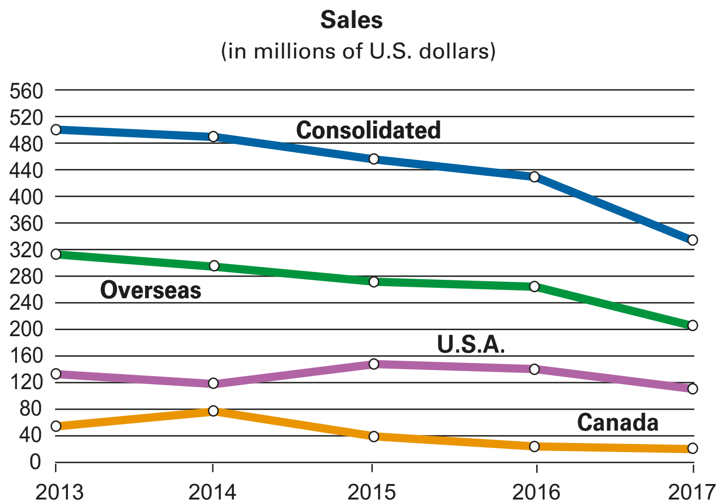
Velan 16" Class 2500 forged gate valves for high pressure and high temperature Hydrogen service installed on an AXENS-HYVAHL process at IRPC Rayong facility in Thailand.

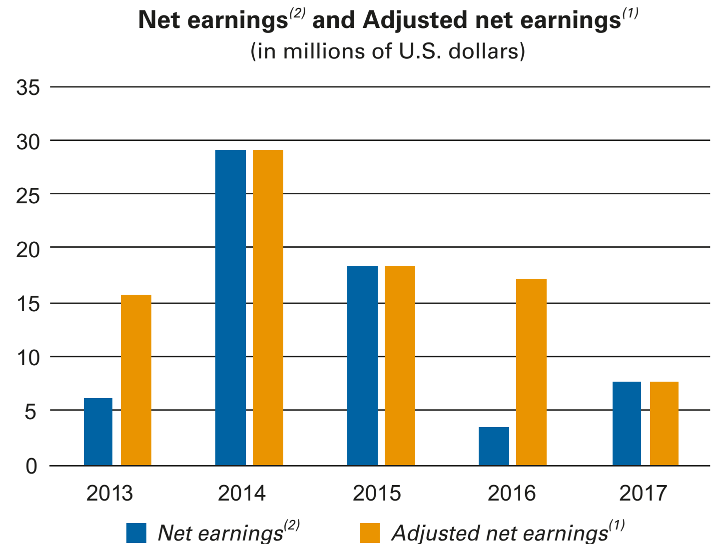
Velan expanded the Torqseal product line from 48 to 72". President and CEO, Yves Leduc, stands in front of one of the valves with part of the team of employees involved in the project. These large scale industrial valves are used in oil, chemical, and power industries.

Left to right: current President and CEO, Yves Leduc, congratulates Tom Velan, Chairman of the Board. Tom Velan stepped down as Velan's CEO in March after 44 years working for the company. During his retirement luncheon he was presented with a unique Velan valve trophy, crafted by Velan employee Bob Waditschatka, with the inscription:
"In sincere gratitude for the compassion, guidance, and outstanding leadership you provided to all of us over the last 44 years".

Cover photo:
72" Torqseal triple-offset butterfly valve.

2017 highlights





(in thousands of U.S. dollars, except per share amounts and number of employees)

Years Ended	Feb 2017	Feb 2016	Feb 2015	Feb 2014	Feb 2013
Income statement data					
Sales	$ 331,777	$ 426,895	$ 455,750	$ 489,257	$ 500,574
Gross profit	88,528	104,283	118,283	131,146	113,899
Gross profit %	26.7%	24.4%	26.0%	26.8%	22.8%
Administration costs	75,868	77,974	88,391	87,143	90,985
Income before income taxes	12,994	12,587	28,965	42,762	12,018
Adjusted net earnings (1)	7,737	17,276	18,580	29,409	15,681
Adjusted net earnings (1) %	2.3%	4.1%	4.1%	6.0%	3.1%
Adjusted net earnings (1) per share	0.36	0.79	0.85	1.34	0.72
Net earnings (2)	7,737	3,641	18,580	29,400	6,169
Net earnings (2) %	2.3%	0.8%	4.1%	6.0%	1.2%
Net earnings (2) per share (3)	0.36	0.17	0.85	1.34	0.28
Statement of financial position data					
Net cash (1)	$ 72,481	$ 82,049	$ 75,612	$ 67,761	$ 19,787
Working capital	233,262	229,959	227,793	235,318	213,814
Property, plant and equipment	91,535	95,257	91,285	96,605	90,630
Total assets	519,297	515,627	558,628	624,154	619,774
Total debt	22,433	22,449	14,827	22,087	26,850
Equity	331,911	333,119	345,093	359,119	328,173
Number of employees					
Canada	763	787	917	917	923
United States	157	165	181	188	182
Europe	482	520	528	526	535
Asia	474	430	441	429	390
Total	1,876	1,902	2,067	2,060	2,030

(1) This term is a measure of performance and/or financial condition that is not defined under International Financial Reporting Standards and is therefore unlikely to be comparable to similar measures presented by other companies. Such measures are used by management in assessing the operating results and financial condition of the Company. In addition, they provide readers of the Company's consolidated financial statements with enhanced understanding of its results and financial condition, and increase transparency and clarity into the operating results of its core business. Refer to the "Reconciliations of Non-IFRS Measures" section in the Company's Management Discussion and Analysis included in this Annual Report for a detailed calculation of this measure.

(2) Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.

(3) See note 22 in the Notes to the Consolidated Financial Statements.

VELAN

Dear Fellow Shareholders,

This has been a time of important transition for our company. On March 1st, 2017, we completed our succession and transition plan as Yves Leduc was appointed President and CEO, the first leader of the company who isn't a Velan family member. Yves joined the company in 2015, shortly after the steep drop in oil prices negatively impacted energy markets and we have faced a very difficult and challenging global market over the last two years. Yves has been taking important measures to mitigate the impact of our sales shortfall and prepare the company to better compete in the future. I am confident in Yves' leadership ability to maximize the potential of the company.

Tom Velan, Chairman of the Board.

I am the Chairman of a board consisting of eight directors of which four are independent directors, three are Velan family members and Yves Leduc, our CEO. The Velan family owns more than 70% of the shares and 92% of the votes but we have decided to have a minority of Velan family directors in order to have a strong independent voice on the board. For nomination of independent directors, we have an independent committee led by Bill Sheffield our lead director and we have established a director succession plan which takes into account and balances the great value of having experienced directors in a complex global business like ours with the need to have continuing renewal and new perspectives in the boardroom.

On behalf of the Board of Directors, I want to thank all shareholders for your continuing support and the confidence you have placed in our company.

Tom Velan

T.V.

Chairman of the Board

Board members left to right: Kenneth MacKinnon, William Sheffield (Lead Director), Yves Leduc, Peter Velan, Tom Velan (Chairman), Cheryl Hooper, Jacques Latendresse, and Rob Velan.

Message to our shareholders and employees

(In U.S. dollars, unless otherwise stated.)

Highlights

- **Sales of $331.8 million**
- **Adjusted net earnings[1] of $7.7 million**
- **Order backlog of $438.2 million**
- **Order bookings of $448.2 million**
- **Net cash[1] of $72.5 million**

Yves Leduc, Velan's President and Chief Executive Officer.

This was our fourth consecutive year of decreasing sales, the last two seeing the greater decline, largely driven by our North American operations' performance. Commenting on our results, I am of course keenly aware that I started as President exactly two years ago! The tough market conditions explain the downward trend in sales, but I am not one to lay the blame entirely on external factors. More on this later.

Although our projections, when we began the year, were rather pessimistic, we were not expecting the brutal drop in bookings experienced by our North American operations. We saw extremely aggressive pricing behaviors from our competitors who were fighting for share in a sharply contracting market. Furthermore, many end-user customers were forced to delay our shipments, causing our company to hold an abnormally high inventory of finished goods for most of the year. Our results in North America were the most affected by these conditions in the oil & gas and power markets.

Confronted with these adverse conditions, we made a very important decision: having already reduced our expense levels by over 15% the previous year, we decided to avoid restructuring a second year in a row. Combined with disciplined cost control and margin improvements, the decision enabled us to maintain the pace of our improvement initiatives launched under our strategic plan Velocity 2020.

Sales, order bookings, and backlog

The low bookings realized in fiscal 2016 drove lower sales in the current year, particularly in North America and in our Italian operations. The market situation consequently had a dramatic effect on our net earnings[2], which we were able to partially offset through a series of cost control and margin improvement measures, as well as the excellent performance in spare part sales. Additionally, our French operations notably increased both sales and gross profit percentage over the course of the year. Finally, the last shipping quarter was strong, thanks to superb teamwork among our subsidiaries.

Our sales decreased by $95.1 million or 22.3% from the prior year. This decrease was primarily attributable to the lower level of bookings recorded over the course of the prior fiscal year, due to lower demand in certain end user markets, as well as delays in shipments of certain large project orders which negatively impacted the sales volume in the current fiscal year, particularly in our North American and Italian operations.

Bookings increased by $118.7 million or 36.0% from the prior year and our book-to-bill ratio was a strong 1.35 for the year. As a result, the total backlog increased by $107.0 million or 32.3% since the beginning of the fiscal year, settling at $438.2 million.

(1) This term is a measure of performance and/or financial condition that is not defined under International Financial Reporting Standards and is therefore unlikely to be comparable to similar measures presented by other companies. Such measures are used by management in assessing the operating results and financial condition of the Company. In addition, they provide readers of the Company's consolidated financial statements with enhanced understanding of its results and financial condition, and increase transparency and clarity into the operating results of its core business. Refer to the "Reconciliations of Non-IFRS Measures" section in the Company's Management Discussion and Analysis included in this Annual Report for a detailed calculation of this measure.

(2) Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.

Velan has over 30 years experience in the manufacturing and design of ball valves from standard to severe service including custom solutions. The above installation shows a pneumatically actuated Velan 20" Class 300 Securaseal Type R metal-seated ball valve installed at the bottom of the fractionator in a fluid catalytic cracking unit at a refinery in the United States.

This increase is primarily attributable to an increase in large project orders won over the course of the current fiscal year, in particular approximately $22 million in project orders won by our Italian operations to supply valves to the oil and gas sector in the Middle East, approximately $91 million in project orders won by our French operations to supply valves to the nuclear power market in China and the U.K., and approximately $21 million in project orders won by our German operations to supply valves to the power market in Vietnam. These increased bookings were partially offset by decreased bookings in our North American operations where the current highly competitive environment continues to put downward pressure on pricing and lead times.

Net Earnings[2]

Net earnings[2] amounted to $7.7 million or $0.36 per share compared to $3.6 million or $0.17 per share last year. Adjusted net earnings[1], which excludes from net earnings[2] a goodwill impairment charge as well as the after-tax impact of restructuring costs incurred in the prior year, amounted to $7.7 million or $0.36 per share compared to $17.3 million or $0.79 per share last year. The $9.6 million decrease in adjusted net earnings[1] is primarily attributable to a lower sales volume which was partially offset by gross margin improvements and decreased administration costs.

Meanwhile, in Fiscal 2016, we commenced our review of our manufacturing footprint with a goal of improving our efficiency and of driving out unnecessary costs. This resulted in a restructuring and closure of one of our North American plants that year. The process continued in Fiscal 2017 and, for example, we closed our older manufacturing plant in the UK and transferred production of those valves to our new and efficient Indian plant, which is located closer to many of our suppliers. Such efforts often imply making decisions with a short term expense impact but with a positive longer term reduction of costs. Indeed, the actions we took in Fiscal 2016 contributed to our maintaining our gross margin and reducing our administration costs, thus protecting our bottom line in spite of the significant drop in sales. This will continue in Fiscal 2018, especially as part of our review of our global supply chain.

Investing in the future

About eighteen months ago, we started deploying initiatives under our strategic plan Velocity 2020 and have made progress on several fronts, for example: the successful pilot of a new valve project management process which aims at improving delivery and reducing cycle times; the establishment of our first corporate materials management department, coordinating a global effort to increase our buying power and our global supply chain's competitiveness; record bookings and billings in spare parts; and the successful upgrade of our enterprise resource planning ("ERP") system to Infor LN, a daunting task as we decided to combine it with a fundamental re-mapping of our business, creating a process-based template for continuous improvement and future technology investments.

Velan ABV introduced a new cable drive actuator during the 2016 Valve World tradeshow in Düsseldorf, Germany, part of our goal to bring new products to the market.

Message to our shareholders and employees

Additionally we have targeted discrete market segments or channels where we see the opportunity to grow sales and where some of our product lines are under-penetrated. To unlock that potential, we are implementing a new go-to-market discipline, aiming to dramatically increasing the effectiveness of our market development efforts. Here are some examples of how our new approach to market is taking shape:

- *Greater focus on front-loaded business development:* End-users who want to build petrochemical plants typically will buy the design of the lay-out and the processes from large engineering firms known as process licensors. What they buy is not only the specifications, but also a list of recommended vendors of key components such as valves. We are devoting more attention than before to these players and, in fact, have recently been successful in obtaining the approval of a major global process licensor in the petrochemical industry.
- *Greater focus on disciplined commercialization* of our innovations: Thanks to our deep project engineering capabilities, we have introduced over 1000 new valve designs to the market in the last five years. Our innovation productivity ranks us high in the top tier of global valve leaders in innovation… but the market is barely aware of it! We are therefore deploying a commercialization readiness process whereby new designs will be made known to every targeted valve purchaser, but more importantly brought to market through a disciplined team-based approach, led by marketing and involving engineering, production, quotations and sales.
- *Greater focus on spare parts:* Building on last year's successful effort to increase our high-margin spare parts business, we intend to continue the growth by exploiting our installed base better.

These are only a few of the initiatives that are being carried out. There is a lot of change to handle, adding to the load that our employees have had to carry because of the market downturn. I want to express my sincere gratitude and great pride by thanking them for their resilience and dedication.

Towards a new business model

Why are we doing all this? What is the real story behind Velocity 2020? The story is simple to tell, but will require a sustained and coordinated effort for the next few years.

It starts like this. Velan Inc. has attributes that make it stand out in the valve world: one of the most reputed brand names thanks to its superior product quality and performance; deep knowhow and project engineering capabilities, as evidenced by one of the largest design portfolios in each of the markets we serve; a global manufacturing footprint and supply chain, strategically poled in western, as well as low-cost economies ; a long-standing global network of distributors and agents; and last but not least, a balance sheet with low debt and a strong cash reserve.

Velan executives visit a nuclear plant in France where there is a large installation of Velan valves.

These are great strengths, the combination of which is possibly unmatched in the industry, or, put another way, the building blocks of a true premium positioning. However, as I said at the outset, I am not one to entirely blame the market for our disappointing performance. The fact is that our company has not evolved as fast as our growth in the last 15 years and, as a result, our performance is highly variable and has been, over the years, too closely correlating to market cycles. Velocity 2020 aims to transform our business model so as to consistently earn the return on employed capital that would be expected of a premium brand.

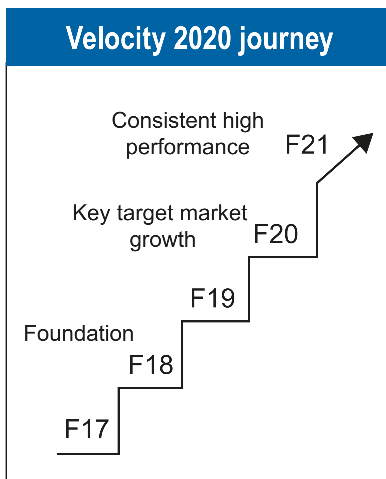
The building blocks to achieve this are linked to the initiatives I have referred to earlier:

- Improve cross-functional processes to increase speed and reduce lead times;
- Inject momentum into our product portfolio by doubling down on high-potential market segments;
- Get closer to valve purchasers and engineering firms through sustained front-loaded business development;
- Streamline our global supply chain and align it to end-user markets;
- Upgrade our systems, becoming more responsive to make it easier for our customers to do business with us and, where appropriate, leverage digital technologies to leap ahead.

Message to our shareholders and employees

We are driving a transformation program that converges to Velocity 2020's overarching vision, *The World's Leading Valve Brand:* an organization that is more agile and customer-centric, delivering greater value to our customers through front-loaded application engineering and design solutions, fast lead times and disciplined market development. Furthermore, we are increasing our investment in innovation, as we intend to become much more effective in bringing it to market.

Because the company is financially healthy, we are careful not to rush. We are already making progress on our journey to become a consistent top performer in the valve industry, but we are still at the stage of establishing a solid foundation.



Although the year's results were disappointing, we are encouraged by signs that the outlook may be improving as both bookings and backlog increased significantly in the second half of the fiscal year. However we are not going to be satisfied just riding the wave of a recovering market: the goal is to outperform it.

We are investing in talent, building the next generation of leaders while calling on our most experienced employees, who are responding with great engagement, to share their knowledge and support the transition. I see it as an enormous privilege to lead a company that is financially healthy and whose majority shareholders are focused on its long-term success. This is what enabled us to stay the course while the market was falling last year, sustaining our efforts towards building a more successful future for our company, customers and employees, and creating more value for our shareholders.

Yves Leduc and Tom Velan in Lyon, France with Velan S.A.S executives: Jean-Luc Mazel, Managing Director; Jean-Claude Cennac, former President, Velan S.A.S.; and Frédéric Segault, President, Segault S.A.S.

Finally, I wish to thank Tom Velan for his guidance and exemplary support during the transition. Tom recently retired as CEO, but remains our Chairman. I learned a lot from him and look forward to his continued counseling and leadership. Taking over from him, I intend to ensure that the company maintains the spirit and inspiring values upon which this remarkable family enterprise was built. It should be comforting to all stakeholders to have Tom by our side as we move into the future.

Yves Leduc
President and Chief Executive Officer

May 18, 2017

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the year ended February 28, 2017. This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2017 and February 29, 2016. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The significant accounting policies upon which these consolidated financial statements have been prepared are detailed in Note 2 of the Company's audited consolidated financial statements. All foreign currency transactions, balances and overseas operations have been converted to U.S. dollars, the Company's reporting currency. Selected annual information for the three most recently completed reporting periods and a summary of quarterly results for each of the eight most recently completed quarters are included further in this report. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at **www.sedar.com**.

BASIS OF PRESENTATION AND ANALYSIS

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Reconciliations of these amounts can be found at the end of this report.

FORWARD-LOOKING INFORMATION

This MD&A may include forward-looking statements, which generally contain words like "should", "believe", "anticipate", "plan", "may", "will", "expect", "intend", "continue" or "estimate" or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties. These risks and uncertainties are disclosed in the Company's filings with the appropriate securities commissions and are included in this report (see *Certain Risks That Could Affect Our Business* section). While these statements are based on management's assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

OVERVIEW

The Company designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in most industry applications including power generation, oil and gas, refining and petrochemicals, chemical, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 14 manufacturing plants worldwide with 1,876 employees. The Company's head office is located in Montreal, Canada. The Company's business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life. The Company's strategic goals include, but are not limited to, customer-driven operational excellence and margin improvements, accelerated growth through increased focus on key target markets where the Company has distinctive competitive advantages and continuously improving and modernizing its systems and processes.

The consolidated financial statements of the Company include the North American operations comprising three manufacturing plants and one distribution facility in Canada, as well as one manufacturing plant and two distribution facilities in the U.S. Significant overseas operations include manufacturing plants in France, Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a distribution facility in Germany and a 50%-owned Korean foundry.

CONSOLIDATED HIGHLIGHTS[1]

(millions, excluding per share amounts)	Fiscal year ended February 28, 2017	Fiscal year ended February 29, 2016	Increase (decrease)	% Increase (decrease)
Consolidated statements of earnings				
Sales	$331.8	$426.9	$(95.1)	(22.3)%
Gross profit	88.5	104.3	(15.8)	(15.1)%
Gross profit %	26.7%	24.4%		
Adjusted net earnings[2]	7.7	17.3	(9.6)	(55.5)%
Adjusted net earnings[2] %	2.3%	4.1%		
Adjusted net earnings[2] per share – basic and diluted	0.36	0.79	(0.43)	(54.4)%
Net earnings[3]	7.7	3.6	4.1	113.9%
Net earnings[3] %	2.3%	0.8%		
Net earnings[3] per share – basic and diluted	0.36	0.17	0.19	111.8%
Weighted average shares outstanding	21.7	21.9		
Consolidated statements of cash flows				
Cash provided by operating activities	7.1	28.9	(21.8)	(75.4)%
Cash used in investing activities	(5.5)	(23.9)	18.4	77.0%
Cash used by financing activities	(8.1)	(2.1)	(6.0)	(285.7)%
Demand data				
Net new orders received	448.2	329.5	118.7	36.0%
Period ending backlog of orders	438.2	331.2	107.0	32.3%

[1] *All dollar amounts in this schedule are denominated in U.S. dollars.*
[2] *Non-IFRS measures – see reconciliations at the end of this report.*
[3] *Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.*

Highlights of fiscal 2017 as well as factors that may impact fiscal 2018

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year)

- Net earnings[1] amounted to $7.7 million or $0.36 per share compared to $3.6 million or $0.17 per share last year. Adjusted net earnings[2], which excludes from net earnings[1] a goodwill impairment charge as well as the after-tax impact of restructuring costs incurred in the prior year, amounted to $7.7 million or $0.36 per share compared to $17.3 million or $0.79 per share last year. The $9.6 million decrease in adjusted net earnings[2] is primarily attributable to a lower sales volume which was partially offset by gross margin improvements and decreased administration costs.
- Net new orders received ("bookings") amounted to $448.2 million, an increase of $118.7 million or 36.0% compared to last year. Excluding the effect of an order cancellation of $23.6 million in the prior year, bookings would have increased by $95.1 million or 26.9%. This increase is due primarily to new large project orders booked by the Company's French, German and Italian operations, which was partially offset by a decrease in orders booked in the Company's North American operations.
- Sales amounted to $331.8 million, a decrease of $95.1 million or 22.3%. Despite an improved performance in the last quarter of the year, sales were negatively impacted, particularly in the Company's Italian and North American operations, by the decreased bookings received over the last fiscal year. Delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues, particularly in our North American operations, also had a negative impact on sales for the year.
- As a result of bookings outpacing sales in the year, the Company ended the year with a backlog of $438.2 million, an increase of $107.0 million or 32.3% since the beginning of the current fiscal year. This increase in backlog occurred despite the negative impact related to the weakening of the euro spot rate against the U.S. dollar over the course of the year.
- Gross profit percentage increased by 230 basis points from 24.4% to 26.7%. Despite the lower sales volume, the increase in the gross profit percentage was mainly attributable to a product mix with a greater proportion of higher margin product sales, material cost savings, as well as labour and overhead savings stemming from the restructuring initiatives implemented in the prior fiscal year.
- Administration costs amounted to $75.9 million, a decrease of $2.1 million or 2.7%. This decrease was achieved despite a $1.2 million increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). The fluctuation in asbestos costs for the year is due more to the timing of settlement payments in these two periods rather than to changes in long-term trends.
- The Company ended the year with net cash[2] of $72.5 million, a decrease of $9.5 million or 11.6% since the beginning of the year. This decrease is primarily attributable to negative working capital movements and distributions to shareholders via dividends and share repurchases.
- Foreign currency fluctuations did not have a significant impact on the Company's net earnings[1] in the current fiscal year. Based on average exchange rates, the euro remained relatively constant against the U.S. dollar, while the Canadian dollar weakened by only 0.3% against the U.S. dollar when compared to the same period last year.

Fiscal 2017 was a year of challenges. The low bookings realized in fiscal 2016 led to lower sales in the current year, particularly in the Company's North American and Italian operations. While this drop in sales was the primary reason for the decrease in adjusted net earnings[2], the Company was able to partially offset this drag on its results by controlling its costs, resulting in gross margin improvements and decreased administration costs. The Company was also able to end the year with a strong shipping quarter which was due to intense global coordinated efforts among its various subsidiaries. The Company's wholly-owned French operations continued to outperform the rest of the Company as sales increased by 3.7% and its gross profit percentage improved by 270 basis points over the course of the year.

While the current year results were disappointing, there were signs that the outlook may be improving as both bookings and backlog increased over the course of the current fiscal year. The Company's French, Italian and German operations won several large project orders, indicating possible improvements in many of the Company's key target markets, notably the nuclear, power and, oil and gas segments. Given the timing of these increased bookings and their expected delivery dates, the Company anticipates that they will begin to positively impact its results in the second half of the next fiscal year.

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[1] *Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.*

[2] *Non-IFRS measures – see reconciliations at the end of this report.*

Despite the increased bookings and backlog for the Company as a whole, its North American operations continued to struggle to increase its backlog as it continued to face intense competition in its key target markets, leading to increased pressure on pricing and lead times. Anticipating this economic climate and the current highly competitive environment, the Company began implementing several initiatives in the prior year under its strategic plan entitled "Velocity 2020". Such initiatives include, but are not limited to, the following:

- the successful pilot of a new Valve Project Management process ("VPM"), announced in the prior year, which aims at improving cycle times and on-time delivery of the Company's project manufacturing business;
- the establishment of the Company's first corporate materials management department mandated to significantly reduce total supply chain costs and, consequently, improve both the Company's margins and market competitiveness;
- the implementation of the first wave of an ambitious after-market strategy, leveraging the Company's broad global installed base to grow its bookings and billings in spare parts; and
- the successful upgrade of the Company's enterprise resource planning system, which sets the foundation for further process improvement initiatives.

Other factors that may impact fiscal year 2018

Due to its diversification in both geography and type of industry, the Company is well positioned to meet the many challenges it currently faces. Given the increase in bookings in the current year, it continues to believe that the global demand for its products is strong and is working to increase bookings in future years by continuously improving its operational excellence through lean manufacturing initiatives, global sourcing, working capital management and cost controls. Through its various strategic initiatives, the Company is also working to be a more agile player in the global valve market in order to better take advantage of market swings and changes in customer demands and preferences. However, there can be no assurance that outside economic and geopolitical factors will not materially adversely affect the Company's results of operations or financial condition. Such factors include, but are not limited to foreign currency fluctuations, in particular the Canadian dollar and the euro against the U.S. dollar, and commodity price fluctuations from both a procurement (price of steel) and sales (price of oil) perspective. See *Certain Risks That Could Affect Our Business* section below for more details.

SUMMARY OF RESULTS

Summary financial data derived from the Company's financial statements prepared in accordance with IFRS for the three most recently completed reporting periods are as follows:

For the reporting periods ended on the following dates
(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	Fiscal year ended February 28, 2017	Fiscal year ended February 29, 2016	Fiscal year ended February 28, 2015
Operating Data			
Sales	$331,777	$426,895	$455,750
Net Earnings[1]	7,737	3,641	18,580
Earnings per Share			
- Basic	0.36	0.17	0.85
- Diluted	0.36	0.17	0.85
Balance Sheet Data			
Total Assets	519,297	515,627	558,628
Total Long-Term Financial Liabilities	22,532	23,516	12,720
Shareholder Data			
Cash dividends per share			
- Multiple Voting Shares[2]	0.31	0.31	0.36
- Subordinate Voting Shares	0.31	0.31	0.36
Outstanding Shares at report date			
- Multiple Voting Shares[2]	15,566,567		
- Subordinate Voting Shares	6,100,668		

Sales for fiscal year 2017 decreased by 22.3% compared to fiscal year 2016. This decrease was primarily attributable to the lower level of bookings recorded over the course of fiscal year 2016 due in turn to softer demand in our core markets, which negatively impacted the sales volume in fiscal year 2017 . Sales for fiscal year 2016 decreased by 6.3% compared to fiscal year 2015. Sales were negatively impacted by a decrease in bookings, a production slowdown caused by labour unrest and a lockout at the Company's Canadian facilities during the first half of fiscal year 2016, and a stronger U.S. dollar, particularly against the euro.

Gross profit for fiscal year 2017 amounted to $88.5 million, a decrease of $15.8 million from fiscal year 2016. However, gross profit percentage for fiscal year 2017 increased from the 24.4% reported in fiscal year 2016 to 26.7%. While the lower sales volume negatively impacted total gross profit in the year, the increase in the gross profit percentage was mainly attributable to a product mix with a greater proportion of higher margin product sales, material cost savings, as well as labour and overhead savings stemming from the restructuring initiatives implemented in the prior fiscal year (see *Results of operations – Restructuring costs* section). Gross profit for fiscal year 2016 amounted to $104.3 million, a decrease of $14.0 million from fiscal year 2015. Gross profit percentage for fiscal year 2016 also decreased from the 26.0% reported in fiscal year 2015 to 24.4%. The decrease in gross profit percentage reported for fiscal year 2016 is mainly attributable to an increase in material costs as a percentage of sales and unfavourable inventory movements and provisions which were partially offset by decreased labour costs resulting from the restructuring initiatives undertaken in the year (see *Results of operations – Restructuring costs* section).

Administration costs for fiscal year 2017 decreased by $2.1 million when compared to fiscal year 2016. This decrease was achieved despite a $1.2 million increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). Administration costs for fiscal year 2016 decreased by $10.4 million when compared to fiscal year 2015. This decrease is primarily attributable to a decrease in compensation-related costs, which was mainly due to the restructuring initiatives undertaken in the year, and favourable currency swings resulting from a stronger U.S. dollar, particularly against the euro and Canadian dollar.

The fiscal year 2016 net earnings[1] were also negatively impacted by an $11.5 million non-cash goodwill impairment loss related to the Velan ABV S.r.l. ("ABV") cash-generating unit and restructuring costs of $2.8 million related primarily to the Company's North American and U.K. facilities (see *Results of operations – Restructuring costs* section).

[1] *Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.*
[2] *Multiple Voting Shares (five votes per share) are convertible into Subordinate Voting Shares on a 1 to 1 basis.*

RESULTS OF OPERATIONS – for the year ended February 28, 2017 compared to the year ended February 29, 2016
(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year)

Sales

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Sales	$331.8	$426.9

Sales decreased by $95.1 million or 22.3% from the prior year. This decrease was primarily attributable to the lower level of bookings recorded over the course of the prior fiscal year, which negatively impacted the sales volume in the current fiscal year, particularly in the Company's North American and Italian operations. Sales were also negatively impacted by delays in shipments of certain large project orders, particularly in the Company's North American operations, caused by various customer-related, supply chain and internal operational issues. One particular project order destined to an oil and gas project in Mexico, totalling approximately $11 million, has been ready to ship since the first quarter of the current fiscal year but was delayed due to the customer having put the order on hold until the next fiscal year.

Bookings and backlog

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Bookings	$448.2	$329.5

Bookings increased by $118.7 million or 36.0% from the prior year. In the prior year, bookings were negatively impacted by the cancellation of a $23.6 million large project order to supply valves for a power generation plant under construction in India. A Russian contractor had one of the contracts to supply a boiler for the facility being built by an Indian government power corporation and subcontracted the supply of valves for the boiler to the Company's German subsidiary. The Russian contractor ran into financial difficulties and temporarily halted work on the project. The Indian government power corporation, therefore, cancelled the order with the Russian contractor, and started awarding the work to other contractors in the first quarter of the prior fiscal year. As a result, the Company cancelled its contract with the Russian contractor and removed it from its backlog in the prior year.

If the effect of this order cancellation is removed, bookings would have increased by $95.1 million or 26.9% for the year. This increase is primarily attributable to an increase in large project orders won over the course of the current fiscal year, in particular approximately $22 million in project orders won by the Company's Italian operations to supply valves to the oil and gas sector in the Middle East, approximately $91 million in project orders won by the Company's French operations to supply valves to the nuclear power market in China and the U.K., and approximately $21 million in project orders won by the Company's German operations to supply valves to the power market in Vietnam. These increased bookings were partially offset by decreased bookings in the Company's North American operations where the current highly competitive environment in its various markets continues to put downward pressure on pricing and lead times.

(millions)	**February 2017**	**February 2016**	**February 2015**
Backlog	$438.2	$331.2	$437.8
For delivery within the subsequent fiscal year	$270.5	$256.2	$326.7
For delivery beyond the subsequent fiscal year	$167.7	$75.0	$111.1
Percentage – beyond the subsequent fiscal year	38.3%	22.7%	25.4%

As a result of bookings outpacing sales in the current fiscal year, the Company's book-to-bill ratio was a strong 1.35 for the year. As a result, the total backlog increased by $107.0 million or 32.3% since the beginning of the fiscal year, settling at $438.2 million. This improvement in the backlog was achieved despite the negative impact of the weakening of the euro spot rate against the U.S. dollar at the end of the current year when compared to the spot rate at the beginning of the year.

Gross profit

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Gross profit	$88.5	$104.3
Gross profit percentage	26.7%	24.4%

Gross profit decreased by $15.8 million for the fiscal year, while the gross profit percentage increased by 230 basis points from 24.4% to 26.7%. While the lower sales volume negatively impacted total gross profit in the year, the increase in the gross profit percentage was mainly attributable to a product mix with a greater proportion of higher margin product sales, material cost savings, as well as labour and overhead savings stemming from the restructuring initiatives implemented in the prior fiscal year, namely the workforce reduction and plant consolidation in the Company's North American and certain overseas operations (see *Restructuring costs* section below).

Administration costs

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Administration costs*	$75.9	$78.0
As a percentage of sales	22.9%	18.3%
*Includes asbestos-related costs of:	$6.8	$5.6

Administration costs decreased by $2.1 million or 2.7% for the fiscal year. This decrease was achieved despite a $1.2 million increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). The fluctuation in asbestos costs for both years is due more to the timing of settlement payments in these two periods rather than to changes in long-term trends. Excluding the fluctuation of asbestos-related costs, administration costs would have decreased by $3.3 million, or 4.6% for the year. This decrease is due primarily to labour savings stemming from the restructuring initiatives implemented in the prior fiscal year, namely the workforce reduction in the Company's North American operations (see *Restructuring costs* section below). The lower sales volume also contributed to the decrease in administration costs as both sales commissions and freight to customers declined in the year.

Like many other U.S. valve manufacturers, two of the Company's U.S. subsidiaries have been named as defendants in a number of pending lawsuits brought on behalf of individuals seeking to recover damages for their alleged asbestos exposure. These lawsuits are related to products manufactured and sold in the past. Management believes that any asbestos was incorporated entirely within the product in such a way that it would not allow for any ambient asbestos during normal operation, inspection or repairs. Management strongly believes its products, which were supplied in accordance with valve industry practice and customer mandated specifications, did not contribute to any asbestos-related illness. The Company will continue to vigorously defend against these claims but given the ongoing course of asbestos litigation in the U.S. and the unpredictability of jury trials, it is not possible to make an estimate of any settlement costs and legal fees.

Goodwill impairment loss

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Goodwill impairment loss	-	$11.5

As a result of the annual goodwill impairment test required under IFRS, the Company recorded an impairment charge of $11.5 million in the prior fiscal year related to its ABV cash-generating unit ("CGU"). As a result of this charge, the total goodwill related this CGU was completely written off at the end of the prior fiscal year. No goodwill impairment charge was recorded in the current fiscal year.

Restructuring costs

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Restructuring costs	-	$2.8

The economic downturn in the oil and gas industry and the energy sector had a significant negative impact on the Company's bookings and backlog in the prior fiscal year. Since management believed that this downturn was not temporary, the Company re-evaluated its operations in order to better align its cost structure with this new reality. As a result of this evaluation, the Company commenced the implementation of various restructuring initiatives in the prior fiscal year.

The most significant initiative occurred in the Company's North American operations where, during the third quarter of the prior year, it announced plans to reduce its workforce and to consolidate production activities from two of its North American plants into one. The purpose of this restructuring initiative was to reduce the Company's North American manufacturing footprint and to improve operational efficiencies. The workforce reduction and plant consolidation commenced during the third quarter of the prior year and were completed over the course of the current fiscal year. Restructuring costs, which consisted primarily of cash severance, employee benefits and training costs paid or to be paid to former employees, amounted to $2.2 million, of which $1.8 million related to the workforce reduction and $0.4 million relates to the plant consolidation. These costs were accrued in the third quarter of the prior fiscal year. In addition to these restructuring costs, the Company anticipated incurring an additional $0.4 million in moving and relocation costs related to the plant consolidation over the 12 months following the announcement. As at February 29, 2016, the Company had incurred $0.2 million in moving and relocation costs, which were included in cost of sales. An additional $0.2 million were incurred in the current fiscal year and were also included in cost of sales. As a result of these initiatives, the Company expects annual pre-tax payroll cost savings of approximately $6 million. Furthermore, it is estimated that the plant consolidation will yield an additional $0.4 million in annual pre-tax overhead cost savings once implemented, excluding proceeds from the eventual sale of the old plant.

The remaining portion of the restructuring costs accrued in the prior year, totalling $0.6 million, were incurred in the Company's overseas operations, most notably the costs related to the closure of the Company's U.K. facility. After a lengthy period of consideration of various alternatives following successive years of losses, the Company concluded that the production of its main steam trap line should be moved from its U.K. facility to its Indian facility. As a result of this move, the Company expects to benefit from synergies in its supply chain resources, as well as its engineering and manufacturing capabilities. The move commenced during the fourth quarter of the prior fiscal year and was completed over the course of the current fiscal year. In addition to these restructuring costs, the Company incurred $0.2 million in costs related to terminating the lease of the U.K. facility in the prior year.

No additional restructuring costs were accrued in the current fiscal year.

Net finance income (costs)

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Net finance income (costs)	($0.1)	$0.2

Net finance costs increased by $0.3 million for the fiscal year. While long-term debt remained relatively stable when compared to the prior fiscal year, the Company's overall debt load increased over the course of the current fiscal year, particularly its bank indebtedness in its Italian operations, resulting in an increase in its finance costs (see *Liquidity and Capital Resources* section).

Income taxes

(in thousands, excluding percentages)	Year ended February 28, 2017		Year ended February 29, 2016	
	$	%	$	%
Income before income taxes	12,994	100.0	12,587	100.0
Tax calculated at domestic tax rates applicable to earnings in the respective countries	5,020	38.6	4,346	34.5
Tax effects of:				
Non-deductible (taxable) foreign exchange loss (gain)	(344)	(2.6)	629	5.0
Losses not tax effected	1,552	11.9	633	5.1
Losses utilized not previously tax effected	(444)	(3.4)	(120)	(1.0)
Benefit attributable to a financing structure	(927)	(7.1)	(1,185)	(9.4)
Prior year adjustments and assessments	(167)	(1.3)	795	6.3
Non-deductible goodwill impairment loss	-	-	3,096	24.6
Other	(10)	(0.1)	108	0.9
Provision for income taxes	4,680	36.0	8,302	66.0

Net earnings[1]

(millions)	Year ended February 28, 2017	Year ended February 29, 2016
Net earnings[1]	$7.7	$3.6
As a percentage of sales	2.3%	0.8%
Adjusted net earnings[2]	$7.7	$17.3
As a percentage of sales	2.3%	4.1%

Net earnings[1] amounted to $7.7 million or $0.36 per share compared to $3.6 million or $0.17 per share last year. Adjusted net earnings[2], which excludes from net earnings[1] a goodwill impairment charge as well as the after-tax impact of restructuring costs incurred in the prior year, amounted to $7.7 million or $0.36 per share compared to $17.3 million or $0.79 per share last year. The $9.6 million decrease in adjusted net earnings[2] is primarily attributable to a lower sales volume which was partially offset by gross margin improvements and decreased administration costs.

[1] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*
[2] *Non-IFRS measures – see reconciliations at the end of this report.*

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters are as follows:

For the quarters in months ended May, August, November and February
(in thousands of U.S. dollars, excluding per share amounts)

	QUARTERS ENDED							
	February 2017	**November 2016**	**August 2016**	**May 2016**	**February 2016**	**November 2015**	**August 2015**	**May 2015**
Sales	$102,835	$80,396	$71,137	$77,409	$108,156	$104,002	$111,558	$103,179
Net Earnings (loss)[1]	3,707	1,501	2,001	528	(7,823)	3,608	4,749	3,107
Net earnings (loss)[1] per share								
- Basic	0.17	0.07	0.10	0.02	(0.35)	0.16	0.22	0.14
- Diluted	0.17	0.07	0.10	0.02	(0.35)	0.16	0.22	0.14

Sales can vary from one quarter to the next due to the timing of the shipment of large project orders. Sales were higher in the quarters ended in May 2015, August 2015, November 2015, February 2016 and February 2017 due to increased shipments of such orders, while the lower sales amounts for the quarters ended in May 2016, August 2016 and November 2016 were due to delayed execution on the shipments of such orders. Net earnings[1] for the quarters ended in May 2015, August 2015, November 2015 and February 2017 were higher due to a more efficient product mix. A net loss[1] was recorded in the quarter ended February 2016 due to a non-cash goodwill impairment loss. Net earnings[1] for the quarters ended May 2016, August 2016 and November 2016 were lower due to the lower sales volume.

RESULTS OF OPERATIONS – quarter ended February 28, 2017 compared to the quarter ended February 29, 2016
(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the fourth quarter of the prior fiscal year)

Sales

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Sales	$102.8	$108.2

Sales decreased by $5.4 million or 5.0% for the quarter. While sales were lower in the current quarter when compared to the comparative period in the prior year, they were stronger when compared to the previous three quarters of the current fiscal year. Sales for the quarter were improved in the Company's French operations, while its North American and Italian operations realized lower sales due to the effects of the lower bookings and backlog from the prior year.

Bookings

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Bookings	$125.9	$86.7

Bookings increased by $39.2 million or 45.2% for the quarter. The increase in bookings is principally attributable to $55 million in project orders won by the Company's French operations to supply valves towards the construction of a nuclear power plant in the U.K. These increased bookings were partially offset by decreased bookings in the Company's North American operations where the current highly competitive environment in its various markets continues to put downward pressure on pricing and lead times.

[1] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*

Gross profit

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Gross profit	$28.9	$28.1
Gross profit percentage	28.1%	26.0%

Gross profit increased by $0.8 million for the quarter, while the gross profit percentage increased by 210 basis points from the prior year quarter. Despite the lower sales volume, both the gross profit and the gross profit percentage increased due to a product mix with a greater proportion of higher margin product sales such as spare parts, material cost savings, as well as labour and overhead savings stemming from the restructuring initiatives implemented in the prior fiscal year (see *Results of operations – Restructuring costs* section above).

Administration costs

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Administration costs*	$19.0	$20.3
As a percentage of sales	18.5%	18.8%
*Includes asbestos-related costs of:	$1.2	$2.0

Administration costs for the quarter decreased by $1.3 million or 6.4% for the quarter. The decrease is primarily attributable to a decrease in costs associated with the Company's ongoing asbestos litigation (see *Contingencies* section). The fluctuation in asbestos costs is due more to the timing of settlement payments than to changes in long-term trends.

Net finance income (costs)

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Net finance income (costs)	($0.3)	$0.2

Net finance costs increased by $0.5 million for the quarter. This increase is due primarily to an increase in long-term debt in the Company's Italian and French operations over the course of the current quarter (see *Cash flows – Long-term debt* section).

Income taxes

(in thousands, excluding percentages)	Three-month period ended February 28, 2017		Three-month period ended February 29, 2016	
	$	%	$	%
Income before income taxes	9,067	100.0	(3,628)	100.0
Tax calculated at domestic tax rates applicable to earnings in the respective countries	4,241	46.8	(402)	11.1
Tax effects of:				
Non-deductible (taxable) foreign exchange loss (gain)	(181)	(2.0)	354	(9.8)
Losses not tax effected	1,514	16.7	453	(12.5)
Losses utilized not previously tax effected	(158)	(1.8)	(120)	3.3
Benefit attributable to a financing structure	(220)	(2.4)	(291)	8.0
Prior year adjustments and assessments	(167)	(1.9)	795	(21.9)
Non-deductible goodwill impairment loss	-	-	3,096	(85.3)
Other	(48)	(0.5)	397	(10.9)
Provision for income taxes	4,981	54.9	4,282	(118.0)

Net earnings (loss)[1]

(millions)	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Net earnings (loss)[1]	$3.7	($7.8)
As a percentage of sales	3.6%	(7.2)%
Adjusted net earnings[2]	$3.7	$4.2
As a percentage of sales	3.6%	3.9%

Net earnings[1] amounted to $3.7 million or $0.17 per share for the quarter compared to a net loss[1] of $7.8 million or $0.35 per share last year. Adjusted net earnings[2], which excludes from net earnings[1] a goodwill impairment charge as well as the after-tax impact of restructuring costs incurred in the prior year, amounted to $3.7 million or $0.17 per share for the quarter compared to $4.2 million or $0.20 per share last year. The $0.5 million decrease in adjusted net earnings[2] is primarily attributable to a lower sales volume which was partially offset by gross margin improvements and decreased administration costs.

[1] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*
[2] *Non-IFRS measures – see reconciliations at the end of this report.*

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities, cash flows and proposed transactions (unless otherwise noted, all dollar amounts are denominated in U.S. dollars)

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continually monitoring its future cash requirements. Cash flow forecasting is performed in the operating entities and aggregated by the Company's corporate finance team. The Company's policy is to maintain sufficient cash and cash equivalents and available credit facilities in order to meet its present and future operational needs.

The following tables present the Company's financial liabilities identified by type and future contractual dates of payment as at:

	As at February 28, 2017				
	Total **$**	**Less than 1 year** **$**	**1 to 3 Years** **$**	**4 to 5 Years** **$**	**After 5 years** **$**
Long-term debt	22,433	7,115	6,214	4,194	4,910
Accounts payable and accrued liabilities	60,641	60,641	-	-	-
Customer deposits	43,953	43,953	-	-	-
Accrual for performance guarantees	26,943	26,943	-	-	-
Bank indebtedness and short-term bank loans	9,442	9,442	-	-	-
Derivative liabilities	799	799	-	-	-

On February 28, 2017, the Company's order backlog was $438.2 million and its net cash[1] plus unused credit facilities amounted to $171.9 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. The Company continues to closely monitor the continued weakness of the price of oil and the euro currency. The Company is in compliance with all covenants related to its debt and credit facilities.

As a corollary to managing its liquidity risk the Company also monitors the financial health of its key suppliers.

Proposed transactions

The Company has not committed to any material asset or business acquisitions or dispositions, other than those already discussed in this MD&A.

[1] *Non-IFRS measures – see reconciliations at the end of this report.*

Cash flows (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to same period in the prior fiscal year)

Net cash[1]

(millions)	February 2017	November 2016	February 2016	November 2015	February 2015
Net cash[1]	$72.5	$72.5	$82.0	$69.5	$75.6

The Company's net cash[1] remained relatively stable during the quarter and decreased by $9.5 million or 11.6% since the beginning of the current fiscal year. This decrease is primarily attributable to negative working capital movements and distributions to shareholders via dividends and share repurchases.

Cash provided by operating activities

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Cash provided by operating activities	$7.1	$28.9	$0.3	$16.3

Cash provided by operating activities amounted to $0.3 million for the current quarter compared to $16.3 million in the prior year. The current quarter's positive variance consisted of positive cash net earnings[2] of $7.4 million and negative non-cash working capital movements of $7.1 million. Cash provided by operating activities amounted to $7.1 million for the current year compared to $28.9 million in the prior year. The current year's positive variance consisted of positive cash net earnings[2] of $18.5 million and negative non-cash working capital movements of $11.4 million.

Accounts receivable

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Accounts receivable increase	$5.9	$14.3	$21.9	$5.2

Accounts receivable balances are a function of the timing of sales and cash collections. The accounts receivable balance increased in both the current quarter and fiscal year due primarily to a greater proportion of the Company's accounts receivable consisting of sales for large project orders, which generally entail longer collection terms.

Inventories

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Inventories decrease (increase)	$(10.6)	$40.8	$6.0	$16.1
Customer deposits increase (decrease)	$15.8	$(16.1)	$5.8	$(8.4)

Inventories typically increase in times of rising backlog and order bookings and decrease when the opposite occurs. Inventories are also a function of timing between receipts and shipments. For the current quarter, inventories decreased since the Company had a strong shipping quarter. However, for the fiscal year as a whole, inventories increased significantly coinciding with the increase in the Company's bookings and backlog. In order to help finance its investment in inventories, the Company, where possible, obtains customer deposits for large orders. Customer deposits increased for both the current quarter and fiscal year due to higher customer deposits on certain large export project orders in the Company's French, North American and Italian operations.

[1] *Non-IFRS measures – see reconciliations at the end of this report.*
[2] *Net earnings refers to net income attributable to Subordinate and Multiple Voting Shares.*

Accounts payable and accrued liabilities

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Accounts payable and accrued liabilities (decrease) increase	$(2.3)	$(8.1)	$1.7	$4.4

For all of the indicated periods, the fluctuations in accounts payable and accrued liabilities were primarily related to timing, particularly related to inventory.

Additions to property, plant and equipment

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Additions to property, plant and equipment	$7.7	$19.8	$1.7	$12.1

The decrease in additions to property, plant and equipment for both the quarter and fiscal year relate mainly to the Company's Korean operations. In the prior year, the Company's wholly-owned Korean subsidiary completed construction of a new manufacturing plant at a cost of approximately $2.1 million, while its 50%-owned Korean foundry completed the purchase of land at a cost of approximately $9.2 million. No such significant investments of property, plant and equipment were made in the current fiscal year.

Long-term debt

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Increase in long-term debt	$5.1	$17.5	$5.1	$10.4
Repayment of long-term debt	$5.9	$9.1	$0.6	$3.2

During the current fiscal year, the Company continued to pay down its outstanding long-term debt. However, in order to take advantage of historically low borrowing rates in Europe, two of the Company's European subsidiaries entered into new long-term loan arrangements. One of the Company's French subsidiaries borrowed $3.2 million (€3.0 million) through an unsecured bank loan with monthly repayment terms over five years, bearing interest at 0.20%. In addition, its Italian subsidiary borrowed $1.7 million (€1.6 million) through an unsecured state bank loan bearing interest at 3% and repayable in semi-annual instalments over seven years.

Dividends paid and repurchase of shares

(millions)	Fiscal Year ended February 28, 2017	Fiscal Year ended February 29, 2016	Three-month period ended February 28, 2017	Three-month period ended February 29, 2016
Dividends paid	$6.6	$6.8	$1.6	$1.6
Repurchase of shares	$0.9	$2.7	$0.6	$0.4

The Company maintained its current dividend policy of CA$0.10 per share per quarter. Furthermore, pursuant to its Normal Course Issuer Bid, the Company repurchased for cancellation a total of 69,900 Subordinate Voting Shares for a cash consideration of $0.9 million over the course of the current fiscal year. Of this amount, 42,800 Subordinate Voting Shares were repurchased in the current quarter for a cash consideration of $0.6 million.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Company's financial performance.

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Risk overview

The Company's financial instruments and the nature of risks which they may be subject to are set out in the following table:

	Risks			
	Market			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	x	x	x	
Short-term investments	x	x	x	
Accounts receivable	x		x	
Derivative assets	x		x	
Bank indebtedness	x	x		x
Short-term bank loans	x	x		x
Accounts payable and accrued liabilities	x			x
Customer deposits	x			x
Dividend payable	x			x
Accrual for performance guarantees	x			x
Derivative liabilities	x			x
Long-term debt	x	x		x

Market risk

Currency risk

Currency risk on financial instruments is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than a company's functional currency. The Company has operations with different functional currencies, each of which will be exposed to currency risk based on its specific functional currency.

When possible, the Company matches cash receipts in a foreign currency with cash disbursements in that same currency. The remaining anticipated net exposure to foreign currencies is hedged. To hedge this exposure, the Company uses foreign currency derivatives, primarily foreign exchange forward contracts. These derivatives are not designated as hedges for accounting purposes.

The amounts outstanding as at February 28, 2017 and February 29, 2016 are as follows:

	Range of exchange rates		Gain (loss) (In thousands of U.S. dollars)		Notional amount (In thousands of indicated currency)	
	February 28, 2017	February 29, 2016	February 28, 2017 $	February 29, 2016 $	February 28, 2017	February 29, 2016
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.32	1.25-1.46	(615)	(1,212)	US$40,000	US$84,104
Buy US$ for CA$ – 0 to 12 months	1.30-1.31	1.32-1.34	337	1,426	US$40,000	US$75,000
Sell US$ for € – 0 to 12 months	1.09-1.16	1.08-1.39	(20)	(1,602)	US$336	US$8,481
Buy US$ for € – 0 to 12 months	1.06-1.28	1.08-1.28	249	2	US$4,295	US$187
Sell US$ for KW – 0 to 12 months	1,193-1,200	1,166-1,206	99	(16)	US$1,668	US$426
Sell € for US$ – 0 to 12 months	1.06-1.08	1.09-1.19	(155)	(22)	€16,122	€13,737
Buy € for US$ – 0 to 12 months	1.06-1.08	1.07	509	156	€33,600	€11,000
Buy £ for € – 0 to 12 months	0.84-0.85	0.72-0.78	(1)	(79)	£144	£938

Foreign exchange forward contracts are contracts whereby the Company has the obligation to sell or buy the currencies at the strike price. The fair value of the foreign currency instruments is recorded in the consolidated statement of income and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrual for performance guarantees and long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 28, 2017 and February 29, 2016:

	Net income (loss)		Other comprehensive income (loss)	
	2017 $	2016 $	2017 $	2016 $
Canadian dollar strengthening against the U.S. dollar	(121)	112	-	-
Euro strengthening against the U.S. dollar	496	447	-	-

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years.

For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

Cash flow and fair value interest rate risk

The Company's exposure to interest rate risk is related primarily to its credit facilities, long-term debt and cash and cash equivalents. Items at variable rates expose the Company to cash flow interest rate risk, and items at fixed rates expose the Company to fair value interest rate risk. The Company's long-term debt and credit facilities predominantly bear interest, and its cash and cash equivalents earn interest at variable rates. An assumed 0.5% change in interest rates would have no significant impact on the Company's net income or cash flows.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Company's trade accounts receivable.

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 28, 2017, four (2016 – six) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 8.5% (2016 – 11.8%), and the Company's ten largest customers accounted for 52.4% (2016 – 58.5%). In addition, one customer accounted for 13.3% of the Company's sales (2016 – 13.4%).

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. An allowance for doubtful accounts is recorded when, based on management's evaluation, the collection of an account receivable is not reasonably certain.

The Company is also exposed to credit risk relating to derivative financial instruments, cash and cash equivalents and short-term investments, which it manages by dealing with highly rated financial institutions.

The Company's primary credit risk is limited to the carrying value of the trade accounts receivable and gains on derivative assets.

The table below summarizes the ageing of trade accounts receivable as at:

	As at February 28, 2017 $	**As at February 29, 2016 $**
Current	77,262	73,655
Past due 0 to 30 days	19,330	12,780
Past due 31 to 90 days	7,625	13,377
Past due more than 90 days	16,508	16,205
	120,725	116,017
Less: Allowance for doubtful accounts	1,239	1,653
Trade accounts receivable	119,486	114,364
Other receivables	6,026	5,205
Total accounts receivable	125,512	119,569

The table below summarizes the movements in the allowance for doubtful accounts:

	As at February 28, 2017 $	**As at February 29, 2016 $**
Balance – Beginning of year	1,653	899
Bad debt expense	414	1,646
Recoveries of trade accounts receivable	(598)	(198)
Write-off of trade accounts receivable	(214)	(623)
Foreign exchange	(16)	(71)
Balance – End of year	1,239	1,653

Liquidity risk – see discussion in *liquidity and capital resources* section

CONTINGENCIES (in thousands of U.S. dollars, excluding number of cases)

Two of the Company's U.S. subsidiaries have been named as defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defence related to certain products that may have contained an internal asbestos containing component. 1,146 claims were outstanding at the end of the reporting period (February 29, 2016 – 1,034). These claims were filed in the states of Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, New Jersey, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, Washington, West Virginia and Wisconsin. During the current fiscal year, the Company resolved 376 claims (February 29, 2016 – 354) and was the subject of 488 new claims (February 29, 2016 – 542). Because of the many uncertainties inherent in predicting the outcome of these proceedings, as well as the course of asbestos litigation in the United States, management believes that it is not possible to make an estimate of the Company's asbestos liability. Accordingly, no provision has been set up in the accounts. Settlement costs and legal fees related to these asbestos claims amounted to $1,186 for the quarter (February 29, 2016 - $2,025) and $6,839 for the year (February 29, 2016 - $5,568).

On December 3, 2014, San Diego Gas & Electric Company ("SDG") filed a claim against Velan Valve Corp., a wholly- owned subsidiary of the Company, in the Superior Court of the State of California, concerning high pressure valves supplied to SDG and installed at its Palomar Energy Center ("Facility"). This lawsuit alleges damages to the Facility in excess of $9,000 related to allegedly defective valves supplied by Velan Valve Corp. The claim is for alleged strict product liability and alleged negligence. It is the Company's position that this claim is without merit. The Company is vigorously defending its position and is undertaking all actions necessary to protect its reputation. While the Company cannot predict the final outcome of this claim, based on information currently available, the Company believes the resolution of this claim will not have a material adverse effect on its financial position, results of operations or liquidity.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has entered into certain off-balance sheet arrangements. They are fully described in notes 10, 23 and 26 of the Company's audited consolidated financial statements. The types of transactions entered into, all of which are in the normal course of business, are as follows:

- Performance bond guarantees related to product warranty and on-time delivery
- Letters of credit issued to overseas suppliers
- Operating leases

RELATED PARTY TRANSACTIONS (in thousands of U.S. dollars)

The Company has entered into the following transactions with related parties, which are measured at their exchange value.

a) PDK Machine Shop Ltd. ("PDK") is a company owned by certain relatives of the controlling shareholder. PDK is a supplier of machined material components for use in the Company's plants.

	Three months ended		Twelve months ended	
	Feb. 28, 2017	Feb. 29, 2016	Feb. 28, 2017	Feb. 29, 2016
Purchases of material components	$150	$187	$955	$988
Sales of raw material	$-	$8	$8	$38

The Company entered into an agreement with PDK pursuant to which it has the right to purchase the shares of PDK for a consideration equal to the book value thereof in the event that they propose to sell their shares to a third party. In the event that PDK proposes to sell all or substantially all of its assets to a third party, the Company has the right to purchase inventory at cost and other assets at book value. In the event of a proposed liquidation or sale of sufficient assets such that PDK cannot fulfill its obligations to the Company under any outstanding purchase orders, the Company also has the right and the obligation to purchase PDK's inventory at an amount equal to the cost thereof. The maximum obligation of the Company pursuant to such put right is $200.

b) One of the Company`s subsidiaries and certain of its executives lease, on a weekly basis, a property from Velan Holdings Co. Ltd., the controlling shareholder. Velan Holdings Co. Ltd. charges weekly rates based on usage.

	Three months ended		Twelve months ended	
	Feb. 28, 2017	Feb. 29, 2016	Feb. 28, 2017	Feb. 29, 2016
Rent	$9	$9	$27	$37

CONTROLS AND PROCEDURES

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), in a timely manner so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at February 28, 2017 and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the *"Internal Control-Integrated Framework (2013)"* issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO").* This evaluation was performed by the CEO and the CFO of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the CEO and the CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively as at February 28, 2017.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

Changes in internal control over financial reporting

The Company did not make any material changes to the design of internal control over financial reporting during the year and three-month period ended February 28, 2017 that have materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements are prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies as described in note 2 of the Company's audited consolidated financial statements are essential to understanding the Company's financial positions, results of operations and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated (see *Forward-looking information* section above). These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed. Other than the changes made to the underlying assumptions in determining the carrying amount of the goodwill associated with ABV at February 29, 2016, as described in note 4 of the Company's audited

consolidated financial statements, there were no significant changes made to critical accounting estimates during the past two financial years.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

Consolidation
The Company consolidates the accounts of Juwon Special Steel Co. Ltd. in these financial statements. It was determined that the Company has substantive rights over this structured entity that are currently exercisable and for which there is no barrier, despite the fact that its percentage ownership in this entity is only 50%. These substantive rights are obtained through the shareholders' agreement signed between the Company and the non-controlling interest which gives the Company the ultimate decision right on any decision taken for which both parties in the joint arrangement are not in agreement. As per the shareholders' agreement, the Board of Directors, representing the interests of shareholders, has responsibility to establish operating decisions (including budgets), approve capital transactions and determine key management personnel remuneration. Consequently, the Company, through its rights set out in the shareholders' agreement, has substantive rights that give it the ability to direct the relevant activities of Juwon Special Steel Co. Ltd. while being exposed to variable returns. As such, it was determined that this entity should be consolidated.

Accounts receivable
The Company must report its accounts receivable at their net realizable value. This involves management judgment and requires the Company to perform continuous evaluations of their collectability and to record an allowance for doubtful accounts when required. In performing its evaluation, the Company analyzes the ageing of accounts receivable, concentration of receivables by customer, customer creditworthiness and current economic trends. Any change in the assumptions used could impact the carrying value of the accounts receivable on the consolidated statement of financial position with a corresponding impact made to administration costs on the consolidated statement of income.

Inventories
Inventories must be valued at the lower of cost and net realizable value. A writedown of inventory will occur when its estimated market value less applicable variable selling expenses is below its carrying amount. This involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of income.

Provisions
Provisions must be established for possible product warranty expenses. The Company estimates its warranty exposure by taking into account past experience as well as any known technical problems and estimates of costs to resolve these issues. The Company estimates its exposure under these obligations based on an analysis of all identified or expected claims. Any change in the assumptions used could impact the value of the provision on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of income.

Impairment of non-financial assets
Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Any change in the assumptions used could impact the carrying amount first of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis of the carrying amount of each asset in the CGU on the consolidated statement of financial position with a corresponding impact made to the consolidated statement of income.

Income taxes
The Company must estimate its income taxes in each jurisdiction in which it operates. This involves assessing the probability of using net operating losses against future taxable income as well as evaluating positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. In the event these assessments are changed, there would be an adjustment to income tax expense with a corresponding adjustment to income tax balances on the consolidated statement of financial position.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

The Company is currently assessing the impact of the following new and revised standards and has not yet determined whether it will early adopt them.

(i) In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

(ii) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and specifies how and when revenue will be recognized as well as requiring the provision of more informative and relevant disclosures. Its core principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. IFRS 15 replaces IAS 11, *Construction contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

(iii) In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. It also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 replaces IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted only if IFRS 15 is early adopted.

(iv) On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The revised standard is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted.

(v) In November 2016, the IFRS Interpretations Committee ("IFRIC") issued IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. This interpretation addresses the exchange rate to use when reporting transactions that are denominated in a foreign currency in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, in the circumstance in which a customer paid for goods or services in advance. The interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

Cyclical nature of end user markets
The demand for the Company's products in any particular industry or market can vary significantly according to the level of economic activity in that industry or market. These potential variations may be mitigated by the fact that the Company's sales are diversified geographically as well as by end user market. There can be no assurance that an economic recession or downturns in certain industries or geographic locations, such as the current downturn in the oil and gas industry, will not have a significant adverse effect on the Company's sales.

Competition
Competitive pressures in the Company's markets could lead to a loss of market share, which could negatively impact revenues, margins and net income. The Company also competes with manufacturers based in low wage countries that offer valves at substantially lower prices. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's results of operations and financial condition.

Backlog
The Company's order backlog consists of sales orders that are considered firm. It is also an indication of future sales revenues. However, there can be no assurance that subsequent cancellations or scope adjustments will not occur, that the order backlog will ultimately result in earnings, or when the related revenues and earnings from such order backlog will be recognized.

Dependence upon key personnel
The Company is dependent upon the abilities and experience of its executive officers and other key employees. There can be no assurance that the Company can retain the services of such executive officers and key employees. If several executive officers or other key employees were to leave the employ of the Company, its operations could be adversely affected.

Foreign currency exchange risks
Due to the geographic mix of the Company's customers and its operations, the Company is exposed to foreign currency exchange risk. The Company enters into foreign currency forward contracts in order to manage a portion of its net exposure to foreign currencies. Such forward contracts contain an inherent credit risk related to default on obligations by the counterparty, which the company mitigates by entering into contracts with sound financial institutions that it anticipates will satisfy their obligations. Risk related to currency fluctuations could have a material adverse effect on the Company's results of operations and its financial position.

Interest rate risk
A portion of the Company's liabilities consist of debt instruments that bear interest at variable rates. As such, the Company is exposed to the risk of interest rate fluctuations. This risk could have an adverse effect on the Company's results of operations.

Availability and prices of raw materials
The price of raw materials, principally steel, represents a substantial portion of the cost of manufacturing the Company's products. Historically, there have been fluctuations in these raw material prices and, in some instances, price movements have been volatile. There can be no certainty that the Company will be able to pass on increases resulting from higher costs of raw materials to its customers through increases in selling prices, or otherwise absorb such cost increases without significantly affecting its margins.

In addition, certain raw materials are in short supply for a period of time. Typically, these shortages do not last long and the Company is usually able to ensure that its needs are met. However, there can be no assurances that its sources of supply will be adequate to supply all of its needs on a timely basis.

Labour relations
A substantial portion of the Company's workforce is covered by union agreements. Although the Company has been successful in the past in negotiating renewals, there can be no assurance that this will continue. Failure to renegotiate these agreements could lead to work disruptions or higher labour costs, which could negatively impact results.

Reliance on key suppliers
The Company has several key suppliers with whom it has invested in forging dies and casting patterns. While the Company has alternate sources for most material purchases, the loss of a key supplier could impact negatively on the Company.

Reliance on distributors and sales agents
The Company is directly affected by the ability of independent third party distributors and sales agents retained by the Company to sell its products in their respective markets. The Company's continued success is thus dependent on its ability to attract and retain the distributors and sales agents it requires to support its existing business and to continue to grow.

Project undertakings
In competing for the sales of valves, the Company may enter into contracts that provide for the production of valves at specified prices and in accordance with time schedules. These contracts may involve greater risks as a result of unforeseen increases in the prices of raw materials and other costs due to more stringent terms and conditions. Although contract terms may vary from customer to customer, production delays and other performance issues may call for liquidated damages or other penalties in case of non-performance or warranty issues due to the more stringent terms and conditions of such contracts.

Political and economic risks associated with international sales and operations
Since the Company sells and manufactures its products worldwide, the business is subject to risks associated with doing business internationally. The Company's business and operating results could be impacted by trade protection measures, changes in tax laws, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

Force majeure events
Force majeure events are unforeseeable events or circumstances that occur beyond the control of the Company. Such events include but are not limited to political unrest, war, terrorism, strikes, riots, and crime, as well as seismic or severe weather related events such as earthquakes, hurricanes, tsunamis, tornadoes, ice storms, flooding and volcanic eruptions. The risk of occurrence of a force majeure event is unpredictable and may result in delays or cancellations of orders and deliveries to customers, delays in the receipt of materials from suppliers, damage to facilities or equipment, personal injury or fatality, and possible legal liability.

Asbestos litigation
Two of the Company's U.S. subsidiaries have been named as defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defense related to certain products that may have contained an internal component containing asbestos. Although it is defending these allegations vigorously, there can be no assurance that the Company will prevail. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

Product liability and other lawsuits
The Company, like other worldwide manufacturing companies, has been, and will continue to be, subject to a variety of potential liability claims or other lawsuits connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures. While the Company maintains comprehensive general liability insurance coverage which it considers to generally be in accordance with industry practice, such insurance does not cover certain categories of claims (such as ongoing asbestos claims) to which the Company is subject. Comprehensive general liability premiums have also increased significantly during the last several years. Accordingly, the Company cannot be certain that comprehensive general liability insurance coverage will continue to be available to it at a reasonable cost, or, if available, would be adequate to cover its liabilities.

Health and safety risk
The Company is committed to providing all employees, contractors, and visitors to its premises with a healthy and safe work environment. The Company has implemented a program throughout its operations with policies and procedures that must be followed to ensure that it meets all applicable health and safety laws, regulations, and standards. The Company recognizes that a lack of a strong health and safety program may expose it to lost production time, penalties and lawsuits, and may impact future orders as customers may take into account the Company's health and safety record when awarding sales contracts.

Environmental compliance matters
The Company's operations and properties are subject to increasingly stringent laws and regulations relating to environmental protection, including air and water discharges, waste management and disposal and employee safety. Such laws and regulations both impose substantial fines for violations and mandate cessation of operations in certain circumstances, the installation of costly pollution control equipment, or the undertaking of costly site remediation activities. Furthermore, new laws and regulations, or stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean up requirements could require the Company to incur additional costs which could be significant.

Controls over disclosures and financial reporting
In accordance with National Instrument 52-109, the CEO and the CFO of the Company are responsible for designing, maintaining, and evaluating the effectiveness of disclosure controls and procedures. The CEO and the CFO are also responsible for the effective design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. A system of controls is subject to certain inherent limitations and is partially based on the possibility or probability of future events. Accordingly, a system of internal controls can provide only reasonable, and not absolute, assurance of reaching the desired objectives.

Control of the Company

Velan Holding Co. Ltd. (the "Controlling Shareholder") owns 15,566,567 Multiple Voting Shares representing, in the aggregate, approximately 92.7% of the voting interests in the Company. Voting control enables the Controlling Shareholder to determine all matters requiring shareholder approval. The Controlling Shareholder has advised the Company that the disposition of the shares requires the consent of certain Velan family members and controlled entities.

The Controlling Shareholder effectively has sufficient voting power to prevent a change in control of the Company, which may negatively affect the price and liquidity of the Subordinated Voting Shares. The sale of a significant number of Subordinate Voting Shares by the Controlling Shareholder pursuant to the exercise of the conversion right attached to the Multiple Voting Shares may negatively impact upon the market price and liquidity thereof.

Income and other tax risks

The Company operates in a number of different tax jurisdictions and has a significant amount of cross-border purchase and sale transactions. The tax rules and regulations in various countries are becoming more complex. There is a risk that one or more tax authorities could disagree with the tax treatment adopted by the Company, resulting in defense costs and possible tax assessments.

Compliance with international laws

Due to the international nature of its operations, the Company is subject to differing systems of laws and regulations which are often complex and differ from one country to the next. Such laws and regulations include but are not limited to anti-bribery legislation, export and customs controls, foreign currency exchange controls, transfer pricing regulations and economic sanctions imposed by governmental authorities. Failure to comply with such laws could negatively impact earnings and may result in criminal, civil and administrative legal sanctions. The Company has implemented policies and procedures to effect compliance with these laws by its employees and representatives.

Non-controlling interest

The Company's operations in China and Taiwan, and certain of its operations in France and Korea are undertaken with partners that are classified as non-controlling interest. The success of these operations depends on the satisfactory performance of such partners in their obligations. The failure of such partners to perform their obligations could impose additional financial and performance obligations on the Company that could negatively impact its earnings and financial condition.

Business acquisitions

The success of a business acquisition depends in part upon the integration of the acquired business through such tasks as the realization of synergies, elimination of cost duplication, information systems integration, and establishment of controls and procedures. The inability to adequately integrate an acquired business in a timely manner might result in lost business opportunities, higher than expected integration costs and departures of key personnel, all of which could have a negative impact on earnings.

Cybersecurity

The Company's information technology networks are critical to the day to day operation of its business, and include information about its finances, employees, products, customers and suppliers. Cybersecurity risks are becoming increasingly sophisticated, varied and numerous. The potential consequences of a material cybersecurity breach could include loss of key information, reputational damage and disruption of operations, with consequential material negative financial consequences. While the Company devotes substantial resources to maintaining and securing its information technology networks, there can be no assurance that it will be able to prevent, detect or respond to a potential breach of its information technology networks because of, among other things, the evolving nature of cybersecurity threats, the difficulty in anticipating such threats and the difficulty in immediately detecting all such threats.

RECONCILIATIONS OF NON-IFRS MEASURES

In this MD&A and other sections of the 2016 Annual Report, the Company presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Reconciliations of these amounts can be found below.

Net cash (in thousands)	Fiscal year ended Feb. 28, 2017	Fiscal year ended Feb. 29, 2016	Fiscal year ended Feb. 28, 2015	Fiscal year ended Feb. 28, 2014	Fiscal year ended Feb. 28, 2013
Cash and cash equivalents	84,019	89,368	99,578	106,716	77,172
Short-term investments	974	3,225	847	239	398
Bank indebtedness	(7,792)	(5,028)	(15,616)	(31,876)	(48,580)
Short-term bank loans	(1,650)	(1,319)	(2,134)	(916)	(2,284)
Current portion of long-term bank borrowings	(3,070)	(4,197)	(7,063)	(6,402)	(6,919)
	72,481	82,049	75,612	67,761	19,787

Adjusted net earnings - Fiscal Year (in thousands)	Fiscal year ended Feb. 28, 2017	Fiscal year ended Feb. 29, 2016	Fiscal year ended Feb. 28, 2015	Fiscal year ended Feb. 28, 2014	Fiscal year ended Feb. 28, 2013
Net income attributable to Subordinate Voting Shares and Multiple Voting Shares	7,737	3,641	18,580	29,400	6,169
Adjustments for:					
Goodwill impairment loss	-	11,510	-	-	11,700
Restructuring costs	-	2,759	-	-	-
Tax effect of restructuring costs	-	(634)	-	-	-
Interest accretion on ABV proceeds payable	-	-	-	9	663
Fair value adjustment for ABV proceeds payable	-	-	-	-	(2,444)
Unrealized foreign exchange gain on ABV proceeds payable	-	-	-	-	(407)
	7,737	17,276	18,580	29,409	15,681

Adjusted net earnings - Quarter (in thousands)	Quarter ended Feb. 28, 2017	Quarter ended Feb. 29, 2016
Net income (loss) attributable to Subordinate Voting Shares and Multiple Voting Shares	3,707	(7,823)
Adjustments for:		
Goodwill impairment loss	-	11,510
Restructuring costs	-	609
Tax effect of restructuring costs	-	(56)
	3,707	4,240

Velan Inc.

Consolidated Financial Statements
For the years ended February 28, 2017 and February 29, 2016

May 18, 2017

Independent Auditor's Report

To the Shareholders of
Velan Inc.

We have audited the accompanying consolidated financial statements of Velan Inc., which comprise the consolidated statements of financial position as at February 28, 2017 and February 29, 2016 and the consolidated statements of income, comprehensive income (loss), changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Velan Inc. as at February 28, 2017 and February 29, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A123642

Velan Inc.

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at February 28, 2017 $	As at February 29, 2016 $
Assets		
Current assets		
Cash and cash equivalents	84,019	89,368
Short-term investments	974	3,225
Accounts receivable	125,512	119,569
Income taxes recoverable	7,145	5,674
Inventories (note 5)	173,089	162,523
Deposits and prepaid expenses	3,391	3,586
Derivative assets	1,202	1,598
	395,332	385,543
Non-current assets		
Property, plant and equipment (notes 7 and 12)	91,535	95,257
Intangible assets and goodwill (notes 4 and 8)	19,023	20,352
Deferred income taxes (note 21)	12,951	13,537
Other assets	456	938
	123,965	130,084
Total assets	519,297	515,627
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	7,792	5,028
Short-term bank loans	1,650	1,319
Accounts payable and accrued liabilities (note 9)	60,641	62,943
Income taxes payable	946	5,746
Dividend payable	1,631	1,606
Customer deposits	43,953	28,123
Provisions (note 11)	10,600	9,333
Accrual for performance guarantees	26,943	30,563
Derivative liabilities	799	2,945
Current portion of long-term debt (note 12)	7,115	7,978
	162,070	155,584
Non-current liabilities		
Long-term debt (note 12)	15,318	14,471
Deferred income taxes (note 21)	2,784	3,408
Other liabilities	7,214	9,045
	25,316	26,924
Total liabilities	187,386	182,508
Equity		
Equity attributable to Subordinate and Multiple Voting shareholders		
Share capital (note 13)	73,584	74,345
Contributed surplus	6,017	5,941
Retained earnings	281,343	280,380
Accumulated other comprehensive loss	(35,550)	(33,089)
	325,394	327,577
Non-controlling interest (note 6)	6,517	5,542
Total equity	331,911	333,119
Total liabilities and equity	519,297	515,627

Commitments and contingencies (note 23)

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

Approved by the Board of Directors

T.C. Velan, Director

Velan Inc.

Consolidated Statements of Income

For the years ended February 28, 2017 and February 29, 2016
(in thousands of U.S. dollars, excluding per share amounts)

	2017 $	2016 $
Sales (notes 14 and 25)	331,777	426,895
Cost of sales (notes 5, 14, 15 and 19)	243,249	322,612
Gross profit	88,528	104,283
Administration costs (notes 16 and 19)	75,868	77,974
Goodwill impairment loss (note 4)	-	11,510
Restructuring costs (note 20)	-	2,759
Other income	(408)	(348)
Operating profit	13,068	12,388
Finance income	992	1,296
Finance costs	1,066	1,097
Finance income (costs) – net	(74)	199
Income before income taxes	12,994	12,587
Income taxes (note 21)	4,680	8,302
Net income for the year	8,314	4,285
Net income attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**7,737**	**3,641**
Non-controlling interest	577	644
	8,314	4,285
Earnings per share (note 22)		
Basic	0.36	0.17
Diluted	0.36	0.17
Dividends declared per Subordinate and Multiple Voting Share	0.31 (CA$0.40)	0.31 (CA$0.40)

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

Velan Inc.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended February 28, 2017 and February 29, 2016
(in thousands of U.S. dollars)

	2017 $	2016 $
Comprehensive income (loss)		
Net income for the year	8,314	4,285
Other comprehensive loss		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(2,014)	(5,992)
Comprehensive income (loss)	6,300	(1,707)
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	5,276	(1,796)
Non-controlling interest	1,024	89
	6,300	(1,707)

Other comprehensive loss is composed solely of items that will not be reclassified subsequently to the consolidated statement of income.

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

Velan Inc.

Consolidated Statements of Changes in Equity

For the years ended February 28, 2017 and February 29, 2016
(in thousands of U.S. dollars)

	Equity attributable to Subordinate and Multiple Voting shareholders						
	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interest	Total equity
Balance - February 28, 2015	76,475	6,064	(27,652)	283,724	338,611	6,482	345,093
Net income for the year	-	-	-	3,641	3,641	644	4,285
Other comprehensive income	-	-	(5,437)	-	(5,437)	(555)	(5,992)
	76,475	6,064	(33,089)	287,365	336,815	6,571	343,386
Effect of share-based compensation (note 13(d))	-	104	-	-	104	-	104
Shares issued under Share Option Plan (note 13(d))	227	(227)	-	-	-	-	-
Dividends							
Multiple Voting Shares	-	-	-	(4,801)	(4,801)	-	(4,801)
Subordinate Voting Shares	-	-	-	(1,803)	(1,803)	-	(1,803)
Non-controlling interest	-	-	-	-	-	(139)	(139)
Share repurchase (note 13(c))	(2,357)	-	-	(381)	(2,738)	-	(2,738)
Acquisition of non-controlling interest (note 6)	-	-	-	-	-	(890)	(890)
Balance - February 29, 2016	74,345	5,941	(33,089)	280,380	327,577	5,542	333,119
Net income for the year	-	-	-	7,737	7,737	577	8,314
Other comprehensive loss	-	-	(2,461)	-	(2,461)	447	(2,014)
	74,345	5,941	(35,550)	288,117	332,853	6,566	339,419
Effect of share-based compensation (note 13(d))	-	76	-	-	76	-	76
Dividends							
Multiple Voting Shares	-	-	-	(4,745)	(4,745)	-	(4,745)
Subordinate Voting Shares	-	-	-	(1,864)	(1,864)	-	(1,864)
Non-controlling interest	-	-	-	-	-	(49)	(49)
Share repurchase (note 13(c))	(761)	-	-	(165)	(926)	-	(926)
Balance - February 28, 2017	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911

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

Velan Inc.

Consolidated Statements of Cash Flow

For the years ended February 28, 2017 and February 29, 2016
(in thousands of dollars)

Cash flows from	2017 $	2016 $
Operating activities		
Net income for the year	8,314	4,285
Adjustments to reconcile net income to cash provided by operating activities (note 28)	10,267	17,080
Changes in non-cash working capital items (note 29)	(11,434)	7,519
Cash provided by operating activities	7,147	28,884
Investing activities		
Short-term investments	2,251	(2,378)
Additions to property, plant and equipment	(7,721)	(19,791)
Additions to intangible assets	(910)	(1,329)
Proceeds on disposal of property, plant and equipment, and intangible assets	399	272
Acquisition of non-controlling interest (note 6)	-	(890)
Net change in other assets	482	177
Cash used in investing activities	(5,499)	(23,939)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(6,584)	(6,753)
Dividends paid to non-controlling interest	(49)	(139)
Repurchase of shares (note 13(c))	(926)	(2,738)
Short-term bank loans	331	(815)
Increase in long-term debt	5,079	17,499
Repayment of long-term debt	(5,904)	(9,122)
Cash used by financing activities	(8,053)	(2,068)
Effect of exchange rate differences on cash	(1,708)	(2,499)
Net change in cash during the year	(8,113)	378
Net cash – Beginning of the year	84,340	83,962
Net cash – End of the year	76,227	84,340
Net cash is composed of:		
Cash and cash equivalents	84,019	89,368
Bank indebtedness	(7,792)	(5,028)
	76,227	84,340
Supplementary information		
Interest received (paid)	641	532
Income taxes paid	(7,722)	(10,742)

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

1 General information and basis of preparation

These consolidated financial statements represent the consolidation of the accounts of Velan Inc. (the "Company") and its subsidiaries. The Company is an international manufacturer of industrial valves.

The Company is a public company listed on the Toronto Stock Exchange under the symbol "VLN". It was incorporated under the name Velan Engineering Ltd. on December 12, 1952 and continued under the *Canada Business Corporations Act* on February 11, 1977. It changed its name to Velan Inc. on February 20, 1981. Velan Inc. maintains its registered head office at 7007 Côte de Liesse, Montreal, Quebec, Canada, H4T 1G2. The Company's ultimate parent company is Velan Holdings Co. Ltd.

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were approved by the Company's Board of Directors on May 18, 2017.

2 Summary of significant accounting policies

Functional and presentation currency

Functional currency is defined as the currency of the primary economic environment in which an entity operates. Indicators for determining an entity's functional currency are broken down into primary and secondary indicators.

Primary indicators include:

- the currency of sales and cash inflows;
- the currency of the country having primary influence over sales prices; and
- the currency of expenses and cash outflows.

Primary indicators receive more weight than secondary indicators. If a functional currency can be determined based on the primary indicators, the secondary indicators are not considered.

The functional and presentation currency of the Company is the U.S. dollar (note 6).

Consolidation

These financial statements represent the consolidation of the accounts of the Company and its subsidiaries. Control exists when the Company is exposed to, or has rights to, variable returns from its involvement with an investee, including a structured entity, and has the ability to affect those returns through its power to direct the activities of an investee. Subsidiaries are fully consolidated from the date control has been transferred to the Company and deconsolidated from the date control ceases.

All subsidiaries prepare their financial statements at the same reporting date as the Company except for Velan Valvac Manufacturing Co. Ltd., which has a December 31 fiscal year-end. Consolidated earnings include the Company's share of the results of its operations to that date. Intercompany transactions, balances and unrealized gains or losses on transactions between companies are eliminated.

Foreign currency transactions and balances

The Company and its subsidiaries translate foreign currency transactions and balances into their functional currencies. Foreign currency is defined as any currency that is different from an individual entity's functional currency.

Monetary assets and liabilities in foreign currencies are translated at year-end exchange rates. Non-monetary assets are translated at rates prevailing at the transaction dates. Revenue and expenses in foreign currencies are translated at weekly average rates throughout the year. Gains and losses arising on translation are included in the consolidated statement of income for the year.

Translation of accounts of foreign subsidiaries

The financial statements of the Company's foreign subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars for reporting purposes. All assets and liabilities are translated at year-end rates, and revenue and expenses at the average rate for the period. Resulting gains and losses are included in other comprehensive income (loss) for the period.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company's financial assets comprise mainly cash and cash equivalents, short-term investments, accounts receivable and derivative assets. The Company's financial liabilities comprise mainly bank indebtedness, short-term bank loans, accounts payable and accrued liabilities, customer deposits, dividend payable, accrual for performance guarantees, long-term debt and derivative liabilities.

The Company recognizes a financial instrument on its consolidated statement of financial position when the Company becomes party to the contractual provisions of the financial instrument or non-financial derivative contract (see *Embedded derivatives*). Financial assets are derecognized when the rights to receive cash flows from the assets have expired or been transferred and the Company has transferred substantially all risks and rewards of ownership. All financial instruments are initially recognized at fair value and are classified into one of these five categories: held for trading, available-for-sale assets, held-to-maturity investments, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Held for trading

Financial instruments classified as held for trading are carried at fair value at each statement of financial position date with the changes in fair value recorded in the consolidated statement of income in the period in which these changes arise. The Company has classified its derivative financial instruments as held for trading.

Loans and receivables, held-to-maturity investments and other financial liabilities

Financial instruments classified as loans and receivables, held-to-maturity investments and other financial liabilities are carried at amortized cost using the effective interest rate method. The interest income or expense is included in the consolidated statement of income over the expected life of the instrument. Cash and cash equivalents, short-term investments and accounts receivable are classified as loans and receivables. Bank indebtedness, short-term bank loans, accounts payable and accrued liabilities, customer deposits, dividend payable, accrual for performance

guarantees and long-term debt, including interest payable, are classified as other financial liabilities, all of which are measured at amortized cost.

Embedded derivatives

Derivatives may be embedded in other financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives if their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value through profit or loss. These embedded derivatives are classified as held for trading.

The Company and its subsidiaries enter into certain contracts for the purchase and sale of non-financial items that are denominated in currencies other than their respective functional currencies. In cases where the foreign exchange component is not leveraged and does not contain an option feature, the contract is denominated in the functional currency of the counterparty or the non-financial item is routinely denominated in the currency of the contract or the currency of the contract is commonly used in the economic environment in which the transaction takes place, the embedded derivative is considered to be closely related and is not accounted for separately.

The fair value of the embedded derivatives related to sales contracts is recorded in sales; purchase contracts are recorded in cost of sales. On the consolidated statement of financial position, gains are recorded as derivative assets and losses are recorded as derivative liabilities.

Transaction costs are expensed when incurred.

Fair value

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current arm's-length transaction between knowledgeable willing parties. The fair value of derivative instruments is determined using valuation techniques.

The Company has evaluated the fair values of its financial instruments based on the current interest rate environment, related market values and current pricing of financial instruments with comparable terms.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Revenue is shown net of sales and value-added taxes, returns, rebates and discounts.

Revenue is recognized when the amount of revenue and associated costs can be reliably measured, it is probable that future economic benefits will flow to the Company and when specific criteria have been met for each of the Company's activities as described below.

Sales of goods

Sales of goods are recognized when the Company has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery of the products does not occur until the products have been shipped to a specified location in accordance with the agreed-upon shipping terms, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence

that all criteria for acceptance have been satisfied. Customers have a right to return faulty products, and some products are sold with volume discounts. Sales are recorded based on the price specified in the sales contract, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases.

Sales of services

Sales of services are recognized when the Company renders services.

Interest income

Interest income is recognized using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in banks, other short-term highly liquid investments with original maturities of three months or less, and bank indebtedness. Bank indebtedness is shown in current liabilities on the consolidated statement of financial position. Interest is earned on cash and cash equivalents at rates ranging from 0% to 3.7% on an annual basis. Interest is paid on bank indebtedness at rates ranging from 1.2% to 3.1%.

Short-term investments

Short-term investments include all highly liquid investments with original maturities greater than three months but less than one year. Interest is earned on short-term investments at rates ranging from 0.3% to 8.8%.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost of inventories is determined as follows:

a) raw materials principally using the weighted average method except for items that are not ordinarily interchangeable, in which case specific identification of their individual costs is used; and

b) work in process, finished parts and finished goods using the raw material cost described in (a) plus applicable direct labour and manufacturing overhead.

The value of obsolete or unmarketable inventory is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. The writedown may be reversed if the circumstances which caused it no longer exist.

Property, plant and equipment

Property, plant and equipment are valued at acquisition or manufacturing costs less any related government assistance, accumulated depreciation and any accumulated impairment losses. Acquisition costs include any expenditure that is directly related to the acquisition of the item. Manufacturing costs include direct material and labour costs plus applicable manufacturing overheads. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to be ready for their intended use are added to the cost of those assets, until such time as those assets are ready for their intended use.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of a replaced part is expensed as the parts are used. All other repairs and maintenance are charged to the consolidated statement of income during the period in which they are incurred.

Depreciation of assets commences when the assets are ready for their intended use. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and treated on a prospective basis as a change in estimate.

Depreciation on the property, plant and equipment is determined principally using the following methods and annual rates or terms:

	Method	Rate/Term
Buildings	Declining balance	4% to 5%
Machinery and equipment and furniture and fixtures	Declining balance	10% to 31%
Data processing equipment	Straight-line	3 years
Rolling stock	Declining balance	30%
Leasehold improvements	Straight-line	Over lease terms

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Intangible assets

Purchased intangible assets relate primarily to patents, products, designs, customer lists, non-compete agreements and computer software. Internally generated intangible assets relate to development costs. Research and development costs are expensed as incurred unless the development costs meet the criteria for deferral.

Amortization expense is recognized in the consolidated statement of income in the expense category consistent with the function of the intangible asset. The assets' useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period or more frequently if events or circumstances occur that would indicate a change in useful life. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated on a prospective basis as a change in estimate. Amortization is determined principally using the following methods and terms:

	Method	Term
Patents, products and designs	Straight-line	5 to 15 years
Customer lists	Straight-line	10 years
Non-compete agreements	Straight-line	5 years
Computer software	Straight-line	1 to 3 years

Government assistance

The Company receives assistance in the form of investment tax credits ("ITCs"). ITCs are accounted for using the cost reduction method. Under this method, assistance relating to eligible expenditures is deducted from the cost of the related assets or related expenses in the period in which the expenditures are incurred, provided there is reasonable assurance of realization.

Impairment of non-financial assets

Assets that have an indefinite life (e.g. goodwill or indefinite life intangible assets) are not subject to amortization and are tested annually for impairment, or more frequently if events or circumstances indicate there may be impairment.

All other long-lived assets must be reviewed at the end of each reporting period in order to determine whether there is an indication of possible impairment.

For the purposes of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows. A cash-generating unit ("CGU") is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. If an indication of impairment exists, the recoverable amount of the CGU is estimated in order to determine the extent of the impairment loss, if any. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. If the recoverable amount of the CGU is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis of the carrying amount of each asset in the CGU. The recoverable amount is the greater of an asset's or CGU's fair value less costs of disposal and its value in use. 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.

Goodwill is allocated to CGUs for the purpose of impairment testing based on the level at which it is monitored by management. The allocation is made to those CGUs that are expected to benefit from the business combination in which the goodwill arose.

Non-current and non-financial assets, other than goodwill, that have previously suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

Income taxes

The provision for income taxes for the year comprises current and deferred taxes. Taxes are recognized in the consolidated statement of income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity, in which case the taxes are recognized in other comprehensive income or equity, respectively.

Current income taxes

The current income taxes charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company generates taxable income. When an asset is transferred between entities within the consolidated group, the difference between the tax rates of the two entities is recognized as a tax expense in the period in which the transfer occurs. Current taxes payable is recognized for any

taxes payable in the current period. Current tax liabilities are recognized for current taxes to the extent that they remain unpaid for current and prior periods.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate. Uncertain income tax provisions are recorded when probable and are recorded at the Company's best estimate of the amount.

Deferred income taxes

Deferred income taxes are recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the consolidated financial statements. However, the deferred income taxes are not accounted for if they arise from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income taxes are determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Current income tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. Normally, the Company would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Company to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Company has a legally enforceable right to set off current income tax assets against current income tax liabilities and deferred income tax assets and liabilities related to income taxes levied by the same taxation authority on either: (1) the same taxable entity; or (2) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred income tax liabilities or assets are expected to be settled or recovered.

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for costs that need to be incurred to operate in the future or expected future operating losses.

Provisions are measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Accrual for performance guarantees

Accrual for performance guarantees arise for possible late delivery and other contractual non-compliance penalties or liquidated damages. It is recognized when the Company has a present legal or constructive obligation as a result of a

past event, and the amount has been reliably estimated. Accrual for performance guarantees is not recognized for costs that need to be incurred to operate in the future or expected future operating losses.

Accrual for performance guarantees is measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Leases

Leases are classified as either finance or operating leases. Leases that transfer substantially all of the risks and rewards of ownership of the asset to the Company are accounted for as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Assets acquired under a finance lease are depreciated over the shorter of the period of expected use on the same basis as other similar assets and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rental payments under operating leases are expensed in the consolidated statement of income on a straight-line basis over the term of the lease.

Share-based compensation plans

Grants under the Company's share-based compensation plans are accounted for in accordance with the fair value based method of accounting. The Company operates a share-based compensation plan under which it receives services from employees as consideration for share options. The fair value of the employee services received in exchange for the grant of the options is amortized over the vesting period as compensation expense, with a corresponding increase to contributed surplus. The total amount to be expensed is determined by multiplying the number of options expected to vest with the fair value of one option as of the grant date as determined by the Black-Scholes option pricing model. Remaining an employee of the Company for a specified period of time is the only condition for vesting. Vesting typically occurs one-quarter per year over four years from the grant date. This non-market performance condition is factored into the estimate of the number of options expected to vest. If the number of options expected to vest differs from that originally expected, the expense is adjusted accordingly.

When options are exercised, the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, net of any directly attributable transaction costs, are recorded in share capital.

Critical accounting estimates and judgment

The Company's significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed. Other than the changes made to the underlying assumptions in determining the carrying amount of the goodwill associated with Velan ABV S.r.l. ("ABV") at February 29, 2016 (note 4), there were no significant changes made to critical accounting estimates during the past two fiscal years.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below.

Consolidation

The Company consolidates the accounts of Juwon Special Steel Co. Ltd. in these financial statements. It was determined that the Company has substantive rights over this structured entity that are currently exercisable and for which there is no barrier, despite the fact that its percentage ownership in this entity is only 50%. These substantive rights are obtained through the shareholders' agreement signed between the Company and the non-controlling interest which gives the Company the ultimate decision right on any decision taken for which both parties in the joint arrangement are not in agreement. As per the shareholders' agreement, the Board of Directors, representing the interests of shareholders, has responsibility to establish operating decisions (including budgets), approve capital transactions and determine key management personnel remuneration. Consequently, the Company, through its rights set out in the shareholders' agreement, has substantive rights that give it the ability to direct the relevant activities of Juwon Special Steel Co. Ltd. while being exposed to variable returns. As such, it was determined that this entity should be consolidated.

Accounts receivable

The Company must report its accounts receivable at their net realizable value. This involves management judgment and requires the Company to perform continuous evaluations of their collectability and to record an allowance for doubtful accounts when required. In performing its evaluation, the Company analyzes the ageing of accounts receivable, concentration of receivables by customer, customer creditworthiness and current economic trends. Any change in the assumptions used could impact the carrying value of the accounts receivable on the consolidated statement of financial position with a corresponding impact made to administration costs on the consolidated statement of income.

Inventories

Inventories must be valued at the lower of cost and net realizable value. A writedown of inventory will occur when its estimated market value less applicable variable selling expenses is below its carrying amount. This involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of income.

Provisions

Provisions must be established for possible product warranty expenses. The Company estimates its warranty exposure by taking into account past experience as well as any known technical problems and estimates of costs to resolve these issues. The Company estimates its exposure under these obligations based on an analysis of all identified or expected claims. Any change in the assumptions used could impact the value of the provision on the consolidated

statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of income.

Impairment of non-financial assets

Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Any change in the assumptions used could impact the carrying amount first of any goodwill allocated to the CGU and then to the other assets of the CGU on a pro rata basis of the carrying amount of each asset in the CGU on the consolidated statement of financial position with a corresponding impact made to the consolidated statement of income.

Income taxes

The Company must estimate its income taxes in each jurisdiction in which it operates. This involves assessing the probability of using net operating losses against future taxable income as well as evaluating positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. In the event these assessments are changed, there would be an adjustment to income tax expense with a corresponding adjustment to income tax balances on the consolidated statement of financial position.

3 Accounting standards and amendments issued but not yet adopted

The Company is currently assessing the impact of the following new and revised standards and has not yet determined whether it will early adopt them.

(i) In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and substantially completes the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

This standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduces a new, expected loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and it lowers the threshold for recognition of full lifetime expected losses. The new standard also introduces a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligns hedge accounting more closely with risk management. The new standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

(ii) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and specifies how and when revenue will be recognized as well as requiring the provision of more informative and relevant disclosures. Its core principle is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework: (i) identify the

contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the entity satisfies a performance obligation. IFRS 15 replaces IAS 11, *Construction contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and SIC-31, *Revenue - Barter Transactions Involving Advertising Services*. The new standard is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

(iii) In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. It also substantially carries forward the lessor accounting requirements. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 replaces IAS 17, *Leases*, IFRIC 4, *Determining whether an Arrangement contains a Lease*, SIC-15, *Operating Leases – Incentives*, and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The new standard is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted only if IFRS 15 is early adopted.

(iv) On January 29, 2016, the IASB published amendments to IAS 7, *Statement of Cash Flows*. The amendments are intended to clarify IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The revised standard is effective for annual periods beginning on or after January 1, 2017 with earlier adoption permitted.

(v) In November 2016, the IFRS Interpretations Committee ("IFRIC") issued IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. This interpretation addresses the exchange rate to use when reporting transactions that are denominated in a foreign currency in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, in the circumstance in which a customer paid for goods or services in advance. The interpretation is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted.

4 Intangible asset and goodwill impairment analysis

Intangible asset impairment test at February 28, 2017

As a result of losses incurred by the Company's Italian subsidiary, ABV, the Company determined that there was an indication that the amortizable intangible assets associated with this CGU may be impaired at February 28, 2017. As such, the Company tested for impairment the carrying amount of such intangible assets, which consists primarily of patents, products and designs, as well as customer lists. Based on this test, the Company determined that the recoverable amount of such assets exceeded the carrying amount of $15,578 by $4,898. Accordingly, no intangible asset impairment loss was recorded for this CGU at February 28, 2017.

The recoverable amount was determined based on the fair value less costs of disposal approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a four-year period taking into consideration the following assumptions and trends:

- Expected earnings before interest, taxes, depreciation and amortization ("EBITDA") as a percentage of sales for the CGU of 6.8% in 2018, 7.9% in 2019, 10.1% in 2020, and 14.7% in 2021.
- Expected working capital cash absorption ratio for the CGU of 19% of annual incremental sales increases.
- Expected annual capital expenditure needs for the CGU of $530 in 2018, 2019 and 2020, and $1,060 for 2021.

The discounted cash flow model was established using a discount rate of 18.0% and a terminal growth rate of 2%.

After three successive years of positive earnings, ABV incurred a significant loss in the current fiscal year. This loss was primarily due to a large project order, which was expected to ship in 2017, but is now expected to ship in 2018. As a result, management revised its assumptions related to sales and expected EBITDA that were used in the prior year to test the goodwill related to this CGU in order to account for this delay. All other assumptions remained relatively consistent with the prior year.

The following table provides a sensitivity analysis of the Company's recoverable amount of the intangible assets associated with the CGU related to its ABV subsidiary for the period assuming a one percentage point increase of the selected variables below. Note that this sensitivity analysis assumes that all other assumptions and trends remain constant for each independent variable.

	Decrease (Increase) in recoverable amount $
Increase in expected EBITDA as a percentage of sales	(2,577)
Increase in discount rate	1,354
Increase in terminal growth rate	(1,106)

A one percentage point decrease of the selected variables below, assuming all other assumptions and trends remain constant for each independent variable, would have the following impact on the recoverable amount of the intangible assets associated with the CGU related to its ABV subsidiary:

	Decrease (Increase) in recoverable amount $
Decrease in expected EBITDA as a percentage of sales	2,550
Decrease in discount rate	(1,541)
Decrease in terminal growth rate	976

Summarized below is the amount by which each key assumption must change, after incorporating consequential effects of the change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount:

- Decrease of 1.25% in the expected EBITDA as a percentage of sales for the CGU for each referenced year.
- Increase in working capital cash absorption ratio for the CGU from 19% to 24.3% of annual incremental sales increases.
- Increase in expected discount rate from 18.0% to 22.4%.
- Decrease of expected terminal growth rate from 2% to -4.7%.

Goodwill impairment test at February 28, 2017

In the context of its annual impairment testing, the Company completed its impairment analysis and assessed the recoverability of the assets allocated to its various CGUs. The Company calculated the recoverable amounts of its CGUs using valuation methods which were consistent with those used in prior years.

The Company tested for impairment the carrying amount of the goodwill associated with the CGU related to its French subsidiary, Velan S.A.S., and determined that the recoverable amount significantly exceeded the carrying amount of $8,236 by $52,039. Accordingly, no goodwill impairment loss was recorded for this CGU at February 28, 2017.

The recoverable amount was determined based on the fair value less costs of disposal approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a three-year period taking into consideration the following assumptions and trends:

- Expected EBITDA as a percentage of sales for the CGU of 22.1% in 2018, 20.8% in 2019, and 17.8% in 2020.
- Expected working capital cash absorption ratio for the CGU of 19% of annual incremental sales increases.
- Expected annual capital expenditure needs for the CGU of $2,119 in 2018, 2019 and 2020.

The discounted cash flow model was established using a discount rate of 15.0% and a terminal growth rate of 2%.

Management based its selection of assumptions upon its assessment of the ability of the CGU to deliver on its past levels of growth and profitability based on its current backlog of orders, as well as its evaluation of the longer term potential of its key end-user markets, particularly nuclear power and cryogenics. The margin assumptions used were in line with actual margins generated by the CGU in prior years.

Goodwill impairment test at February 29, 2016

In the context of its annual impairment testing, the Company completed its impairment analysis and assessed the recoverability of the assets allocated to its various CGUs. The Company calculated the recoverable amounts of its CGUs using valuation methods which were consistent with those used in prior years.

As a result of the impairment analysis, the Company determined that the carrying amount of the goodwill associated with the CGU related to its ABV subsidiary exceeded its recoverable amount and, accordingly, the Company recorded a goodwill impairment loss of $11,510 at February 29, 2016. As a result of this loss, the carrying amount of the goodwill associated with this CGU has been reduced to nil.

The recoverable amount was determined based on the fair value less costs of disposal approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a five-year period taking into consideration the following assumptions and trends:

- Expected EBITDA as a percentage of sales for the CGU of 5.8% in 2017, 8.0% in 2018, 9.4% in 2019, 10.7% in 2020 and 11.7% in 2021.
- Expected working capital cash absorption ratio for the CGU of 19% of annual incremental sales increases.
- Expected annual capital expenditure needs for the CGU of $544 in 2017, 2018 and 2019, and $1,089 thereafter.

The discounted cash flow model was established using a discount rate of 18.0% and a terminal growth rate of 2%.

In prior years, management had based its selection of assumptions upon its assessment of the ability of the CGU to return to is pre-acquisition levels of growth and profitability, as well as its evaluation of the longer term potential of its key end-user markets, particularly upstream oil and gas flow control. While ABV had achieved positive EBITDA growth over the last two fiscal years which were in line with previous expectations, the current year's EBITDA was below expectations. Despite the fact that ABV continued to report positive earnings for a third consecutive year, management revised projected future earnings, which were lowered to reflect a slowdown in order intake, particularly over the second half of the current fiscal year. The continued weakness of the price of crude oil has had a significant negative impact on ABV's key target market, namely the upstream oil and gas industry, creating an increasingly competitive landscape. As a result, ABV has been quoting more competitive prices to win orders, which negatively impacted expected EBITDA as a percentage of sales. Therefore, the impairment charge was the result of management's revised assumptions related to sales and the expected EBITDA as a percentage of sales taking into account the current economic environment.

The Company also tested for impairment the carrying amount of the goodwill associated with the CGU related to its French subsidiary, Velan S.A.S., and determined that the recoverable amount significantly exceeded the carrying amount of $8,463 by $56,899. Accordingly, no goodwill impairment loss was recorded for this CGU at February 29, 2016.

The recoverable amount was determined based on the fair value less costs of disposal approach using a discounted cash flow model. The significant key assumptions included forecasted cash flows based on updated financial plans prepared by management covering a three-year period taking into consideration the following assumptions and trends:

- Expected EBITDA as a percentage of sales for the CGU of 20.7% in 2017, 2018 and 2019.
- Expected working capital cash absorption ratio for the CGU of 19% of annual incremental sales increases.
- Expected annual capital expenditure needs for the CGU of $2,178 in 2017, 2018 and 2019.

The discounted cash flow model was established using a discount rate of 15.0% and a terminal growth rate of 2%.

Management based its selection of assumptions upon its assessment of the ability of the CGU to deliver on its past levels of growth and profitability based on its current backlog of orders, as well as its evaluation of the longer term potential of its key end-user markets, particularly nuclear power and cryogenics. The margin assumptions used were in line with actual margins generated by the CGU in prior years.

5 Inventories

	As at February 28, 2017 $	As at February 29, 2016 $
Raw materials	33,621	37,899
Work in process and finished parts	94,562	86,000
Finished goods	44,906	38,624
	173,089	162,523

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of $2,146 (2016 – $5,444), including reversals of $6,555 (2016 – $5,625).

The net book value of inventories pledged as security under the Company's credit facilities amounted to nil (2016 – $1,427).

6 Subsidiaries and transactions with non-controlling interests

a) Interest in subsidiaries

Set out below are the Company's principal subsidiaries at February 28, 2017. Unless otherwise stated, the subsidiaries have share capital consisting solely of ordinary shares, which are held directly by the Company, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also their principal place of business.

Name of entity	Functional Currency	Country of incorporation	% of ownership interest held by the Company 2017	% of ownership interest held by the Company 2016	% of ownership interest held by the non-controlling interests 2017	% of ownership interest held by the non-controlling interests 2016	Principal Activities
Velan Valve Corp.	U.S. Dollar	U.S.A.	100	100	-	-	Valve Manufacture
Velan Ltd.	U.S. Dollar	Korea	100	100	-	-	Valve Manufacture
Juwon Special Steel Co. Ltd.	Korean Won	Korea	50	50	50	50	Foundry
Velan Valvulas Industrias, Lda.	Euro	Portugal	100	100	-	-	Valve Manufacture
Velan Valves Limited	British Pound	U.K.	100	100	-	-	Valve Manufacture
Velan S.A.S.	Euro	France	100	100	-	-	Valve Manufacture
Segault S.A.S.	Euro	France	75	75	25	25	Valve Manufacture
Velan GmbH	Euro	Germany	100	100	-	-	Valve Distribution
Velan ABV S.r.l.	Euro	Italy	100	100	-	-	Valve Manufacture
Velan Valvac Manufacturing Co. Ltd.	U.S. Dollar	Taiwan	90	90	10	10	Valve Manufacture
Velan Valve (Suzhou) Co. Ltd.	U.S. Dollar	China	85	85	15	15	Valve Manufacture
Velan Valves India Private Limited	Indian Rupee	India	100	100	-	-	Valve Manufacture

b) Significant restrictions

Cash and short-term investments held in certain Asian countries are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. However, such restrictions do not have a significant impact on the Company's operations and treasury management as less than 2% of the Company's cash and short-term investments are subject to such restrictions. The total amount of cash and short-term investments subject to such restrictions as at February 28, 2017 was $1,785 (2016 – $2,142).

c) Non-controlling interests

Set out below is summarized financial information for each subsidiary company and structured entity that has non-controlling interests that are material to the Company and for which the non-controlling interest is recognized as equity rather than as a liability (see note 12(p)). The amounts disclosed for each subsidiary are before intercompany eliminations.

Summarized statement of financial position	Juwon Special Steel Co. Ltd.		Velan Valvac Manufacturing Co. Ltd.	
	As at February 28, 2017	As at February 29, 2016	As at February 28, 2017	As at February 29, 2016
	$	$	$	$
Current assets	8,440	8,954	5,293	5,061
Current liabilities	3,318	3,983	1,367	1,591
Current net assets	5,122	4,971	3,926	3,470
Non-current assets	13,206	12,510	1,857	1,860
Non-current liabilities	8,544	8,121	68	117
Non-current net assets	4,662	4,389	1,789	1,743
Net assets	9,784	9,360	5,715	5,213
Accumulated non-controlling interest	5,844	4,936	673	606

Summarized statement of comprehensive income	Juwon Special Steel Co. Ltd.		Velan Valvac Manufacturing Co. Ltd.	
	2017	2016	2017	2016
	$	$	$	$
Sales	12,531	23,301	7,518	7,416
Net income (loss) for the year	(471)	1,181	992	503
Other comprehensive income (loss)	895	(1,109)	-	-
Total comprehensive income (loss) for the year	424	72	992	503
Net income (loss) allocated to non-controlling interest	(236)	590	99	82
Dividends paid to non-controlling interest	-	-	49	139

Summarized statement of cash flows	**Juwon Special Steel Co. Ltd.**		**Velan Valvac Manufacturing Co. Ltd.**	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Cash flows from operating activities	(580)	2,578	245	368
Cash flows from investing activities	100	(9,403)	(45)	(60)
Cash flows from financing activities	(4)	5,738	(487)	(566)
Net increase (decrease) in cash and cash equivalents	(484)	(1,087)	(287)	(258)

d) Transactions with non-controlling interests

On June 29, 2015, the Company acquired an additional 15% of the issued common shares of Velan Valvac Manufacturing Co., Ltd., its Taiwanese subsidiary, for cash consideration totaling $890. As a result of this transaction, the Company increased its percentage ownership interest held in this subsidiary from 75% to 90%.

7 Property, plant and equipment

	Land	Buildings	Machinery & equipment	Furniture & fixtures	Data processing equipment	Rolling stock	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
At February 28, 2015								
Cost	11,674	51,139	146,247	8,388	6,740	2,866	3,694	230,748
Accumulated depreciation	-	(23,097)	(101,336)	(6,150)	(4,988)	(2,018)	(1,874)	(139,463)
	11,674	28,042	44,911	2,238	1,752	848	1,820	91,285
Year ended February 29, 2016								
Beginning balance	11,674	28,042	44,911	2,238	1,752	848	1,820	91,285
Additions	9,196	3,352	6,593	-	213	424	13	19,791
Disposals	(3)	(302)	(113)	204	1	(5)	-	(218)
Depreciation	-	(1,845)	(9,404)	(569)	(862)	(357)	(264)	(13,301)
Exchange differences	(1,001)	(517)	(615)	(83)	(10)	(23)	(51)	(2,300)
	19,866	28,730	41,372	1,790	1,094	887	1,518	95,257
At February 29, 2016								
Cost	19,866	53,175	148,597	7,984	6,737	3,128	3,581	243,068
Accumulated depreciation	-	(24,445)	(107,225)	(6,194)	(5,643)	(2,241)	(2,063)	(147,811)
	19,866	28,730	41,372	1,790	1,094	887	1,518	95,257
Year ended February 28, 2017								
Beginning balance	19,866	28,730	41,372	1,790	1,094	887	1,518	95,257
Additions	-	1,353	5,293	254	532	149	140	7,721
Disposals	-	-	(10)	(1)	(1)	(267)	(11)	(290)
Depreciation	-	(1,813)	(8,431)	(332)	(829)	(316)	(222)	(11,943)
Exchange differences	925	(11)	(90)	(15)	(1)	15	(33)	790
	20,791	28,259	38,134	1,696	795	468	1,392	91,535
At February 28, 2017								
Cost	20,791	54,389	149,077	8,079	7,077	2,948	3,318	245,679
Accumulated depreciation	-	(26,130)	(110,943)	(6,383)	(6,282)	(2,480)	(1,926)	(154,144)
	20,791	28,259	38,134	1,696	795	468	1,392	91,535

Depreciation expense of $11,943 (2016 – $13,301) is included in the consolidated statement of income: $10,703 (2016 – $11,880) in ‘cost of sales’ and $1,240 (2016 – $1,421) in ‘administration costs’.

8 Intangible assets and goodwill

	Goodwill	Computer software	Patents, products & designs	Customer lists	Other	Total
At February 28, 2015						
Cost	20,686	7,343	11,805	6,072	1,565	47,471
Accumulated amortization	-	(6,733)	(3,431)	(2,328)	(1,403)	(13,895)
	20,686	610	8,374	3,744	162	33,576
Year ended February 29, 2016						
Beginning balance	20,686	610	8,374	3,744	162	33,576
Additions	-	306	1,023	-	-	1,329
Amortization	-	(438)	(837)	(596)	(137)	(2,008)
Impairment loss	(11,510)	-	-	-	-	(11,510)
Exchange differences	(647)	(15)	(258)	(111)	(4)	(1,035)
	8,529	463	8,302	3,037	21	20,352
At February 29, 2016						
Cost	8,529	7,552	12,461	5,881	1,526	35,949
Accumulated amortization	-	(7,089)	(4,159)	(2,844)	(1,505)	(15,597)
	8,529	463	8,302	3,037	21	20,352
Year ended February 28, 2017						
Beginning balance	8,529	463	8,302	3,037	21	20,352
Additions	-	168	723	-	19	910
Amortization	-	(155)	(994)	(594)	(24)	(1,767)
Exchange differences	(228)	(13)	(169)	(61)	(1)	(472)
	8,301	463	7,862	2,382	15	19,023
At February 28, 2017						
Cost	8,301	7,574	12,872	5,723	649	35,119
Accumulated amortization	-	(7,111)	(5,010)	(3,341)	(634)	(16,096)
	8,301	463	7,862	2,382	15	19,023

Amortization expense of $1,767 (2016 – $2,008) is included in the consolidated statement of income: $1,354 (2016 – $1,589) in ‘cost of sales’ and $413 (2016 – $419) in ‘administration costs’.

As at February 28, 2017, the Company capitalized $723 (2016 – $1,023) of development costs, net of research and development tax credits of $211 (2016 – $ 343), as patents, products and designs.

9 Accounts payable and accrued liabilities

	As at February 28, 2017 $	As at February 29, 2016 $
Trade accounts payable	25,969	20,661
Accrued liabilities	30,668	37,217
Other	4,004	5,065
	60,641	62,943

10 Credit facilities

a) The Company and its U.S. subsidiary company, Velan Valve Corp., have the following credit facilities available as at February 28, 2017:

Unsecured

Credit facilities available	Borrowing rates
$64,005 (CA$85,000) (2016 – $62,815 (CA$85,000)) (note 26)	Prime to prime + 0.75%

The above unsecured facilities are available by way of demand operating lines of credit, bank loans, letters of credit, bankers' acceptances, LIBOR loans, letters of guarantee and bank overdrafts. These facilities are subject to annual renewal.

As at February 28, 2017, an amount of nil (2016 – nil) was drawn against these unsecured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $9,765 (2016 – $10,061) was drawn against these unsecured credit facilities in the form of letters of credit and letters of guarantee.

In addition to the unsecured credit facilities above, the Company maintains a facility with Export Development Canada of $40,000 for letters of credit and letters of guarantee. As at February 28, 2017, $8,162 (2016 – $12,391) was drawn against this facility.

b) Foreign subsidiaries and structured entities have the following credit facilities available as at February 28, 2017:

Secured by corporate guarantees

Credit facilities available	**Borrowing rates**
Foreign subsidiaries $50,066 (€41,672; KW3,791,730; INR170,000) (2016 – $51,208 (€38,572; £2,000; KW4,873,100; INR170,000)) (note 26)	0.30% to 9.25% (2016 – 0.30% to 10.00%)
Foreign structured entities $4,746 (KW5,363,200) (2016 – $5,026 (KW6,228,000)) (note 26)	1.50% to 3.09% (2016 – 1.50% to 2.74%)

The above credit facilities are available by way of demand operating lines of credit, bank loans, guarantees, letters of credit and foreign exchange forward contracts. The majority of these credit facilities have variable borrowing rates based on LIBOR, EURIBOR, KORIBOR, EONIA or prime rate. The borrowing rates listed above are the rates in effect as at February 28, 2017 and February 29, 2016. The terms of the above facilities range from annual renewal to an indefinite term. The aggregate net book value of the assets pledged under the above credit facilities amounted to $2,842 (2016 – $5,824).

As at February 28, 2017, an amount of $7,792 (2016 – $5,028) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $1,824 (2016 – $3,859) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

11 Provisions

	As at February 28, 2017 $	**As at February 29, 2016 $**
Balance – Beginning of year	9,333	7,874
Additional provisions	4,322	4,071
Used during the year	(2,754)	(2,358)
Exchange differences	(301)	(254)
Balance – End of year	10,600	9,333

The Company's provisions consist entirely of warranties. The Company offers various warranties to the purchasers of its valves. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labour costs.

12 Long-term debt

	As at February 28, 2017 $	As at February 29, 2016 $
The Company		
Unsecured bank loan	-	1,333
French subsidiaries		
Unsecured bank loan (€3,000; February 29, 2016 - nil) (note 12(a))	3,179	-
Unsecured bank loan (nil; February 29, 2016 – €16)	-	18
Unsecured bank loan (€327; February 29, 2016 – €426) (note 12(b))	347	464
Italian subsidiary		
Unsecured bank loan (€464; February 29, 2016 – €564) (note 12(c))	492	614
Unsecured bank loan (€462; February 29, 2016 – €548) (note 12(d))	490	596
Unsecured state bank loan (€236; February 29, 2016 – €304) (note 12(e))	250	331
Unsecured bank loan (€253; February 29, 2016 – €351) (note 12(f))	268	383
Unsecured bank loan (€545; February 29, 2016 – €909) (note 12(g))	578	990
Unsecured bank loan (€667; February 29, 2016 – €933) (note 12(h))	706	1,016
Unsecured bank loan (€505; February 29, 2016 – €836) (note 12(i))	535	910
Unsecured bank loan (€938; February 29, 2016 – €1,313) (note 12(j))	993	1,429
Unsecured bank loan (€533; February 29, 2016 – €864) (note 12(k))	565	940
Unsecured state bank loan (€1,610; February 29, 2016 – nil) (note 12(l))	1,706	-
Korean subsidiary		
Secured bank loan (nil; February 29, 2016 – KW2,500,000)	-	2,018
Korean structured entity		
Secured bank loan (KW13,200; February 29, 2016 – KW18,000) (note 12(m))	12	15
Secured bank loan (KW8,000,000; February 29, 2016 – KW8,000,000) (note 12(n))	7,080	6,456
Other (note 12(o))	5,232	4,936
	22,433	22,449
Less: Current portion	7,115	7,978
	15,318	14,471

a) The unsecured bank loan of $3,179 (€3,000) bears interest at 0.20% and is repayable in monthly instalments of $53, expiring in 2022.

b) The unsecured bank loan of $347 (€327) bears interest at 0.89% and is repayable in monthly instalments of $10, expiring in 2020.

c) The unsecured bank loan of $492 (€464) bears interest at 2.91% and is repayable in monthly instalments, expiring in 2021.

d) The unsecured bank loan of $490 (€462) bears interest at 4.90% and is repayable in monthly instalments, expiring in 2021.

e) The unsecured state bank loan of $250 (€236) is non-interest bearing and is repayable in semi-annual instalments, expiring in 2020.

f) The unsecured bank loan of $268 (€253) bears interest at the 3-month Euribor rate plus 1.7% and is repayable in quarterly instalments of $28, expiring in 2019.

g) The unsecured bank loan of $578 (€545) bears interest at the 6-month Euribor rate plus 1.25% and is repayable in quarterly instalments of $99, expiring in 2018.

h) The unsecured bank loan of $706 (€667) bears interest at the 3-month Euribor rate plus 1.8% and is repayable in quarterly instalments of $73, expiring in 2019.

i) The unsecured bank loan of $535 (€505) bears interest at the 3-month Euribor rate plus 1.6% and is repayable in quarterly instalments of $93, expiring in 2018.

j) The unsecured bank loan of $993 (€938) bears interest the 3-month Euribor rate plus 1.6% and is repayable in quarterly instalments of $102, expiring in 2019.

k) The unsecured bank loan of $565 (€533) bears interest at 1.37% and is repayable in monthly instalments of $29, expiring in 2018.

l) The unsecured state bank loan of $1,706 (€1,610) bears interest at 3% and is repayable in semi-annual instalments, expiring in 2024.

m) The secured bank loan of $12 (KW13,200) bears interest at 1.50% and is repayable in 2020. Certain land, a building, and certain machinery and equipment are pledged as collateral for this loan.

n) The secured bank loan of $7,080 (KW8,000,000) bears interest at 2.21% and is repayable in quarterly instalments of $253, expiring in 2025.

o) Included in Other is an amount of $4,045 (€3,817) (February 28, 2015 – $3,781 (€3,473)) related to an unconditional put option held by a minority shareholder in one of the Company's subsidiary companies. This is recognized as a liability instead of non-controlling interest. The liability is initially recognized as the non-controlling interest's share of the net identifiable assets of the subsidiary or structured entity. Subsequently, the liability is carried at the amount of the present value of estimated future cash flows discounted at the original effective rate. Adjustments to the carrying value are recorded as interest expense in the consolidated statement of income.

p) The following is a schedule of future debt payments:

	$
February 28, 2018	7,115
February 28, 2019	3,530
February 29, 2020	2,684
February 28, 2021	2,176
February 28, 2022	2,018
Subsequent years	4,910
	22,433

The aggregate net book value of the assets pledged as collateral under long-term debt agreements amounted to $12,519 (2016 – $11,416).

q) The carrying value of long-term debt approximates its fair value.

13 Share capital

a) Authorized – in unlimited number
Preferred Shares, issuable in series
Subordinate Voting Shares
Multiple Voting Shares (five votes per share), convertible into Subordinate Voting Shares

b) Issued

	As at February 28, 2017 $	As at February 29, 2016 $
6,100,668 Subordinate Voting Shares (February 29, 2016 – 6,170,568) (notes 13(c) and (d))	66,458	67,219
15,566,567 Multiple Voting Shares	7,126	7,126
	73,584	74,345

c) Pursuant to its Normal Course Issuer Bid, the Company is entitled to repurchase for cancellation a maximum of 153,969 of the issued Subordinate Voting Shares of the Company, representing approximately 2.5% of the issued shares of such class as at October 13, 2016, during the ensuing 12-month period ending October 23, 2017. During the year ended February 28, 2017, 69,900 (2016 – 216,300) Subordinate Voting Shares were

purchased for a cash consideration of $926 (2016 – $2,738) and cancelled. The amount by which the repurchase amount is above the stated capital of the shares has been debited to contributed surplus and retained earnings.

d) The Company established a fixed share option plan (the "Share Option Plan") in 1996, amended in fiscal 2007, to allow for the purchase of Subordinate Voting Shares by certain of its full-time employees, directors, officers and consultants.

The subscription price for Subordinate Voting Shares granted under options is the greater of (i) the weighted average trading price for such Subordinate Voting Shares for the five days preceding the date of grant during which the Subordinate Voting Shares were traded on the Toronto Stock Exchange ("TSX") or (ii) the trading price for the Subordinate Voting Shares on the last day the Subordinate Voting Shares were traded on the TSX immediately preceding the date of grant.

Under the Share Option Plan, the maximum number of Subordinate Voting Shares issuable from time to time is a fixed maximum percentage of 5% of the aggregate of the Multiple Voting Shares and the Subordinate Voting Shares issued and outstanding from time to time.

The granting of options is at the discretion of the Board of Directors which, at the date of grant, establishes the term and vesting period. Vesting of options generally commences 12 months after the date of grant and accrues annually over the vesting period provided there is continuous employment. The maximum term permissible is 10 years.

A compensation cost of $76 (2016 – $104) was recorded in the consolidated statement of income and credited to contributed surplus.

During the fiscal year ended February 29, 2016, 50,000 options were exercised using the cashless exercise option, resulting in the issuance of 14,267 Subordinate Voting Shares of the Company for nil proceeds with a stated capital of $227, which was debited to contributed surplus. No options were exercised in the current fiscal year.

The table below summarizes the status of the Share Option Plan.

	Number of shares	Weighted average exercise price	Weighted average contractual life in months
Outstanding – February 28, 2015	150,000	$14.91 (CA$18.64)	45.0
Issued	40,000	$11.25 (CA$15.22)	60.0
Exercised	(50,000)	$10.46 (CA$14.15)	-
Outstanding – February 29, 2016	140,000	$14.24 (CA$19.26)	50.4
Exercisable – February 29, 2016	25,000	$15.43 (CA$20.88)	
Outstanding – February 29, 2016	140,000	$14.24 (CA$19.26)	50.4
Outstanding – February 28, 2017	140,000	$14.50 (CA$19.26)	38.4
Exercisable – February 28, 2017	60,000	$15.01 (CA$19.94)	

14 Foreign exchange

Foreign exchange gains (losses) realized on the translation of foreign currency balances, transactions and the fair value of foreign currency financial derivatives and embedded derivatives during the fiscal year are included in sales, cost of sales, and other income and amounted to:

	2017 $	2016 $
Sales	56	(1,070)
Cost of sales	949	(1,214)
Other income	496	-

15 Cost of sales

	2017 $	2016 $
Change in inventories of finished goods and work in progress	(17,467)	36,813
Raw materials and consumables used	141,335	146,707
Employee expenses, excluding scientific research investment tax credits (note 17)	73,657	79,724
Depreciation and amortization (notes 7, 8 and 19)	12,057	13,469
Movement in inventory provision – net (note 5)	2,146	5,444
Foreign exchange loss (gain) (note 14)	(949)	1,214
Other production overhead costs	32,470	39,241
	243,249	322,612

16 Administration costs

	2017 $	2016 $
Employee expenses, excluding scientific research investment tax credits (note 17)	39,467	39,629
Scientific research investment tax credits (notes 17 and 18)	(2,999)	(3,119)
Commissions	5,293	6,281
Freight to customers	4,120	4,784
Professional fees	13,087	10,330
Movement in allowance for doubtful accounts (note 26)	(398)	825
Depreciation and amortization (notes 7, 8 and 19)	1,653	1,840
Other	15,645	17,404
	75,868	77,974

17 Employee expenses

	2017 $	2016 $
Wages and salaries	80,538	85,673
Social security costs	26,271	27,256
Scientific research investment tax credits (note 18)	(2,999)	(3,119)
Share-based compensation (note 13(d))	76	104
Other	6,239	6,320
	110,125	116,234

18 Research and development expenses

Research and development expenses are included in cost of sales and administration costs and consist of the following:

	2017 $	2016 $
Research and development expenditures	7,969	8,014
Less: Scientific research and development investment tax credits	(2,999)	(3,119)
	4,970	4,895

19 Depreciation and amortization costs

Depreciation and amortization costs are included in cost of sales and administration costs and consist of the following:

	2017 $	2016 $
Depreciation of property, plant and equipment	11,943	13,301
Amortization of intangible assets	1,767	2,008
	13,710	15,309

20 Restructuring costs

During the prior fiscal year, the Company incurred restructuring costs of $2,759, which consisted primarily of cash severance, employee benefits and training costs paid or to be paid to former employees.

The portion of these restructuring costs related to the Company's North American operations amounted to $2,150 of which $1,800 related to workforce reduction and $350 related to plant consolidation. On September 15, 2015, the Company announced plans to reduce its workforce at its North American facilities and to consolidate production activities from two of its North American plants. The purpose of these restructuring initiatives was to reduce the Company's North American manufacturing footprint and to improve operational efficiencies. The workforce reduction and plant consolidation commenced during the third quarter of the prior fiscal year and were completed over the course of the current fiscal year.

The remaining portion of the prior year restructuring costs, totalling $609, were incurred in the Company's overseas operations, most notably the costs related to the closure of the Company's U.K. facility. After a lengthy period of consideration of various alternatives following successive years of losses, the Company concluded that the production of its main steam trap line should be moved from its U.K. facility to its Indian facility. As a result of this move, the Company expects to benefit from synergies in its supply chain resources, as well as its engineering and manufacturing capabilities. The move commenced during the fourth quarter of the prior fiscal year and was completed over the course of the current fiscal year.

21 Income taxes

	2017 $	2016 $
Current taxes:		
Current tax on profits for the year	4,533	9,170
Adjustments in respect of prior years	(26)	5,529
	4,507	14,699
Deferred taxes:		
Origination and reversal of temporary differences	314	(1,663)
Adjustments in respect of prior years	(141)	(4,734)
	173	(6,397)
Income tax expense	4,680	8,302

The taxes on the Company's income before taxes differ from the amount that would arise using the statutory tax rates applicable to income of the consolidated entities as follows:

	2017 $	2016 $
Income before tax at statutory rate of 26.88% (2016 – 26.90%)	3,493	3,386
Tax effects of:		
Difference in statutory tax rates in foreign jurisdictions	1,527	960
Non-deductible goodwill impairment loss	-	3,096
Non-deductible (taxable) foreign exchange loss (gain)	(344)	629
Losses not tax effected	1,552	633
Losses utilized not previously tax effected	(444)	(120)
Benefit attributable to a financing structure	(927)	(1,185)
Adjustments in respect of prior years	(167)	795
Other	(10)	108
Income tax expense	4,680	8,302

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2017 $	2016 $
Deferred income tax assets:		
To be realized after more than 12 months	8,631	8,858
To be realized within 12 months	4,320	4,679
Deferred income tax liabilities:		
To be realized after more than 12 months	(2,279)	(2,435)
To be realized within 12 months	(505)	(973)
Net deferred income tax asset	10,167	10,129

The movement of the net deferred income tax asset account is as follows:

	2017 $	2016 $
Balance – Beginning of year	10,129	4,043
Recovery to consolidated statement of income	173	6,397
Exchange differences	(135)	311
Balance – End of year	10,167	10,129

The significant components of the net deferred income tax asset are as follows:

	2017 $	2016 $
Property, plant and equipment	(4,897)	(5,051)
Intangible assets	(3,141)	(3,508)
Non-deductible provisions and reserves	7,538	8,513
Investment tax credits	(1,184)	(969)
Inventories	10,107	8,278
Non-capital loss carryforwards	2,920	2,999
Other	(1,176)	(133)
	10,167	10,129

The Company did not recognize deferred income tax assets of $2,779 (2016 – $2,234) in respect of non-capital losses amounting to $11,646 (2016 – $8,718) that can be carried forward to reduce taxable income in future years. These losses expire between 2021 and indefinitely.

The Company did not recognize deferred income tax assets of $369 (2016 – $369) in respect of capital losses amounting to $2,745 (2016 – $2,745) that can be carried forward indefinitely against future taxable capital gains.

Deferred tax liabilities of $7,475 (2016 – $6,987) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are not expected to reverse in the foreseeable future. Unremitted earnings as at February 28, 2017 totalled $317,598 (2016 – $312,810).

22 Earnings per share

a) Basic

Basic earnings per share is calculated by dividing the net income attributable to the Subordinate and Multiple Voting shareholders by the weighted average number of Subordinate and Multiple Voting Shares outstanding during the year.

	2017	2016
Net income attributable to Subordinate and Multiple Voting shareholders	$7,737	$3,641
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,722,089	21,861,230
Basic earnings per share	$0.36	$0.17

b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of Subordinate and Multiple Voting Shares outstanding to assume conversion of all dilutive potential Subordinate and Multiple Voting Shares. The Company has one category of dilutive potential Subordinate and Multiple Voting Shares: stock options. For the stock options, a calculation is done to determine the number of Subordinate and Multiple Voting Shares that could have been acquired at fair value (determined as the average market share price of the Company's outstanding Subordinate and Multiple Voting Shares for the period), based on the exercise prices attached to the stock options. The number of Subordinate and Multiple Voting Shares calculated above is compared with the number of Subordinate and Multiple Voting Shares that would have been issued assuming exercise of the stock options.

	2017	2016
Net income attributable to Subordinate and Multiple Voting shareholders	$7,737	$3,641
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,722,089	21,861,230
Adjustments for stock options	5,608	7,412
Weighted average number of Subordinate and Multiple Voting Shares for diluted earnings per share	21,727,697	21,868,642
Diluted earnings per share	$0.36	$0.17

23 Commitments and contingencies

a) In the normal course of business, the Company issues performance bond guarantees related to product warranty and on-time delivery as well as advance payment guarantees and bid bonds. As at February 28, 2017, the aggregate maximum value of these guarantees, if exercised, amounted to $79,145 (2016 –$79,787). The guarantees expire as follows:

	$
February 28, 2018	35,430
February 28, 2019	25,474
February 29, 2020	10,654
February 28, 2021	1,961
February 28, 2022	182
Subsequent years	5,444
	79,145

b) The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3,356 (2016 – $5,950), which are covered by letters of credit.

c) Future minimum payments under operating leases (related mainly to premises and machinery) are as follows:

	$
February 28, 2018	1,524
February 28, 2019	1,304
February 29, 2020	1,254
February 28, 2021	641
February 28, 2022	229
	4,952

d) Two of the Company's U.S. subsidiaries have been named as defendants in a number of asbestos-related legal proceedings pertaining to products they formerly sold. Management believes it has a strong defence, and the subsidiaries have previously been dismissed from a number of similar cases. Because of the many uncertainties inherent in predicting the outcome of these proceedings, as well as the course of asbestos litigation in the United States, management believes that it is not possible to make an estimate of the subsidiaries' asbestos liability. Accordingly, no provision has been set up in the accounts.

During the year ended February 28, 2017, legal and related costs for these matters amounted to $6,839 (2016 – $5,568).

e) Lawsuits and proceedings or claims arising from the normal course of operations are pending or threatened against the Company. Although at this time it is not possible to determine the outcome based on the facts currently known, the Company does not believe that the ultimate outcome will have a material adverse effect on its financial position, results of operations or liquidity. No provision has been set up in the accounts.

On December 3, 2014, San Diego Gas & Electric Company ("SDG") filed a claim against Velan Valve Corp., a wholly-owned subsidiary of the Company, in the Superior Court of the State of California, concerning high pressure valves supplied to SDG and installed at its Palomar Energy Center ("Facility").

This lawsuit alleges damages to the Facility in excess of $9,000 related to allegedly defective valves supplied by Velan Valve Corp. The claim is for alleged strict product liability and alleged negligence. It is the Company's position that this claim is without merit.

The Company is vigorously defending its position and is undertaking all actions necessary to protect its reputation. While the Company cannot predict the final outcome of this claim, based on information currently available, the Company believes the resolution of this claim will not have a material adverse effect on its financial position, results of operations or liquidity.

24 Related party transactions

Transactions and balances with related parties occur in the normal course of business. Related party transactions and balances not otherwise disclosed separately in these consolidated financial statements are as follows:

	2017 $	2016 $
Affiliated company owned by certain relatives of controlling shareholder		
Purchases – Material components	955	988
Sales – Material components	8	38
Amount charged by the controlling shareholder to one of the Company's subsidiaries and certain of its executives		
Rent based on weekly usage	27	37
Accounts receivable		
Affiliated companies	-	9
Accounts payable and accrued liabilities		
Affiliated companies	72	85
Controlling shareholder	8	6
Key management[1] compensation		
Salaries and other short-term benefits	4,177	4,186
Share-based compensation	76	104

[1] Key management includes directors (executive and non-executive) and certain members of senior management.

25 Segment reporting

The Company reflects its results under a single reportable operating segment. The geographic distribution of its sales and assets is as follows:

February 28, 2017

	Canada	United States	France	Italy	Other	Consolidation Adjustment	Consolidated
	$	$	$	$	$	$	$
Sales							
Customers -							
Domestic	15,885	113,640	38,861	1,815	14,270		184,471
Export	62,691	-	50,688	13,896	20,031		147,306
Intercompany (export)	50,660	17,851	1,522	1,494	64,421	(135,948)	-
Total	129,236	131,491	91,071	17,205	98,722	(135,948)	331,777
Property, plant and equipment	34,963	7,577	12,119	2,862	34,014	-	91,535
Intangible assets and goodwill	1,429	-	8,612	8,967	16	-	19,023
Other identifiable assets	213,167	30,581	149,310	40,104	112,976	(137,406)	408,739
Total identifiable assets	249,559	38,158	170,041	51,933	147,006	(137,406)	519,297

February 29, 2016

	Canada	United States	France	Italy	Other	Consolidation Adjustment	Consolidated
	$	$	$	$	$	$	$
Sales							
Customers -							
Domestic	19,182	127,482	50,779	1,389	19,228		218,060
Export	116,570	-	36,846	29,927	25,491		208,834
Intercompany (export)	62,901	24,418	37	3,538	62,716	(153,610)	-
Total	198,653	151,900	87,662	34,854	107,435	(153,610)	426,895
Property, plant and equipment	38,331	7,702	11,350	3,257	34,617	-	95,257
Intangible assets and goodwill	954	-	8,846	10,520	32	-	20,352
Other identifiable assets	221,481	28,570	134,850	37,695	103,205	(125,782)	400,018
Total identifiable assets	260,766	36,272	155,046	51,472	137,854	(125,782)	515,627

26 Financial risk management

The Company’s activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Company’s overall financial risk

management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Company's financial performance.

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Overview

The Company's financial instruments and the nature of risks which they may be subject to are set out in the following table:

	Risks			
	Market			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	x	x	x	
Short-term investments	x	x	x	
Accounts receivable	x		x	
Derivative assets	x		x	
Bank indebtedness	x	x		x
Short-term bank loans	x	x		x
Accounts payable and accrued liabilities	x			x
Customer deposits	x			x
Dividend payable	x			x
Accrual for performance guarantees	x			x
Derivative liabilities	x			x
Long-term debt	x	x		x

Market risk

Currency risk

Currency risk on financial instruments is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than a company's functional currency. The Company has operations with different functional currencies, each of which will be exposed to currency risk based on its specific functional currency.

When possible, the Company matches cash receipts in a foreign currency with cash disbursements in that same currency. The remaining anticipated net exposure to foreign currencies is hedged. To hedge this exposure, the Company uses foreign currency derivatives, primarily foreign exchange forward contracts. These derivatives are not designated as hedges for accounting purposes.

The amounts outstanding as at February 28, 2017 and February 29, 2016 are as follows:

	Range of exchange rates		Gain (loss) (In thousands of U.S. dollars)		Notional amount (In thousands of indicated currency)	
	February 28, 2017	February 29, 2016	February 28, 2017 $	February 29, 2016 $	February 28, 2017	February 29, 2016
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.32	1.25-1.46	(615)	(1,212)	US$40,000	US$84,104
Buy US$ for CA$ – 0 to 12 months	1.30-1.31	1.32-1.34	337	1,426	US$40,000	US$75,000
Sell US$ for € – 0 to 12 months	1.09-1.16	1.08-1.39	(20)	(1,602)	US$336	US$8,481
Buy US$ for € – 0 to 12 months	1.06-1.28	1.08-1.28	249	2	US$4,295	US$187
Sell US$ for KW – 0 to 12 months	1,193-1,200	1,166-1,206	99	(16)	US$1,668	US$426
Sell € for US$ – 0 to 12 months	1.06-1.08	1.09-1.19	(155)	(22)	€16,122	€13,737
Buy € for US$ – 0 to 12 months	1.06-1.08	1.07	509	156	€33,600	€11,000
Buy £ for € – 0 to 12 months	0.84-0.85	0.72-0.78	(1)	(79)	£144	£938

Foreign exchange forward contracts are contracts whereby the Company has the obligation to sell or buy the currencies at the strike price. The fair value of the foreign currency instruments is recorded in the consolidated statement of income and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, accrual for performance guarantees and long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 28, 2017 and February 29, 2016:

	Net income (loss)		Other comprehensive income (loss)	
	2017 $	2016 $	2017 $	2016 $
Canadian dollar strengthening against the U.S. dollar	(121)	112	-	-
Euro strengthening against the U.S. dollar	496	447	-	-

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years.

For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

Cash flow and fair value interest rate risk

The Company's exposure to interest rate risk is related primarily to its credit facilities, long-term debt and cash and cash equivalents. Items at variable rates expose the Company to cash flow interest rate risk, and items at fixed rates expose the Company to fair value interest rate risk. The Company's long-term debt and credit facilities predominantly

bear interest, and its cash and cash equivalents earn interest at variable rates. An assumed 0.5% change in interest rates would have no significant impact on the Company's net income or cash flows.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Company's trade accounts receivable.

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 28, 2017, four (2016 – six) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 8.5% (2016 – 11.8%), and the Company's ten largest customers accounted for 52.4% (2016 – 58.5%). In addition, one customer accounted for 13.3% of the Company's sales (2016 – 13.4%).

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. An allowance for doubtful accounts is recorded when, based on management's evaluation, the collection of an account receivable is not reasonably certain.

The Company is also exposed to credit risk relating to derivative financial instruments, cash and cash equivalents and short-term investments, which it manages by dealing with highly rated financial institutions.

The Company's primary credit risk is limited to the carrying value of the trade accounts receivable and gains on derivative assets.

The table below summarizes the ageing of trade accounts receivable as at:

	As at February 28, 2017 $	As at February 29, 2016 $
Current	77,262	73,655
Past due 0 to 30 days	19,330	12,780
Past due 31 to 90 days	7,625	13,377
Past due more than 90 days	16,508	16,205
	120,725	116,017
Less: Allowance for doubtful accounts	1,239	1,653
Trade accounts receivable	119,486	114,364
Other receivables	6,026	5,205
Total accounts receivable	125,512	119,569

The table below summarizes the movements in the allowance for doubtful accounts:

	As at February 28, 2017 $	As at February 29, 2016 $
Balance – Beginning of year	1,653	899
Bad debt expense	414	1,646
Recoveries of trade accounts receivable	(598)	(198)
Write-off of trade accounts receivable	(214)	(623)
Foreign exchange	(16)	(71)
Balance – End of year	1,239	1,653

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continually monitoring its future cash requirements. Cash flow forecasting is performed in the operating entities and aggregated by the Company's corporate finance team. The Company's policy is to maintain sufficient cash and cash equivalents and available credit facilities in order to meet its present and future operational needs.

The following tables present the Company's financial liabilities identified by type and future contractual dates of payment as at:

	As at February 28, 2017				
	Total $	Less than 1 year $	1 to 3 Years $	4 to 5 Years $	After 5 years $
Long-term debt	22,433	7,115	6,214	4,194	4,910
Accounts payable and accrued liabilities	60,641	60,641	-	-	-
Customer deposits	43,953	43,953	-	-	-
Accrual for performance guarantees	26,943	26,943	-	-	-
Bank indebtedness and short-term bank loans	9,442	9,442	-	-	-
Derivative liabilities	799	799	-	-	-

	As at February 29, 2016				
	Total $	Less than 1 year $	1 to 3 Years $	4 to 5 Years $	After 5 years $
Long-term debt	22,449	7,978	6,468	3,095	4,908
Accounts payable and accrued liabilities	62,943	62,943	-	-	-
Customer deposits	28,123	28,123	-	-	-
Accrual for performance guarantees	30,563	30,563	-	-	-
Bank indebtedness and short-term bank loans	6,347	6,347	-	-	-
Derivative liabilities	2,945	2,945	-	-	-

Fair value of financial instruments

The fair value hierarchy has the following levels:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of financial assets and financial liabilities measured on the consolidated statements of financial position are as follows:

				As at February 28, 2017
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	1,202	-	1,202	-
Liabilities				
Derivative liabilities	799	-	799	-

				As at February 29, 2016
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	1,598	-	1,598	-
Liabilities				
Derivative liabilities	2,945	-	2,945	-

Fair value measurements of the Company's derivative assets and liabilities are classified under Level 2 because such measurements are determined using published market prices or estimates based on observable inputs such as interest rates, yield curves, and spot and future exchange rates. The carrying value of the Company's financial instruments is considered to approximate fair value, unless otherwise indicated.

27 Capital management

The Company's capital management strategy is designed to maintain strong liquidity in order to pursue its organic growth strategy, undertake selective acquisitions and provide an appropriate investment return to its shareholders while taking a conservative approach to financial leveraging.

The Company's financial strategy is designed to meet the objectives stated above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue or repurchase shares, raise or repay debt, vary the amount of dividends paid to shareholders or undertake any other activities it considers appropriate under the circumstances.

The Company monitors capital on the basis of its total debt-to-equity ratio. Total debt consists of all interest-bearing debt, and equity is defined as total equity.

The total debt-to-equity ratio was as follows:

	As at February 28, 2017 $	**As at February 29, 2016 $**
Bank indebtedness	7,792	5,028
Short-term bank loans	1,650	1,319
Current portion of long-term debt	7,115	7,978
Long-term debt	15,318	14,471
Total debt	31,875	28,796
Equity	331,911	333,119
Total debt-to-equity ratio	9.6%	8.6%

The Company's objective is to conservatively manage the total debt-to-equity ratio and to maintain funding capacity for potential opportunities.

The Company's financial objectives and strategy as described above have remained unchanged since the last reporting period. These objectives and strategies are reviewed annually or more frequently if the need arises.

The Company is in compliance with all covenants related to its debt and credit facilities, and is not subject to any capital requirements imposed by a regulator.

28 Adjustments to reconcile net income to cash provided from operating activities

	2017 $	2016 $
Depreciation of property, plant and equipment	11,943	13,301
Amortization of intangible assets	1,767	2,008
Deferred income taxes	173	(6,397)
Share-based compensation expense	76	104
Gain on disposal of property, plant and equipment	(109)	(54)
Goodwill impairment loss (note 4)	-	11,510
Net change in derivative assets and liabilities	(1,751)	(3,897)
Net change in other liabilities	(1,832)	505
	10,267	17,080

29 Changes in non-cash working capital items

	2017 $	2016 $
Accounts receivable	(5,946)	(14,330)
Inventories	(10,572)	40,758
Income taxes recoverable	(1,472)	(203)
Deposits and prepaid expenses	195	1,728
Accounts payable and accrued liabilities	(2,303)	(8,108)
Income tax payable	(4,802)	1,773
Customer deposits	15,822	(16,095)
Provisions	1,266	1,449
Accrual for performance guarantees	(3,622)	547
	(11,434)	7,519

Directors and officers

Corporate directors

T. Velan	Chairman of the Board
W. Sheffield	Lead Director
P. Velan	Director
R. Velan	Director
C. Hooper	Director
J. Latendresse	Director
Y. Leduc	Director
K. MacKinnon	Director

Corporate officers

Y. Leduc	President and Chief Executive Officer
I. Velan	Special Advisor to the President
M. Allen	Executive Vice-President, Manufacturing Operations and Global Supply Chain
W. Maar	Executive Vice-President, Global Sales and Overseas Operations
J. Ball	Chief Financial Officer
V. Apostolescu	Vice-President, Quality Assurance
S. Bruckert	Vice-President, Human Resources and General Counsel, Corporate Secretary
J. Del Buey	Vice-President, Severe Service Applications
P. Dion	Vice-President, Sales - Canada
P. Lee	Vice-President, Sales - United States (North East)
G. Perez	Vice-President, Engineering
C. Pogue	Vice-President, Sales - United States (South West)
G. Sabourin	Vice-President, Treasurer and Financial Systems
R. Sossoyan	Vice-President, Global Financial Reporting
D. Velan	Vice-President, Marketing
R. Velan	Vice-President, Customer Service and Distribution
S. Velan	Vice-President, Information Technology and Strategic Planning

Shareholder information

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Tel.: (514) 748-7743, Ext. 5537
Fax: (514) 908-0180

Auditors

PricewaterhouseCoopers LLP

Transfer agent

CST Trust Company

Shares outstanding as at February 28, 2017

6,100,668 Subordinate Voting Shares
15,566,567 Multiple Voting Shares

Listing

Symbol: VLN

Price range

High CA $19.20
Low CA $16.20

Closing on February 28, 2017: CA $17.61

Annual meeting

The Annual Meeting of Shareholders will be held July 13, 2017, at 3:00 p.m. in the Salle Midway of the:
Club Saint James
1145 Union Avenue
Montreal, Quebec, Canada H3B 3C2

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Plant

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