Annual report 2019

Highlights

That's teamwork! Manufactured by Velan S.A.S. in France, this valve was sent to Velan China's Suzhou plant for hydrotesting before reaching its destination in one of China's nuclear power plants.

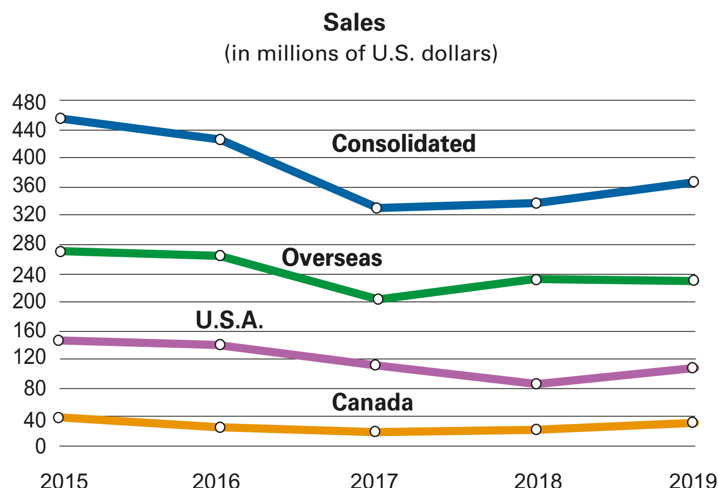
A "sea" of manifolds including valves and steam traps manufactured in Velan India and shipped to a chemical plant in Canada.

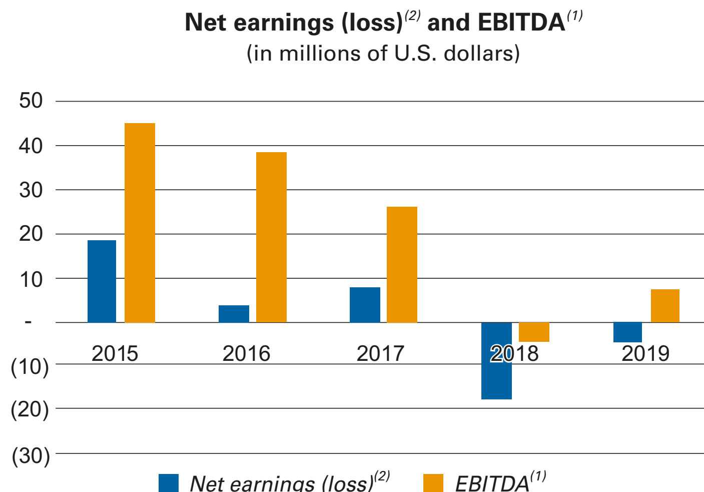
Some of the plant and office employees at Velan Plant 1/5 in Montreal with Securaseal 8" Class 1500 metal-seated ball valves destined for a slurry pipeline in South America. The valves in the picture incorporated suggested improvements to the valve design following a visit to the customer.

Cover photo:

Velan ABV API 6D trunnion mounted ball valve.

2019 Financial highlights





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

Years Ended	Feb 2019	Feb 2018	Feb 2017	Feb 2016	Feb 2015
Income statement data					
Sales	$ 366,865	$ 337,963	$ 331,777	$ 426,895	$ 455,750
Gross profit	85,595	70,861	88,528	104,283	118,283
Gross profit %	23.3%	21.0%	26.7%	24.4%	26.0%
Administration costs	93,336	87,713	75,868	77,974	88,391
Income (loss) before income taxes	(7,695)	(18,512)	12,994	12,587	28,965
EBITDA[1]	7,087	(4,376)	26,201	38,563	45,066
EBITDA[1] %	1.9%	-1.3%	7.9%	9.1%	9.9%
EBITDA[1] per share	0.33	(0.20)	1.21	1.76	2.05
Net earnings (loss)[2]	(4,882)	(17,811)	7,737	3,641	18,580
Net earnings (loss)[2] %	-1.3%	-5.3%	2.3%	0.8%	4.1%
Net earnings (loss)[2] per share[3]	(0.23)	(0.82)	0.36	0.17	0.85
Statement of financial position data					
Net cash	$ 40,866	$ 64,543	$ 76,227	$ 84,340	$ 83,962
Working capital	207,777	215,639	233,262	229,959	227,793
Property, plant and equipment	83,537	89,864	91,535	95,257	91,285
Total assets	524,357	540,193	519,297	515,627	558,628
Total long-term debt	21,851	22,129	22,433	22,449	14,827
Equity	308,833	321,617	331,911	333,119	345,093
Number of employees					
Canada	716	732	763	787	917
United States	140	146	157	165	181
Europe	522	489	482	520	528
Asia	481	463	474	430	441
Total	1,859	1,830	1,876	1,902	2,067

(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 or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.

(3) See note 21 in the Notes to the Consolidated Financial Statements.

VELAN

Dear Fellow Shareholders,

As Chairman of the Board and a member of the controlling shareholder family, I share in the disappointment of all shareholders with the fall in the share price during the last year. On a positive note, in fiscal 2019 we had a significant improvement in our results compared to fiscal 2018 as we achieved increases of $12.9 million in earnings, $11.5 million in EBITDA, 8.6% in sales, 20.7% in gross profit, and 16% in bookings. The 4th quarter was the first quarter in five quarters with a profit although we still had a loss for the year.

All of the above are promising signs but there is still a lot of work to be done to achieve the kind of results that we want and need. It is a great source of frustration for everyone that we made another loss in fiscal 2019 and that the shares are trading at only 49% of our net equity.

Tom Velan, Chairman of the Board

During the last year, our President and CEO, Yves Leduc, together with the executive team, developed a transformation strategy for the company. In January of this year, the board unanimously approved the plan with measures that include consolidating our four North American plants into three plants. The main objective of the plan is to return the company to profitable growth while better serving our customers. We regret that some of our North American employees will lose their jobs and that a manufacturing plant, which we worked so hard to create many years ago, will have to close. Our executive team is working with the union to minimize the impact on the employees affected.

Even though Velan Holding owns 72% of the common shares, the Velan family decided years ago to have a minority of Velan family members on the board to ensure a strong independent voice on the board. Also, all board committees include only independent board members. Bill Sheffield, our lead director, is Chair of our Corporate Governance and Human Resources Committee which also serves as the Nominating Committee for the independent directors.

We are continuing with our Board renewal succession plan. This year we have nominated Dahra Granovsky to replace Cheryl Hooper who is retiring after six years of distinguished service on the board as Chair of the Audit Committee. James Mannebach who joined the board last year will take over as Chair of the Audit Committee. Dahra Granovsky has more than 21 years of experience in the manufacturing and distribution industries. She is CEO of BA Folding Cartons and a director of Atlantic Packaging and Hammond Power Solutions (TSX:HPS).

On behalf of the Board of Directors, I want to thank Yves Leduc, the executive team, and all employees for their devoted work under challenging circumstances. I also want to thank all our shareholders for the continuing support and the confidence you have placed in the company.

Tom Velan
Chairman of the Board

Message to our shareholders and employees

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

Highlights

- **Sales of $366.9 million**
- **Net loss[1] of $4.9 million**
- **Order Backlog of $449.7 million**
- **Order Bookings of $372.4 million**
- **Net Cash of $40.9 million**

Yves Leduc, Velan Inc's President and Chief Executive Officer next to a group of 8" gear operated nuclear globe valves, manufactured in Canada.

The highlights of fiscal year 2019 could be stated from two different perspectives. First the Company's financial performance has improved versus the previous year's disappointing results, thanks in large part to our North American sales and operations' recovering performance in sales and margins. Meanwhile France's steady performance of the last few years continues and we are very pleased that Italy confirmed its fiscal year 2018 rebound with a second strong year in a row, and most notably, built up a record backlog which will in turn convert into record sales for them in fiscal year 2020. We also want to point out Korea's rapid ramp up in its manufacturing capacity, without which North America would not have been able to fully capitalize on the surge of orders resulting from its improved MRO business.

The second perspective is to consider fiscal year 2019 an important milestone in the Company's history. I stated last year, in reaction to the disappointing results, "we will need to make important changes to improve our operating results." The year culminated with the Board unanimously approving our ambitious plan to transform the Company, after an in-depth strategic diagnosis. The strategy can be summed up: we reorganized into business units to better serve our customers, we are tightly connecting those business units to our manufacturing and supply chain; and we are reducing costs through plant consolidation in North America and better leveraging of our state-of-the art facility in India.

Our priority is now execution, which involves driving change on several parallel fronts. Our employees have proven their great engagement and resilience over the last couple of years. With their help and our Board's support, I am sure we will succeed in bringing the Company back to profitable growth. Before I lift the veil on the most important aspects of our transformation, let's have a closer look at our results.

Sales, order bookings, and backlog

Sales increased by $28.9 million or 8.6% from the prior year. Sales were positively impacted by an increase in shipments from the Company's North American, Korean and Indian subsidiaries. Thanks in part to improving conditions in the refinery market, the Company was able to increase its North American MRO sales as well as improve its shipments related to large project orders. More importantly the surge was fueled by a series of tactical moves that have strengthened our strategic position in the distribution of replacement valves. In addition to revising our pricing strategy, we have appointed AIV as a new master distributor. It is one of the largest in the world, after its acquisition of Zenith, a master distributor exclusively selling Velan valves since the 80s. We have also initiated structured conversations with operations leaders at key refineries, with the intention to adapting our product and spares offerings and suite of services, thereby prompting orders that directly benefit our distributors who sell our valves. This is an example of the sharper end-user focus underlying our market strategy.

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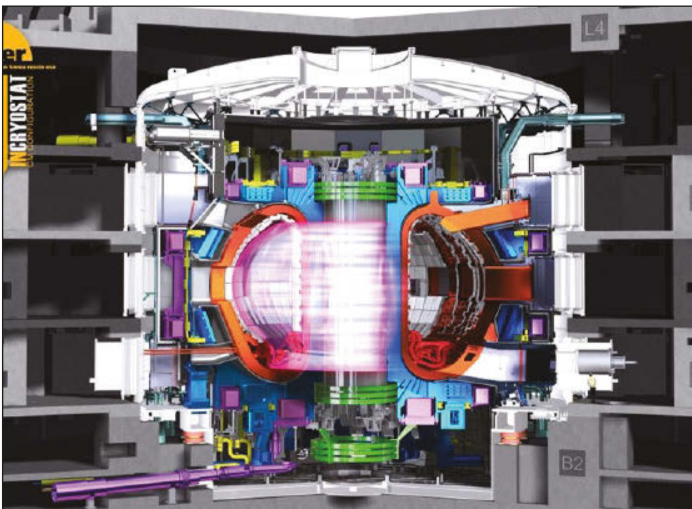
Message to our shareholders and employees

This 24"x20" API 6D ball valve manufactured by Velan ABV in Italy is part of an order supplying high pressure valves to a major FPSO (floating production storage and offloading project) in the oil exploration sector.

Bookings increased by $51.5 million or 16.0% from the prior year. Other than our successful MRO efforts, the increase in bookings is due primarily to higher orders booked by the Company's Italian and French subsidiaries, notably approximately $66 million in project orders won by the Company's Italian operations to supply high pressure valves to a major FPSO project, the result of our Italian team successfully targeting a very attractive segment in the oil exploration sector. Also, the Company's French operations won a $25 million order for the ITER organization, a strategic research collaboration among 35 countries, located in France and mandated to build and operate a device that will generate power out of nuclear fusion. I am very proud that Velan has been chosen as key supplier of valves for this prestigious project.



The above illustration shows ITER's Nuclear Fusion Reactor. Velan SAS in France will be supplying over 2,000 valves for installation in the cooling water system.

Once again this fiscal year, bookings have outpaced sales. Despite this positive ratio, the total backlog decreased by $14.8 million or 3.2% since the beginning of the fiscal year, settling at $449.7 million. Despite a year of stronger bookings, our backlog has decreased slightly due mainly to the cancellation, late in the year, of a large project order to supply valves to a power plant in Vietnam. The cancellation resulted from sanctions imposed on Russia, and the Velan contract was through a Russian engineering firm.

Net loss(1) and EBITDA(2)

Net loss(1) amounted to $4.9 million or $0.23 per share, an improvement of $12.9 million over last year. EBITDA(2) amounted to $7.1 million or $0.33 per share, improving last year's results by $11.5 million. Our financial performance is essentially the consequence of improving our business performance, and to a lesser extent, of the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense of $4.3 million in fiscal 2018.

Gross profit increased by $14.7 million for the fiscal year, while the gross profit percentage increased by 230 basis points from 21.0% to 23.3%. The increase for the year is due primarily to a higher sales volume achieved by the Company's North American, Korean and Indian operations combined with the shipment of a product mix with a greater proportion of projects with higher margins by the Company's French operations. As explained above, our North American operations were able to revitalize our MRO business while continuing to search for margin improvements in our project business. The increase for the year was slightly offset by the lower sales volume from our German subsidiary, caused by the cancellation of the Vietnamese order. However the growth was not enough to fully cover our current costs, mainly in our North American operations. This is one of the factors that drove management to propose a plan to re-organize our North American operations and rethink our business model. The strategy we are pursuing will significantly increase our competitiveness and, not only address head on the margin challenge that more directly affects North American operations, but also bring the Company back to profitable growth. Let me now explain it with further detail.

Bringing all the pieces together to capture Velan's full potential

With the measures approved last January, we aim to attack the few key structural factors that hinder the Company's competitiveness and prevent it from fully leveraging its core capabilities and brand advantage, and, consequently, from growing profitably in an industry that has shifted in the last decade. To be clear though, these measures do not constitute a new strategic direction for Velan; they continue in the direction set more than two years ago. Considering the investments already made under Velocity 2020

Velan R-series metal-seated ball valve, designed for a high pressure and corrosive hydrogen and sulphur-rich innovative industrial process in the petrochemical industry.

in organizational development, operations improvement and new systems, Velan is now well into a major transformation; we are adapting our business model and constantly acquiring new key capabilities and assets which the Company did not have before our markets started their decline in 2015. Let me summarize the most important cornerstones of our strategy:

- *Modernized operations and technology-enabled processes:* Building on our new ERP system launched in 2017, we are deploying automated project management scheduling and tracking, integrated production capacity planning and scheduling, configured price quotation (CPQ), preventive maintenance planning and tracking, CRM and others. We are literally digitizing Velan, a journey that will continue, as we deploy process improvements across the company. The goal is to reduce costs, but more importantly increase margins and agility, while improving customer service

- *Investing in knowhow and planning succession:* In order to strengthen our competitive edge in product technology, we have increased our investment in training our employees, both new and experienced employees, as well as customers. In terms of management and leadership skills, we have recently introduced LinkedIn Learning, making thousands of on-line training videos and seminars accessible to our employees. The response is fantastic

- *More targeted go-to-market strategies and increased end-user focus:* With the new business units, we get P&L accountability from our new business units' general managers, improved cross-functional teamwork and the ensuing ability to sharply target attractive end-user applications. Each business unit is defined in terms of its strategic and market focus. For example, the new MRO & After-market unit will unlock the great potential of our global installed base by working concurrently with our distributors and the end-users of our products and services. The Severe Service business unit will grow through proactive engineering selling, compelling end-users and EPCs to specify our own metal-seated ball valve designs. As a result of our concentrated efforts of the last two years, we have recently obtained three licensor approvals for our designs, the last two pertaining to a Velan valve design that meets the stringent requirements of an industrial process in the petrochemical industry.

- *A global manufacturing strategy designed to support our customer focus and market strategies:* Our decision to re-organize our North American operations from four plants to three, modernizing each plant and making them more product-specific, dedicating them to our business units, is a critical breakthrough in our transformation journey. This important investment will reduce our production overhead costs but more importantly increase agility and flexibility. For example, the general manager of the Project business unit, working closely with our Granby plant, which is now dedicated to multi-turn valve project manufacturing, will be able to affect supply chain strategies to reduce cycle times and increase our quoting hit rate. Meanwhile our state-of-the-art Indian facility, which we have successfully industrialized to host most of our commodity product lines, will bolster our already strong low-cost manufacturing base and integrate with the operating plans of the MRO & Aftermarket business unit.

The vision is to transform Velan by making it less dependent on the industry's cycles and better able to shape its own fate by dictating the pace and better selecting its customers. Our commitment is to grow both sales and profitability. We are harnessing this vision to specific top-line and margin improvement goals and have equipped ourselves with the means to deliver them. The execution of the plan requires significant and well-planned investments and I am very thankful for the Board's support and unanimous approval of it. For example, we have set up a

44 participants from 11 different countries attended the 2019 Velan annual Sales Training Seminar including distributors, agents and new members of Velan global sales team. Our objective was to provide the group with the tools needed to best represent Velan products and services to customers.

Message to our shareholders and employees

Transformation Office whose mandate is to track and measure the progress of each strategic initiative. We have been able to staff those initiatives with a balanced mix of experienced Velan employees, as well as new recruits, most of whom will be later re-staffed in core positions as part of our succession planning.

Fiscal year 2019 gave us a glimpse of a promising recovery, but we are not out of the woods. Fortunately, we have a solid foundation, thanks to our outstanding brand and product reputation, our Italian and French operations performing superbly, a continuously improving and loyal distributor network, and above all, incredibly talented employees in each of our global locations. I am impressed with how our managers are going out of their way to drive the transformation agenda, while keeping their eyes on the daily business. Many leaders are emerging as formidable change agents. And we have a strong and supportive board. We have a tough challenge, but my point is, the stars are aligned.

Aerial photo of the manufacturing facility adjacent to our global headquarters where severe service valve production will be concentrated.

My last words go to our Quebec employees, who were shocked by the news that operations in our Plant 2-7 in Montreal were going to be transferred, and the plant closed in two years. This was the toughest of business decisions and I understand their reaction. The remaining Montreal plant, just a block away, adjacent to our global headquarters, is a better and more modern building. We will seize the opportunity to make it an industry center of excellence for severe service valves by investing in our engineering center, and we will continue investing heavily in training our employees to meet our customers' most stringent requirements. My commitment is to keep the impact on jobs as low as possible, working closely with the unions, as we have enough time to do things right. Since the announcement, I have observed nothing but passion, resilience and the utmost professionalism from every employee. I am proud and grateful to all of them and in the last months, my confidence in our future has only gotten stronger as a result.

Yves Leduc
President and Chief Executive Officer

Management's discussion and analysis

May 16, 2019

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, 2019. 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, 2019 and 2018. 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 13 manufacturing plants worldwide with 1,859 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 one distribution facility 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, 2019	Fiscal year ended February 28, 2018	Increase (decrease)	% Increase (decrease)
Consolidated statements of earnings				
Sales	$366.9	$338.0	$28.9	8.6%
Gross profit[2]	85.6	70.9	14.7	20.7%
Gross profit[2] %	23.3%	21.0%		
EBITDA[3]	7.1	(4.4)	11.5	261.4%
EBITDA[3] %	1.9%	(1.3)%		
EBITDA[3] per share – basic and diluted	0.33	(0.20)	0.53	265.0%
Net loss[4]	(4.9)	(17.8)	12.9	72.5%
Net loss[4] %	(1.3)%	(5.3)%		
Net loss[4] per share – basic and diluted	(0.23)	(0.82)	0.59	72.0%
Weighted average shares outstanding	21.6	21.6		
Consolidated statements of cash flows				
Cash used in operating activities	(9.6)	(1.9)	(7.7)	(405.3)%
Cash used in investing activities	(8.1)	(6.7)	(1.4)	(20.9)%
Cash used by financing activities	(2.5)	(11.1)	8.6	77.5%
Demand data				
Net new orders received	372.4	320.9	51.5	16.0%
Period ending backlog of orders	449.7	464.5	(14.8)	(3.2)%

[1] *All dollar amounts in this schedule are denominated in U.S. dollars.*
[2] *In accordance with the current fiscal year's presentation, the comparative figures were adjusted to reflect a more accurate allocation of cost of sales and administration costs.*
[3] *Non-IFRS measures – see reconciliations at the end of this report.*
[4] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*

Highlights of fiscal 2019 as well as factors that may impact fiscal 2020

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

- Net loss[1] amounted to $4.9 million or $0.23 per share compared to $17.8 million or $0.82 per share last year. EBITDA[2] amounted to $7.1 million or $0.33 per share compared to a negative $4.4 million or negative $0.20 per share last year. The $12.9 million decrease in net loss[1] is primarily attributable to a higher sales volume combined with better margins and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million in fiscal 2018.
- Sales amounted to $366.9 million, an increase of $28.9 million or 8.6% compared to last year. Sales were positively impacted by an increase in shipments from the Company's North American, Korean and Indian operations, which was partially offset by decreased shipments from the Company's German operations. The Company was able to notably improve its MRO business as well as increase its shipments related to large project orders. The Company's North American operations had also suffered last year from delays in shipments of certain large project orders caused by various customer-related issues.
- Net new orders received ("bookings") amounted to $372.4 million, an increase of $51.5 million or 16.0% compared to last year. Excluding the effect of an order of $36.3 million, booked in a prior year and cancelled in the fourth quarter of the current fiscal year, bookings would have increased by $87.8 million or 27.4% in the year. This increase is due primarily to higher orders booked by the Company's Italian and French subsidiaries, which recorded significant project orders relating to the upstream oil and gas and nuclear power industries.
- Despite the fact that bookings slightly outpaced sales in the year, the Company ended the year with a backlog of $449.7 million, a decrease of $14.8 million or 3.2% since the beginning of the current fiscal year. This decrease in backlog was substantially due to the negative impact of the weakening of the euro spot rate against the U.S. dollar over the course of the year as well as the cancellation of the $36.3 million order.
- Gross profit percentage increased by 230 basis points from 21.0% to 23.3%. This increase is due primarily to the higher sales volume of the Company's North American, Korean and Indian operations combined with the shipment of a more efficient product mix by the Company's French operations, which was partially offset by the lower sales volume shipped by the Company's German operations. The Company's North American operations were able to maintain the stronger margins in its MRO business while continuing to search for margin improvements in the more challenging project business.
- Administration costs amounted to $93.3 million, an increase of $5.6 million or 6.4%. This fluctuation is attributable to an increase in bad debt, selling expenses, retirement expenses and freight charges for certain overseas project customers resulting from the higher sales volume as well as the need to incur air freight costs on a large delayed order. The Company has also invested $1.0 million in its current transformation initiative, Velocity 2020. The Company also experienced an 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 settlements in these two years rather than to changes in long-term trends.
- The Company ended the year with net cash of $40.9 million, a decrease of $23.6 million or 36.6% since the beginning of the year. This decrease is primarily attributable to negative non-cash working capital movements, investments in property, plant and equipment, investments in intangible assets, long-term debt repayments as well as distributions to shareholders via dividends, partially offset by an increase in long-term debt. Net cash was also negatively impacted by the weakening of the euro spot rate against the U.S. dollar over the course of the year.
- Foreign currency impacts:
  - Despite the drop of the euro spot rate over the course of the year, the average exchange rates of the euro strengthened 1.0% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits and bookings from its European subsidiaries being reported as higher U.S. dollar amounts in the current year. The drop of the euro spot rate in the current fiscal year resulted in a $9.3 million loss in accumulated other comprehensive loss.

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[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.*

- Based on average exchange rates, the Canadian dollar weakened 1.5% against the U.S. dollar when compared to the same period last year. This weakening resulted in the Company's Canadian dollar expenses being reported as lower U.S. dollar amounts in the current year.
- The net impact of the above currency swings was generally favourable on the Company's net loss[1].

Fiscal year 2019 was a notable improvement compared to the last fiscal year for the Company. The Company saw a return to profitability in the last quarter of the current fiscal year. The profit was achieved in part through the intelligence that was obtained during the various phases of its transformation initiative, Velocity 2020. The Company has implemented measures to drives margins and has a better visibility of its various manufacturing costs. The Company's lower production overhead costs in the last quarter of the fiscal year combined with the overall higher sales volume has allowed the Company to achieve a better gross margin in the current fiscal year. As the competition remains intense in some key target markets, leading to increased pressure on pricing and lead times, the Company understands that it needs to continue improving its delivery and operational performance. In the meantime, the Company implemented several improvement initiatives this year, namely the continued rollout of its Valve Project Management process ("VPM"), the successful completion of a number of continuous improvement breakthrough initiatives in the Company's manufacturing operations, the implementation of a capacity visibility tool, and a significant increase in non-project commodity valves sales in the Company's North American operations through an improved distributor channel in the Company's North American operations.

While the improved performance in the Company's North American operations in this fiscal year were encouraging, the Company recognizes that a lot more has to be done to obtain satisfactory results. While the Company is very committed to pursuing its transformation initiative, it will ensure this initiative does not reduce focus on ongoing operations.

Other factors that may impact fiscal year 2020

The Company announced in January that it had reorganized into business units, allowing the Company to significantly reinforce its market positioning, better serve customers, and drive growth. The Company has also announced measures to improve its operational efficiency and optimize its manufacturing footprint in North America. The Company will consolidate its valve manufacturing facilities in North America from four plants to three. The completion of the consolidation is scheduled for the end of fiscal year 2021. The current production will be gradually reorganized so as to make the three remaining North American plants more specialized and dedicated to the new business units, as well as expand production of less complex valves in India. The Company will work with the union to minimize the impact on its employees and help those who will be impacted by this closure. This plan will allow the Company to pursue additional efficiencies, decrease costs, and upgrade its systems while strengthening its market presence, improving its on time delivery and maintaining its reputation for high quality industrial valves. The Company is making a significant strategic investment in the next two fiscal years to carry out these changes, namely an amount of $15 million in fiscal year 2020. The benefits of this investment will be realized in subsequent fiscal years. Furthermore, 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, commodity price fluctuations from both a procurement (price of steel) and sales (price of oil) perspective, and the potential imposition of protectionist trade measures and sanctions. See *Certain Risks That Could Affect Our Business* section below for more details.

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

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, 2019	Fiscal year ended February 28, 2018	Fiscal year ended February 28, 2017
Operating Data			
Sales	$366,865	$337,963	$331,777
Net Earnings (loss)[1]	(4,882)	(17,811)	7,737
Earnings (loss) per Share			
- Basic	(0.23)	(0.82)	0.36
- Diluted	(0.23)	(0.82)	0.36
Balance Sheet Data			
Total Assets	524,357	540,193	519,297
Total Long-Term Financial Liabilities	21,723	22,200	22,532
Shareholder Data			
Cash dividends per share			
- Multiple Voting Shares[2]	0.09	0.31	0.31
- Subordinate Voting Shares	0.09	0.31	0.31
Outstanding Shares at report date			
- Multiple Voting Shares[2]	15,566,567		
- Subordinate Voting Shares	6,055,368		

Sales for fiscal year 2019 increased by 8.6% compared to fiscal year 2018. This increase was primarily attributable to an increase in shipments from the Company's North American, Korean and Indian subsidiaries, which were partially offset by decreased shipments from the Company's German operations. The Company was able to notably improve its MRO business as well as increasing its shipments related to large project orders. Sales for fiscal year 2018 increased by 1.9% compared to fiscal year 2017. This increase was primarily attributable to an increase in shipments from the Company's Italian subsidiary, which were offset by decreased shipments from the Company's North American operations. Delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues, and lower shipments of non-project commodity valves negatively impacted the Company's North American operations in fiscal year 2018.

Gross profit for fiscal year 2019 amounted to $85.6 million, an increase of $14.7 million from fiscal year 2018, while the gross profit percentage increased from the 21.0% reported in fiscal year 2018 to 23.3% in fiscal year 2019. This increase was due primarily to the higher sales volume achieved by the Company's North American, Korea and Indian operations combined with the shipment of a more efficient product mix by the Company's French operations, which was partially offset by the lower sales volume shipped by the Company's German operations. Gross profit for fiscal year 2018 amounted to $70.9 million, a decrease of $17.6 million from fiscal year 2017, while the gross profit percentage decreased from the 26.7% reported in fiscal year 2017 to 21.0% in fiscal year 2018. This decrease was due primarily to the Company's North American operations, which shipped a product mix with a greater proportion of projects with lower margins, coupled with pricing pressure brought on by fierce competition and continued weakness in certain markets, which was only partially offset by material cost savings.

Administration costs for fiscal year 2019 increased by $5.6 million when compared to fiscal year 2018. This fluctuation was attributable to an increase in bad debt expense, selling expenses, retirement expenses and freight charges for certain overseas project customers resulting from the higher sales volume as well as the need to incur air freight costs on a large delayed order. The Company had also invested $1.0 million in its current transformation initiative, Velocity 2020. The Company also experienced an increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). Administration costs for fiscal year 2018 increased by $11.8 million when compared to fiscal year 2017. This increase was primarily attributable to an increase in sales commissions and freight charges due to the increased sales volume, an increase in technology license fees paid on the sale of certain highly-engineered cryogenic valves, and an increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section).

The fiscal year 2018 net loss[1] was also negatively impacted by a $4.3 million one-time income tax charge due to the U.S. tax reform legislation passed in December 2017.

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[1] *Net earnings or loss refers to net income or loss 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, 2019 compared to the year ended February 28, 2018
(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, 2019	Year ended February 28, 2018
Sales	$366.9	$338.0

Sales increased by $28.9 million or 8.6% from the prior year. Sales were positively impacted by an increase in shipments from the Company's North American, Korean and Indian subsidiaries, which was partially offset by decreased shipments from the Company's German operations. The Company was able to increase notably its MRO sales as well as improving its shipments related to large project orders. The Company's German operations decreased shipments were due to delays in shipments of certain large project orders caused by various customer-related issues. As competition remains fierce the Company is continuing to shift its focus and target market segments where its products enjoy a competitive advantage based upon its good reputation for quality.

Bookings and backlog

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Bookings	$372.4	$320.9

Bookings increased by $51.5 million or 16.0% from the prior year. Bookings were negatively impacted by the cancellation of a $36.3 million large project order, booked in a prior fiscal year, to supply valves to a power plant in Vietnam. The project was being led by a consortium of three entities. The Company booked the order for the Vietnam project via a Russian contractor that was a member of the consortium. The project suffered important delays when the United States of America imposed sanctions on the Russian contractor. As a result of these sanctions, the contractor served a termination notice to the end-user and suspended all supplier contracts. The Company has removed the order from its backlog.

If the effect of this order cancellation is removed, bookings would have increased by $87.8 million or 27.4% in the year. The increase in bookings is due primarily to higher orders booked by the Company's Italian and French subsidiaries This notably included approximately $66 million in project orders won by the Company's Italian operations to supply valves to the upstream oil and gas sector in Central and South America. Also, the Company's French operations won a $25 million order for the ITER organization, a very prestigious project, consisting in a strategic research collaboration between 35 countries, located in France and mandated to build and operate a device that will generate power out of nuclear fusion.

(millions)	**February 2019**	**February 2018**	**February 2017**
Backlog	$449.7	$464.5	$438.2
For delivery within the subsequent fiscal year	$299.6	$286.7	$270.5
For delivery beyond the subsequent fiscal year	$150.1	$177.8	$167.7
Percentage – beyond the subsequent fiscal year	33.4%	38.3%	38.3%

As a result of bookings outpacing sales in the current fiscal year, the Company's book-to-bill ratio was 1.01 for the year. Despite this positive ratio, the total backlog decreased by $14.8 million or 3.2% since the beginning of the fiscal year, settling at $449.7 million. This decrease in backlog was substantially due to 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 as well as the cancellation of the Vietnamese order.

Gross profit

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Gross profit	$85.6	$70.9
Gross profit percentage	23.3%	21.0%

Gross profit increased by $14.7 million for the fiscal year, while the gross profit percentage increased by 230 basis points from 21.0% to 23.3%. The increase for the year is due primarily to a higher sales volume achieved by the Company's North American, Korean and Indian operations combined with the shipment of a product mix with a greater proportion of projects with higher margins by the Company's French operations. The Company's North American operations were able to maintain the stronger margins in its MRO business while continuing to search for margin improvements in the more challenging project business. The increase for the year was partially offset by a lower sales volume from the Company's German subsidiary as a result of the cancellation of the $36.3 million Vietnamese order. The current volume of sales for the year produces a gross margin that is still not sufficient to fully absorb the current costs of the Company, mainly in its North American operations. With the announcement in January of the plan to consolidate its North American operations, the Company is pursuing its global cost reduction and efficiency transformation initiative with the goal of improving its margins by reducing supply chain, production and overhead costs.

Administration costs

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Administration costs*	$93.3	$87.7
As a percentage of sales	25.4%	25.9%
*Includes asbestos-related costs of:	$9.2	$8.2

Administration costs increased by $5.6 million or 6.4% for the fiscal year. This fluctuation is attributable to the increase in bad debt expense of the Company's German and Korean operations with respect to specific customers in financial difficulties. The increase is also due to the Company's investment of $1.0 million in its current transformation initiative, Velocity 2020 as well as an investment in its sales force at the end of the prior fiscal year which increased the Company's sales employees base in this fiscal year. The Company has also offered retirement packages to certain employees in order to reduce the level of its administration costs and experienced an increase in freight charges for certain overseas project customers resulting from the higher sales volume as well as the need to incur air freight costs on a large delayed order. Furthermore, the Company has experienced an 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 settlements in these two periods rather than to changes in long-term trends.

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 create a hazard 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.

Other expense (income)

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Other expense (income)	$(0.7)	$1.5

Other income increased by $2.2 million for the fiscal year. The increase for the year is primarily attributable to recognized mark-to-market losses of $1.8 million in the prior year on foreign exchange forward contracts used by the Company to hedge the net monetary position of its European subsidiaries, which is denominated in euros. The euro spot rate had appreciated 15.3% against the U.S. dollar since the beginning of the prior fiscal year, resulting in an increase to net loss[1]. This euro appreciation also had a positive impact on the Company's statement of financial position since it resulted in a positive cumulative translation adjustment of $15.9 million for the prior year, which was recorded directly in equity through other comprehensive income (loss). As such, the net impact of the euro appreciation was generally positive on the Company's equity in the prior year, even though the Company's net loss[1] was depressed as a result.

Net finance costs

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Net finance costs	$0.7	$0.2

Net finance costs increased by $0.5 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 North American and 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, 2019		Year ended February 28, 2018	
	$	%	$	%
Income tax at statutory rate of 26.7% (2018 – 26.8%)	(2,053)	26.7	(4,958)	26.8
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	1,640	(21.3)	1,396	(7.5)
Non-deductible (taxable) foreign exchange loss (gain)	327	(4.3)	(303)	1.6
Losses not tax effected	724	(9.4)	1,151	(6.2)
Losses utilized not previously tax effected	(525)	6.8	-	-
Benefit attributable to a financing structure	(891)	11.6	(917)	5.0
Effect of U.S. Tax Reform	-	-	4,259	(23.1)
Prior period adjustments and assessments	(1,494)	19.4	(204)	1.1
Other	(29)	0.4	(63)	0.3
Provision (recovery) for income taxes	(2,301)	29.9	361	(2.0)

U.S. Tax Reform was substantially enacted on December 22, 2017 under its official name "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018". As a result of the enactment of this legislation, the Company's U.S. subsidiary recorded a one-time tax expense of $4.3 million, of which $2.3 million was due to the new mandatory repatriation tax and $2.0 million was due to the effect of the tax rate reduction on its net deferred income tax assets.

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

Net loss[1]

(millions)	Year ended February 28, 2019	Year ended February 28, 2018
Net loss[1]	$(4.9)	$(17.8)
As a percentage of sales	(1.3)%	(5.3)%
EBITDA[2]	$7.1	$(4.4)
As a percentage of sales	1.9%	(1.3)%

Net loss[1] amounted to $4.9 million or $0.23 per share compared to $17.8 million or $0.82 per share last year. EBITDA[2] amounted to $7.1 million or $0.33 per share compared to a negative $4.4 million or negative $0.20 per share last year. The $12.9 million decrease in net loss[1] is primarily attributable to a higher sales volume combined with better margins and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million in fiscal 2018.

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 2019	**November 2018**	**August 2018**	**May 2018**	**February 2018**	**November 2017**	**August 2017**	**May 2017**
Sales	$105,345	$92,271	$91,375	$77,874	$102,607	$87,738	$76,531	$71,087
Net earnings (loss)[1]	1,519	(236)	(2,438)	(3,727)	(8,221)	305	(5,591)	(4,304)
Net earnings (loss)[1] per share								
- Basic	0.07	(0.01)	(0.11)	(0.17)	(0.38)	0.02	(0.26)	(0.20)
- Diluted	0.07	(0.01)	(0.11)	(0.17)	(0.38)	0.02	(0.26)	(0.20)

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 February 2018 and August 2018 due to increased shipments of such orders, while the lower sales amounts for the quarters ended in May 2017, August 2017, November 2017 and May 2018 were due to delayed execution on the shipments of such orders. Sales were higher in the quarters ended in February 2019 and November 2018 due to increased shipments of large project orders but also an improvement in the MRO business. Net earnings[1] for the quarter ended in February 2019 was higher due to a higher sales volume and a more efficient product mix. A net loss[1] was recorded in the quarters ended in May 2017 and August 2017 due to lower sales volume and a less efficient product mix. Net earnings[1] for the quarter ended November 2017 was lower due to a less efficient product mix. The net loss[1] for the quarters ended in August 2018 and November 2018 are largely due to the fact that the North American operations are still below break even and additional costs were incurred in the quarter to meet delivery commitments. The net loss[1] for the quarters ended in February 2018 and May 2018 was due to a less efficient product mix and shipping delays caused by internal operational issues. The quarter ended in February 2018 also had a $4.3 million one-time income tax charge resulting from the U.S. tax reform legislation passed in December 2017.

[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.*

RESULTS OF OPERATIONS – quarter ended February 28, 2019 compared to the quarter ended February 28, 2018
(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, 2019	Three-month period ended February 28, 2018
Sales	$105.3	$102.6

Sales increased by $2.7 million or 2.6% for the quarter. The sales volume for the quarter is the highest of any quarter of the past two fiscal years. Sales for the quarter were improved in the Company's Italian, Korean and Indian subsidiaries, while its North American operations realized lower sales for the quarter. The sales volume and mix for the quarter were sufficient for the Company to reach profitability with the current state of its cost structure.

Bookings

(millions)	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Bookings	$82.0	$72.9

Bookings increased by $9.1 million or 12.5% for the quarter. Bookings in the quarter were negatively impacted by the cancellation of a $36.3 million large project order, booked in a prior fiscal year, to supply valves to the power market in Vietnam. If the effect of this order cancellation is removed, bookings would have increased by $45.4 million or 62.3% in the quarter. The increase in bookings for the quarter is due primarily to higher orders booked by the Company's Italian and French subsidiaries. This notably included approximately $36 million in project orders won by the Company's Italian operations to supply valves to the upstream oil and gas sector in Central and South America. Also, the Company's French operations won a $25 million order for the ITER organization, a very prestigious project, consisting in a strategic research collaboration between 35 countries, located in France and mandated to build and operate a device that will generate power out of nuclear fusion.

Gross profit

(millions)	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Gross profit	$25.9	$18.1
Gross profit percentage	24.6%	17.6%

Gross profit increased by $7.8 million for the quarter, while the gross profit percentage increased by 700 basis points from the prior year quarter. The gross profit was obtained due to the higher sales volume in the Company's Italian, Korean and Indian subsidiaries combined with the shipment of a product mix with a greater proportion of projects with higher margins by the Company's North American and French operations. The increase in gross profit was also obtained due to the Company's reduction of its production costs during the course of the quarter. As such, the higher sales volume combined with the lower level of production costs allowed for the Company to achieve a significant improvement in gross profit. For the quarter, the Company kept its focus on MRO sales where stronger margins are achievable and was also able to deliver good margins on its project business. The Company believes that the improvement in gross profit for the quarter is in part due to the various processes and systems that were put in place within the scope of the transformation initiative, Velocity 2020.

Administration costs

(millions)	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Administration costs*	$27.1	$23.4
As a percentage of sales	25.7%	22.8%
*Includes asbestos-related costs of:	$3.2	$2.0

Administration costs for the quarter increased by $3.7 million or 15.8% for the quarter. The increase is attributable to retirement packages that were offered to certain employees in order for the Company, as part of restructuring, to reduce its administration costs. The increase is also attributable to a higher bad debt expense in the Company's German operations caused by a specific customer in financial difficulty. Finally, the increase is also due to an increase in sales commissions as well as an increase 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 settlements than to changes in long-term trends.

Net finance costs

(millions)	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Net finance costs	$-	$0.1

Net finance costs decreased by $0.1 million for the quarter. The Company did not incur any new long-term debt borrowings over the course of the quarter.

Income taxes

(in thousands, excluding percentages)	Three-month period ended February 28, 2019		Three-month period ended February 28, 2018	
	$	%	$	%
Income tax at statutory rate of 26.7% (2018 – 26.8%)	(184)	26.7	(1,429)	26.8
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	483	(70.2)	824	(14.5)
Non-deductible (taxable) foreign exchange loss (gain)	(11)	1.6	(92)	1.7
Losses not tax effected	(416)	60.5	645	(12.1)
Losses utilized not previously tax effected	(525)	76.3	-	-
Benefit attributable to a financing structure	(218)	31.7	(230)	4.3
Effect of U.S. Tax Reform	-	-	4,259	(79.8)
Prior period adjustments and assessments	(1,494)	217.2	(204)	3.8
Other	500	(72.7)	(88)	1.7
Provision (recovery) for income taxes	(1,865)	(271.1)	3,685	(69.1)

U.S. Tax Reform was substantially enacted on December 22, 2017 under its official name "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018". As a result of the enactment of this legislation, the Company's U.S. subsidiary recorded a one-time tax expense of $4.3 million, of which $2.3 million was due to the new mandatory repatriation tax and $2.0 million was due to the effect of the tax rate reduction on its net deferred income tax assets.

Net earnings (loss)[1]

(millions)	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Net earnings (loss)[1]	$1.5	$(8.2)
As a percentage of sales	1.4%	(8.0)%
EBITDA[2]	$3.8	$(1.2)
As a percentage of sales	3.6%	(1.2)%

Net earnings[1] amounted to $1.5 million or $0.07 per share compared to a net loss[1] of $8.2 million or $0.38 per share last year. EBITDA[2] amounted to $3.8 million or $0.18 per share compared to a negative $1.2 million or negative $0.05 per share last year. The $9.7 million increase in net earnings[1] is primarily attributable to a higher sales volume combined with better margins and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million in fiscal 2018.

[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, 2019				
	Total $	Less than 1 year $	1 to 3 Years $	4 to 5 Years $	After 5 years $
Long-term debt	21,851	8,609	5,940	3,782	3,520
Accounts payable and accrued liabilities	74,910	74,910	-	-	-
Customer deposits	40,240	40,240	-	-	-
Bank indebtedness and short-term bank loans	31,979	31,979	-	-	-
Derivative liabilities	83	83	-	-	-

On February 28, 2019, the Company's order backlog was $449.7 million, and its net cash plus unused credit facilities amounted to $123.3 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, as well as recent trade protectionist measures and economic sanctions. 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.

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

(millions)	February 2019	November 2018	February 2018	November 2017	February 2017
Net cash	$40.9	$50.0	$64.5	$76.0	$76.2

The Company's net cash decreased by $9.1 million or 18.2% over the course of the quarter and by $23.6 million or 36.6% since the beginning of the current fiscal year. This decrease is primarily attributable to negative non-cash working capital movements, investments in property, plant and equipment, investments in intangible assets, long-term debt repayments as well as distributions to shareholders via dividends, partially offset by an increase in long-term debt. Net cash was also negatively impacted by the weakening of the euro spot rate against the U.S. dollar over the course of the year.

Cash used in operating activities

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Cash used in operating activities	$(9.6)	$(1.9)	$(4.2)	$(8.9)

Cash used in operating activities amounted to $4.2 million for the current quarter compared to $8.9 million in the prior year. The current quarter's usage of funds consisted of negative cash net losses[1] of $1.4 million and negative non-cash working capital movements of $2.8 million. Cash used in operating activities amounted to $9.6 million for the current year compared to $1.9 million in the prior year. The current year's usage of funds consisted of positive cash net earnings[1] of $1.7 million and negative non-cash working capital movements of $11.3 million.

Accounts receivable

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Accounts receivable increase	$0.1	$10.3	$11.1	$23.9

Accounts receivable balances are a function of the timing of sales and cash collections. The accounts receivable balance remained relatively flat for the fiscal year. The increase for the quarter is due primarily to a greater proportion of the Company's accounts receivable, which consisted in part of sales for large project orders that generally entail longer collection terms, being recorded closer to the end of the current quarter.

Inventories

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Inventories decrease	$5.1	$2.6	$4.6	$12.8
Customer deposits increase (decrease)	$(8.8)	$5.7	$2.6	$2.8

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 and fiscal year, inventories decreased since the Company had large shipments closer to the end of the quarter without replenishing its stock. In order to help finance its investment in inventories, the Company, where possible, obtains customer deposits for large orders. Customer deposits increased for the current quarter and decreased for the current fiscal year. The fluctuation for the quarter and fiscal year is due to the timing of the booking of certain large export orders, particularly in the Company's French and North American operations.

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

Accounts payable and accrued liabilities

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Accounts payable and accrued liabilities (decrease) increase	$11.3	$3.2	$5.3	$(0.8)

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

Additions to property, plant and equipment

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Additions to property, plant and equipment	$7.5	$6.2	$1.1	$1.8

The fluctuations in additions to property, plant and equipment for any period when compared to the prior year comparable period is due to the timing of the receipts of certain equipment.

Long-term debt

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Increase in long-term debt	$4.0	$ -	$ -	$ -
Repayment of long-term debt	$3.6	$3.2	$0.9	$0.9

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 $3.4 million (€3.0 million) through an unsecured bank loan bearing interest at 0.42% and repayable in 60 monthly instalments, expiring in 2023. In addition, the other French subsidiary borrowed $0.6 million (€0.5 million) through an unsecured bank loan bearing interest at 0.53% and repayable in 60 monthly instalments, expiring in 2023.

Dividends paid and repurchase of shares

(millions)	Fiscal Year ended February 28, 2019	Fiscal Year ended February 28, 2018	Three-month period ended February 28, 2019	Three-month period ended February 28, 2018
Dividends paid	$3.1	$6.7	$0.5	$1.7
Repurchase of shares	$-	$0.6	$ -	$ -

The Company changed its current dividend policy at the end of the prior fiscal year, reducing the dividend from CA$0.10 per share per quarter to CA$0.03 per share per quarter. The new policy took effect with the dividend payment of June 29, 2018. In order to preserve cash for the Velocity 2020 initiative, the Company did not renew its Normal Course Issuer Bid in the current fiscal year. No shares were repurchased in the current quarter and fiscal year. Last year, pursuant to its Normal Course Issuer Bid, the Company repurchased for cancellation a total of 45,300 Subordinate Voting Shares for a cash consideration of $0.6 million over the course of the year.

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
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, 2019 and 2018 are as follows:

	Range of exchange rates		Gain (loss) (In thousands of U.S. dollars)		Notional amount (In thousands of indicated currency)	
	February 28, 2019	February 28, 2018	February 28, 2019 $	February 28, 2018 $	February 28, 2019	February 28, 2018
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.36	1.26-1.28	(61)	(1,558)	US$26,000	US$92,000
Buy US$ for CA$ – 0 to 12 months	1.30	1.25	183	433	US$26,000	US$92,000
Sell US$ for € – 0 to 12 months	1.15-1.18	1.18-1.19	(15)	(2)	US$2,010	US$2,190
Buy US$ for € – 0 to 12 months	-	1.18-1.24	-	92	-	US$4,785
Sell € for US$ – 0 to 12 months	1.14	1.24-1.28	(2)	(39)	€907	€16,297
Buy € for US$ – 0 to 12 months	-	1.18	-	64	-	€15,390
Buy £ for € – 0 to 12 months	-	0.89	-	(1)	-	£281

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 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, 2019 and 2018:

	Net income (loss)	
	2019 $	2018 $
Canadian dollar strengthening against the U.S. dollar	(555)	(524)
Euro strengthening against the U.S. dollar	464	396

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, 2019, four (2018 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.5% (2018 – 9.6%), and the Company's ten largest customers accounted for 58.9% (2018 – 57.3%) of trade accounts receivables. In addition, one customer accounted for 10.9% of the Company's sales (2018 – 9.9%).

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.

For some trade accounts receivable, the Company may obtain security in the form of credit insurance which can be called upon if the counterparty is in default under the terms of the agreement.

The Company also applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables.

The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

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, 2019 $	**As at February 28, 2018 $**
Current	75,888	91,534
Past due 0 to 30 days	13,329	12,421
Past due 31 to 90 days	15,860	8,546
Past due more than 90 days	26,845	18,714
	131,922	131,215
Less: Allowance for doubtful accounts	1,662	1,088
Trade accounts receivable	130,260	130,127
Other receivables	7,260	7,255
Total accounts receivable	137,520	137,382

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

	As at February 28, 2019 $	As at February 28, 2018 $
Balance – Beginning of year	1,088	1,239
Bad debt expense	1,056	212
Recoveries of trade accounts receivable	(215)	(444)
Write-off of trade accounts receivable	(202)	(122)
Foreign exchange	(65)	203
Balance – End of year	1,662	1,088

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. 1,349 claims were outstanding at the end of the reporting period (February 28, 2018 – 1,190). These claims were filed in the states of Arizona, California, Connecticut, Delaware, Florida, Illinois, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, Texas, Virginia, Washington, West Virginia and Wisconsin. During the current fiscal year, the Company resolved 437 claims (February 28, 2018 – 457) and was the subject of 596 new claims (February 28, 2018 – 501). 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 $3,185 for the quarter (February 28, 2018 - $1,960) and $9,212 for the year (February 28, 2018 - $8,213).

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, 22 and 25 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, 2019	Feb. 28, 2018	Feb. 28, 2019	Feb. 28, 2018
Purchases of material components	$256	$900	$1,013	$1,230

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 leased, on a weekly basis, a property from Velan Holdings Co. Ltd., the controlling shareholder. Velan Holdings Co. Ltd. charged weekly rates based on usage. Note that this lease agreement was terminated during the prior fiscal year.

	Three months ended		Twelve months ended	
	Feb. 28, 2019	Feb. 28, 2018	Feb. 28, 2019	Feb. 28, 2018
Rent	$-	$-	$-	$12

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, 2019 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, 2019.

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, 2019 that have materially affected, or are reasonably likely to have materially affected, the Company’s internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & ASSUMPTIONS

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. 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:

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.

Accrual for performance guarantees
Accrual for performance guarantees consist of possible late delivery and other contractual non-compliance penalties or liquidated damages. The Company estimates the specific contractual terms, historical trends and forward-looking performance risks. 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 accrual for performance guarantees 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.

CRITICAL JUDGEMENTS IN APPLYING THE COMPANY'S ACCOUNTING POLICIES

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.

ACCOUNTING STANDARDS AND AMENDMENTS ADOPTED IN THE YEAR

(i) In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The IASB had 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 represented the final version of the Standard, replacing earlier versions of IFRS 9 and substantially completing the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

This standard replaced the multiple classification and measurement models for financial assets and liabilities with a single model that had only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depended on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduced a new, expected loss impairment model that requires more timely recognition of expected credit losses. Specifically, the new Standard required entities to account for expected credit losses from when financial instruments are first recognised and it lowered the threshold for recognition of full lifetime expected losses. The new standard also introduced a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligned hedge accounting more closely with risk management.

The new standard was adopted prospectively effective March 1, 2018 and resulted in no material adjustments.

(ii) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and specified how and when revenue should be recognized as well as requiring the provision of more informative and relevant disclosures. Its core principle is that an entity recognizes 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 replaced 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 was adopted effective March 1, 2018 and the Company elected the modified retrospective transition alternative whereby transitional adjustments were recorded as an opening adjustment to retained earnings on the effective date, without restatement of comparative figures. The Company determined that an adjustment to retained earnings was required as at March 1, 2018 as a result of the adoption of this standard. Accruals for performance guarantees are considered a form of variable consideration under IFRS 15. Such accruals may arise from possible late delivery and other contractual non-compliance penalties or liquidated damages. Under IFRS 15, the Company modified the measurement of its accrual for performance guarantees to be its best estimate of the eventual outcome of the performance guarantees. This best estimate considers the specific contractual terms and forward-looking performance risks. Previously, the Company measured its accrual for performance guarantees by reference to the maximum expected exposure from the underlying contracts.

Moreover, under the new standard, late delivery penalties, which were previously recorded as an expense in cost of sales, are recorded as a reduction of sales.

The impacts of this adjustment on the current results can be found in the summarized impacts of IFRS 15 in the financial statements section below.

The new standard did not have a significant impact on the timing of the Company's revenues from the sale of goods as most of such revenues continue to be recognized upon the delivery of the said goods as per the agreed-upon shipping terms. However, if certain criteria are met, the Company has determined that separate elements in a sale of goods contract may be classified as separate performance obligations. These could include, but are not limited to the delivery of drawings and documentation, the provision of services (commissioning, inspection, shipping and testing), and warranties. The preferred method of allocating revenue to multiple elements in a sale of goods contract where separate performance obligations have been identified is the adjusted market assessment approach. While the above changes may have an impact on revenues in future fiscal years, the Company has determined that they have not had a material impact on the current and prior year periods' consolidated revenues.

Summarized impacts of IFRS 15 in the financial statements

Financial statement line items not mentioned below have not been impacted by the Company's transition to IFRS 15.

Consolidated Statements of Financial Position

As at	February 28, 2018 IAS 18 carrying amounts	IFRS 15 Adjustment	March 1, 2018 IFRS 15 carrying amounts
	$		$
Assets			
Non-current assets			
Deferred income taxes	22,034	2,490	24,524
Liabilities			
Current liabilities			
Accrual for performance guarantees	32,655	(7,231)	25,424
Equity			
Retained earnings	256,668	4,741	261,409

(iii) 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 was adopted effective March 1, 2018 and resulted in no material adjustments.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

(i) 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 for lessees. It 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 has been adopted. The Company has elected to use the modified retrospective approach and has determined that it will not early adopt it. The Company will elect to apply the standard to contract that were previously identified as leases under IAS 17 and IFRIC 4. The Company will not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company will use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as the date of initial application, and lease contracts for which the underlying asset is of low value. The Company elected not to apply the standard to new leases with a term less than 12 months. The Company's operating leases, as disclosed in the commitment note (note 22 (c)) of the Company's annual consolidated financial statements for the year ended February 28, 2019, are within the scope of IFRS 16 with the exception of those meeting the aforementioned exemption requirements.

In situations where the Company is a lessee, the result will be adding a right-of-use asset and a liability for the present value of the future lease payments to the balance sheet for most of its contracts that were considered operating leases under IAS 17. The Company will depreciate its right-of-use asset on the lesser of the lease term or the useful life of the asset. The Company is currently finalizing its assessment of the impact of this new standard.

(ii) In June 2017, IFRIC issued IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments that have yet to be accepted by tax authorities.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. As the Company is currently assessing the impact of this new standard, it has determined that it will not early adopt it.

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 become, from time to time, in short supply for periods 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. There are uncertainties with regards to the outcome of the Brexit negotiations, and such processes could derail at any time. The Company's business and operating results could be adversely impacted by trade protection measures resulting from breakdowns in the Brexit negotiations, as well as from 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 92.8% 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 of the Subordinate Voting Shares.

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 2019 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 earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA")

(in thousands)

For the fiscal year ended:	Feb. 28, 2019	Feb. 28, 2018	Feb. 29, 2017	Feb. 28, 2016	Feb. 28, 2015
Net income (loss) attributable to Subordinate Voting Shares and Multiple Voting Shares	(4,882)	(17,811)	7,737	3,641	18,580
Adjustments for:					
Goodwill impairment loss	-	-	-	11,510	-
Depreciation of property, plant and equipment	11,566	11,035	11,943	13,301	13,749
Amortization of intangible assets	2,009	1,842	1,767	2,008	2,374
Finance costs (income) - net	695	197	74	(199)	590
Income taxes	(2,301)	361	4,680	8,302	9,773
EBITDA	7,087	(4,376)	26,201	38,563	45,066

For the quarter ended:	Feb. 28, 2019	Feb. 28, 2018
Net income (loss) attributable to Subordinate Voting Shares and Multiple Voting Shares	1,519	(8,221)
Adjustments for:		
Depreciation of property, plant and equipment	3,461	2,792
Amortization of intangible assets	677	545
Finance costs (income) - net	23	64
Income taxes	(1,865)	3,685
EBITDA	3,815	(1,135)

Velan Inc.

Consolidated Financial Statements
For the years ended February 28, 2019 and 2018

Independent auditor's report

To the Shareholders of
Velan Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Velan Inc. and its subsidiaries (together, the Company) as at February 28, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at February 28, 2019 and 2018;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l.
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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information, and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or whether it appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and that we communicated to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Marc-Stéphane Pennee.

PricewaterhouseCoopers LLP[1]

Montréal, Quebec
May 16, 2019

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

Velan Inc.

Consolidated Statements of Financial Position

As at February 28, 2019 and 2018
(in thousands of U.S. dollars)

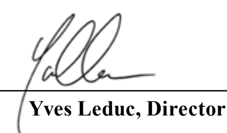
	February 28, 2019 $	February 28, 2018 $
Assets		
Current assets		
Cash and cash equivalents	70,673	85,391
Short-term investments	658	647
Accounts receivable (note 25)	137,520	137,382
Income taxes recoverable	16,863	8,012
Inventories (note 5)	165,583	170,790
Deposits and prepaid expenses	4,612	4,222
Derivative assets	189	604
	396,098	407,048
Non-current assets (note 4)		
Property, plant and equipment (notes 7 and 19)	83,537	89,864
Intangible assets and goodwill (notes 4 and 8)	18,146	20,210
Deferred income taxes (note 20)	25,947	22,034
Other assets	629	1,037
	128,259	133,145
Total assets	524,357	540,193
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	29,807	20,848
Short-term bank loans	2,172	1,074
Accounts payable and accrued liabilities (note 9)	74,910	63,441
Income taxes payable	495	2,186
Dividend payable	497	1,678
Customer deposits	40,240	48,963
Provisions (note 11)	8,494	10,798
Accrual for performance guarantees (note 11)	23,014	32,655
Derivative liabilities	83	1,615
Current portion of long-term debt (note 12)	8,609	8,151
	188,321	191,409
Non-current liabilities		
Long-term debt (note 12)	13,242	13,978
Income taxes payable	1,742	2,078
Deferred income taxes (note 20)	3,738	2,889
Other liabilities	8,481	8,222
	27,203	27,167
Total liabilities	215,524	218,576
Equity		
Equity attributable to Subordinate and Multiple Voting shareholders		
Share capital (note 13)	73,090	73,090
Contributed surplus	6,074	6,057
Retained earnings	254,606	256,668
Accumulated other comprehensive loss	(28,990)	(19,790)
	304,780	316,025
Non-controlling interests (note 6)	4,053	5,592
Total equity	308,833	321,617
Total liabilities and equity	524,357	540,193

Commitments and contingencies (note 22)

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

Approved by the Board of Directors

T.C. Velan, Director



Yves Leduc, Director

Velan Inc.

Consolidated Statements of Income (Loss)

For the years ended February 28, 2019 and 2018
(in thousands of U.S. dollars, excluding per share amounts)

	2019 $	2018 $
Sales (notes 14 and 24)	366,865	337,963
Cost of sales (notes 5, 14 and 15)	281,270	267,102
Gross profit	85,595	70,861
Administration costs (note 16)	93,336	87,713
Other expense (income)	(741)	1,463
Operating loss	(7,000)	(18,315)
Finance income	865	1,102
Finance costs	(1,560)	(1,299)
Finance costs – net	(695)	(197)
Loss before income taxes	(7,695)	(18,512)
Income taxes (note 20)	(2,301)	361
Net loss for the year	(5,394)	(18,873)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(4,882)**	**(17,811)**
Non-controlling interests	(512)	(1,062)
	(5,394)	(18,873)
Loss per share (note 21)		
Basic	(0.23)	(0.82)
Diluted	(0.23)	(0.82)
Dividends declared per Subordinate and Multiple Voting Share	0.09 (CA$0.12)	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, 2019 and 2018
(in thousands of U.S. dollars)

	2019 $	2018 $
Comprehensive loss		
Net loss for the year	(5,394)	(18,873)
Other comprehensive income (loss)		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(9,300)	15,938
Comprehensive loss	(14,694)	(2,935)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(14,082)	(2,051)
Non-controlling interests	(612)	(884)
	(14,694)	(2,935)

Other comprehensive income (loss) is composed solely of items that may 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, 2019 and 2018
(in thousands of U.S. dollars)

	Equity attributable to the 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, 2017	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911
Net loss for the period	-	-	-	(17,811)	(17,811)	(1,062)	(18,873)
Other comprehensive income	-	-	15,760	-	15,760	178	15,938
	73,584	6,017	(19,790)	263,532	323,343	5,633	328,976
Effect of share-based compensation (note 13 (d))	-	40	-	-	40	-	40
Share repurchase (note 13 (c))	(494)	-	-	(136)	(630)	-	(630)
Dividends							
Multiple Voting Shares	-	-	-	(4,824)	(4,824)	-	(4,824)
Subordinate Voting Shares	-	-	-	(1,904)	(1,904)	-	(1,904)
Non-controlling interest	-	-	-	-	-	(41)	(41)
Balance - February 28, 2018	73,090	6,057	(19,790)	256,668	316,025	5,592	321,617
Adjustment related to the transition to IFRS 15 (note 3)	-	-	-	4,741	4,741	-	4,741
Adjusted balance - March 1, 2018	73,090	6,057	(19,790)	261,409	320,766	5,592	326,358
Net loss for the period	-	-	-	(4,882)	(4,882)	(512)	(5,394)
Other comprehensive loss	-	-	(9,200)	-	(9,200)	(100)	(9,300)
	73,090	6,057	(28,990)	256,527	306,684	4,980	311,664
Effect of share-based compensation (note 13 (d))	-	17	-	-	17	-	17
Dividends							
Multiple Voting Shares	-	-	-	(1,427)	(1,427)	-	(1,427)
Subordinate Voting Shares	-	-	-	(494)	(494)	-	(494)
Non-controlling interest	-	-	-	-	-	(927)	(927)
Balance - February 28, 2019	73,090	6,074	(28,990)	254,606	304,780	4,053	308,833

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

Velan Inc.

Consolidated Statements of Cash Flows

For the years ended February 28, 2019 and 2018
(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	2019 $	2018 $
Cash flows from		
Operating activities		
Net loss for the period	(5,394)	(18,873)
Adjustments to reconcile net income to cash provided by operating activities (note 27)	7,118	6,994
Changes in non-cash working capital items (note 28)	(11,311)	9,986
Cash used by operating activities	(9,587)	(1,893)
Investing activities		
Short-term investments	(11)	327
Additions to property, plant and equipment	(7,510)	(6,202)
Additions to intangible assets	(1,141)	(437)
Proceeds on disposal of property, plant and equipment, and intangible assets	144	141
Net change in other assets	403	(507)
Cash used by investing activities	(8,115)	(6,678)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(3,102)	(6,681)
Dividends paid to non-controlling interest	(927)	(41)
Repurchase of shares (note 13 (c))	-	(630)
Short-term bank loans (note 29)	1,098	(576)
Increase in long-term debt (note 29)	3,989	-
Repayment of long-term debt (note 29)	(3,586)	(3,206)
Cash used by financing activities	(2,528)	(11,134)
Effect of exchange rate differences on cash	(3,447)	8,021
Net change in cash during the period	(23,677)	(11,684)
Net cash – Beginning of the period	64,543	76,227
Net cash – End of the period	40,866	64,543
Net cash is composed of:		
Cash and cash equivalents	70,673	85,391
Bank indebtedness	(29,807)	(20,848)
	40,866	64,543
Supplementary information		
Interest received	26	532
Income taxes paid	10,459	3,752

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 16, 2019.

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 (loss) 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

For fiscal year ended February 28, 2018 (Prior to the adoption of IFRS 9)

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 (loss) 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 (loss) 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.

For fiscal year ended February 28, 2019

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, 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*). All financial instruments are initially recognized at fair value and subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit and loss depending on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

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. Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Financial instruments classified at fair value through profit and loss

Derivative financial instruments are classified at fair value through profit and loss at each statement of financial position date with the changes in fair value recorded in the consolidated statement of income (loss) in the period in which these changes arise.

Financial instruments classified at amortized cost

The Company's cash and cash equivalents, short-term investments and accounts receivable, bank indebtedness, short-term bank loans, accounts payable and accrued liabilities, customer deposits, dividend payable and long-term debt, including interest payable are financial instruments carried at amortized cost using the effective interest rate method. The interest income or expense is included in the consolidated statement of income (loss) over the expected life of the instrument.

The Company assesses the expected credit losses associated with its financial assets measured at amortized costs at the end of every fiscal year. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Company applies the simplified approach permitted by IFRS 9 for trade receivables which requires the expected lifetime losses to be recorded at initial recognition.

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 measured at fair value with changes in fair value recognized in profit and loss or designated at fair value through profit or loss. In other words, if the derivative is embedded in a financial instrument classified at fair value through profit and loss, it is not separated.

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 any substantial party to that contract, the currency in which the price of the related good or service that is acquired or delivered is routinely denominated in commercial transactions around the world, the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment in which the transactions takes place, the embedded derivative is considered to be closely related to the host instrument 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

For fiscal year ended February 28, 2018 (Prior to the adoption of IFRS 15)

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.

For fiscal year ended February 28, 2019

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 variable compensation such as sales and value-added taxes, returns, rebates, discounts and accruals for performance guarantees.

Revenue is recognized when the 5-step approach dictated by IFRS 15 has been completed. The 5-steps leading to revenue recognition are to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation.

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 control, 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, returns and accruals for performance guarantees. 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 2.7% on an annual basis. Interest is paid on bank indebtedness at rates ranging from 1.5% to 6.6%.

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 1.0% 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 (loss) 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 (loss) 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 (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity, in which case the taxes are recognized in other comprehensive income (loss) 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 are provisions that 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 (loss) 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, performance share units (“PSUs”) and deferred share units (“DSUs”).

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.

PSUs and DSUs

PSUs and DSUs may be granted to certain of its independent directors and full-time employees as part of their long-term compensation package entitling them to receive payout in cash based on the Company's share price at the relevant time. A liability for PSUs and DSUs is measured at fair value on the grant date and is subsequently adjusted at each balance sheet date for changes in fair value according to the estimation made by management of the number of PSUs and DSUs that will eventually vest. The liability is recognized to accounts payable and accrued liabilities over the vesting period, with a corresponding charge to compensation expense.

Critical accounting estimates and assumptions

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. 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.

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.

Accrual for performance guarantees

Accrual for performance guarantees consist of possible late delivery and other contractual non-compliance penalties or liquidated damages. The Company estimates the specific contractual terms, historical trends and forward-looking performance risks. 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 accrual for performance guarantees on the consolidated statement of financial position with a corresponding impact made to 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.

Critical judgements in applying the Company's accounting policies

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.

3 New accounting standards and amendments

New accounting standards and amendments adopted in the year

(i) In July 2014, the IASB issued IFRS 9, *Financial Instruments*. The IASB had 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 represented the final version of the Standard, replacing earlier versions of IFRS 9 and substantially completing the IASB's project to replace IAS 39, *Financial Instruments: Recognition and Measurement*.

This standard replaced the multiple classification and measurement models for financial assets and liabilities with a single model that had only three classification categories: amortized cost and fair value through other comprehensive income and fair value through profit or loss. The basis of classification depended on the entity's business model and the contractual cash flow characteristics of the financial asset or liability. The standard introduced a new, expected loss impairment model that requires more timely recognition of expected credit losses. Specifically, the new Standard required entities to account for expected credit losses from when financial instruments are first recognised and it lowered the threshold for recognition of full lifetime expected losses. The new standard also introduced a substantially-reformed model for hedge accounting with enhanced disclosures about risk management activity and aligned hedge accounting more closely with risk management.

The new standard was adopted prospectively effective March 1, 2018 and resulted in no material adjustments.

(ii) IFRS 15, *Revenue from Contracts with Customers*, was issued in May 2014 and specified how and when revenue should be recognized as well as requiring the provision of more informative and relevant disclosures. Its core principle is that an entity recognizes 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 replaced 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 was adopted effective March 1, 2018 and the Company elected the modified retrospective transition alternative whereby transitional adjustments were recorded as an opening adjustment to retained earnings on the effective date, without restatement of comparative figures. The Company determined that an adjustment to retained earnings was required as at March 1, 2018 as a result of the adoption of this standard. Accruals for performance guarantees are considered a form of variable consideration under IFRS 15. Such accruals may arise from possible late delivery and other contractual non-compliance penalties or liquidated damages. Under IFRS 15, the Company modified the measurement of its accrual for performance guarantees to be its best estimate of the eventual outcome of the performance guarantees. This best estimate considers the specific contractual terms and forward-looking performance risks. Previously, the Company measured its accrual for performance guarantees by reference to the maximum expected exposure from the underlying contracts.

Moreover, under the new standard, late delivery penalties, which were previously recorded as an expense in cost of sales, are recorded as a reduction of sales.

The impacts of this adjustment on the current results can be found in the summarized impacts of IFRS 15 in the financial statements section below.

The new standard did not have a significant impact on the timing of the Company's revenues from the sale of goods as most of such revenues continue to be recognized upon the delivery of the said goods as per the agreed-upon shipping terms. However, if certain criteria are met, the Company has determined that separate elements in a sale of goods contract may be classified as separate performance obligations. These could include, but are not limited to the delivery of drawings and documentation, the provision of services (commissioning, inspection, shipping and testing), and warranties. The preferred method of allocating revenue to multiple elements in a sale of goods contract where separate performance obligations have been identified is the adjusted market assessment approach. While the above changes may have an impact on revenues in future fiscal years, the Company has determined that they have not had a material impact on the current and prior year periods' consolidated revenues.

Summarized impacts of IFRS 15 in the financial statements

Financial statement line items not mentioned below have not been impacted by the Company's transition to IFRS 15.

Consolidated Statements of Financial Position

As at	February 28, 2018 IAS 18 carrying amounts	IFRS 15 Adjustment	March 1, 2018 IFRS 15 carrying amounts
	$		$
Assets			
Non-current assets			
Deferred income taxes	22,034	2,490	24,524
Liabilities			
Current liabilities			
Accrual for performance guarantees	32,655	(7,231)	25,424
Equity			
Retained earnings	256,668	4,741	261,409

(iii) 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 was adopted effective March 1, 2018 and resulted in no material adjustments.

New accounting standards and amendments issued but not yet adopted

(i) 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 for lessees. It 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 has been adopted. The Company has elected to use the modified retrospective approach and has determined that it will not early adopt it. The Company will elect to apply the standard to contract that were previously identified as leases under IAS 17 and IFRIC 4. The Company will not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4. The Company will use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as the date of initial application, and lease contracts for which the underlying asset is of low value. The Company elected not to apply the standard to new leases with a term less than 12 months. The Company's operating leases, as disclosed in the commitment note (note 22 (c)) of the Company's annual consolidated financial statements for the year ended February 28, 2019, are within the scope of IFRS 16 with the exception of those meeting the aforementioned exemption requirements.

In situations where the Company is a lessee, the result will be adding a right-of-use asset and a liability for the present value of the future lease payments to the balance sheet for most of its contracts that were considered operating leases under IAS 17. The Company will depreciate its right-of-use asset on the lesser of the lease term or the useful life of the asset. The Company is currently finalizing its assessment of the impact of this new standard.

(ii) In June 2017, IFRIC issued IFRIC 23, *Uncertainty over Income Tax Treatments*. This interpretation clarifies how the recognition and measurement requirements of IAS 12, *Income Taxes*, are applied where there is uncertainty over income tax treatments that have yet to be accepted by tax authorities.

The interpretation is effective for annual periods beginning on or after January 1, 2019 with earlier adoption permitted. As the Company is currently assessing the impact of this new standard, it has determined that it will not early adopt it.

4 Non-current assets and goodwill impairment analysis

Non-current assets impairment test at February 28, 2019

As a result of the market capitalization of the Company being lower than the book value of its equity, indicating potential impairment of non-current assets, the Company performed an impairment test as at February 28, 2019. As such, the Company tested for impairment the carrying amount of such assets allocated to various CGU's. Based on this test, the Company determined that the recoverable amount of such assets exceeded the carrying amount of $171,349 by $77,025. Accordingly, no impairment loss was recorded for these CGU's at February 28, 2019.

The recoverable amount was determined based on the higher of value-in-use and fair value less costs of disposal on a CGU by CGU basis, using a discounted cash flow model. For CGUs where recoverable amounts were determined based on value-in-use, 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 tested CGUs ranging from -4.9% to 20.5% in 2020, 9.6% to 20.5% in 2021, 9.7% to 18.8% in 2022, and 13.2% to 20.1% in 2023.
- Expected working capital cash absorption ratio for the CGUs of 35% of annual incremental sales increases.
- Expected annual capital expenditure needs (excluding proceeds from sale of assets) for the tested CGUs for a total of $16,272 in 2020, $9,056 in 2021, $5,908 in 2022 and $6,312 for 2023.
- The discounted cash flow model was established using a discount rate ranging from 13.6% to 15.4% and a terminal growth rate ranging from 2% to 4.5%.

The impairment projections included the estimated impact of a recently announced strategy to consolidate its manufacturing operations. Given that management has a detailed plan in place and has begun executing this plan, the inclusion of the impact of this strategy is permitted.

For CGUs where recoverable amounts were determined based on fair value less cost of disposal, the significant key assumptions listed above were the same except for:

- Expected working capital cash absorption ratio for the CGUs of 25% of annual incremental sales increases.
- The discounted cash flow model was established using a discount rate ranging from 12.9% to 13.6% and a terminal growth rate of 2%.
- Synergies of 40% of administrative costs were added back to EBITDA as they represent redundant costs that a market participant would not incur.

The following table provides a sensitivity analysis of the Company's recoverable amount of the non-current assets associated with the CGU's 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.

	Increase (Decrease) in recoverable amount $
Increase in expected EBITDA as a percentage of sales	21,878
Increase in discount rate	(18,755)
Increase in terminal growth rate	4,797
Increase in synergies	1,420

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 non-current assets associated with the various CGU's:

	Increase (Decrease) in recoverable amount $
Decrease in expected EBITDA as a percentage of sales	(21,878)
Decrease in discount rate	22,426
Decrease in terminal growth rate	(3,834)
Decrease in synergies	(1,419)

Goodwill impairment test at February 28, 2019

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 $26,446 by $37,761. Accordingly, no goodwill impairment loss was recorded for this CGU at February 28, 2019.

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 EBITDA as a percentage of sales for the CGU of 20.5% in 2020, 18.5% in 2021, and 18.8% in 2022 and 16.3% in 2023.
- Expected working capital cash absorption ratio for the CGU of 35% of annual incremental sales increases.
- Expected annual capital expenditure needs for the CGU of 2% of annual sales.

The discounted cash flow model was established using a discount rate of 13.6% 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 28, 2018

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 $36,361 by $69,309. Accordingly, no goodwill impairment loss was recorded for this CGU at February 28, 2018.

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 21.8% in 2019, 20.7% in 2020, and 18.9% 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 $1,880 in 2019, 2020 and 2021.

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, 2019 $	**As at February 28, 2018 $**
Raw materials	35,858	32,381
Work in process and finished parts	96,863	101,629
Finished goods	32,862	36,780
	165,583	170,790

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of $2,518 (2018 – $828), including reversals of $7,111 (2018 – $5,476).

6 Subsidiaries and transactions with non-controlling interests

a) Interest in subsidiaries

Set out below are the Company's principal subsidiaries at February 28, 2019. 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 2019	% of ownership interest held by the Company 2018	% of ownership interest held by the non-controlling interests 2019	% of ownership interest held by the non-controlling interests 2018	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 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 6% 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, 2019 was $3,972 (2018 – $5,424).

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(o)). 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, 2019	**As at February 28, 2018**	**As at February 28, 2019**	**As at February 28, 2018**
	$	**$**	**$**	**$**
Current assets	5,754	6,521	5,323	4,903
Current liabilities	5,716	3,344	1,712	1,355
Current net assets	38	3,177	3,611	3,548
Non-current assets	12,109	13,452	1,878	1,873
Non-current liabilities	7,461	8,948	47	79
Non-current net assets	4,648	4,504	1,831	1,794
Net assets	4,686	7,681	5,442	5,342
Accumulated non-controlling interest	3,397	4,932	655	660

Summarized statement of comprehensive income (loss)	**Juwon Special Steel Co. Ltd.**		**Velan Valvac Manufacturing Co. Ltd.**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Sales	14,251	12,298	7,403	6,192
Net income (loss) for the year	(941)	(2,460)	101	44
Other comprehensive income (loss)	(201)	357	-	-
Total comprehensive income (loss) for the year	(1,142)	(2,103)	101	44
Net income (loss) allocated to non-controlling interest	(508)	(1,090)	(4)	28
Dividends paid to non-controlling interest	927	-	-	41

Summarized statement of cash flows	**Juwon Special Steel Co. Ltd.**		**Velan Valvac Manufacturing Co. Ltd.**	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Cash flows from operating activities	(1,303)	(1,188)	(26)	(102)
Cash flows from investing activities	505	(662)	(101)	(14)
Cash flows from financing activities	(1,810)	(4)	-	(404)
Net decrease in cash and cash equivalents	(2,608)	(1,854)	(127)	(520)

7 Property, plant and equipment

	Land	Buildings	Machinery & equipment	Furniture & fixtures	Data processing equipment	Rolling stock	Leasehold improvements	Total
	$	$	$	$	$	$	$	$
At February 29, 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
Year ended February 28, 2018								
Beginning balance	20,791	28,259	38,134	1,696	795	468	1,392	91,535
Additions	44	1,396	3,632	258	406	399	67	6,202
Disposals	-	-	(48)	(3)	-	(3)	-	(54)
Depreciation	-	(1,830)	(7,527)	(555)	(524)	(303)	(296)	(11,035)
Exchange differences	780	763	1,337	132	15	8	181	3,216
	21,615	28,588	35,528	1,528	692	569	1,344	89,864
At February 28, 2018								
Cost	21,615	57,775	155,632	8,705	6,782	3,081	3,848	257,438
Accumulated depreciation	-	(29,187)	(120,104)	(7,177)	(6,090)	(2,512)	(2,504)	(167,574)
	21,615	28,588	35,528	1,528	692	569	1,344	89,864
Year ended February 28, 2019								
Beginning balance	21,615	28,588	35,528	1,528	692	569	1,344	89,864
Additions	-	1,083	5,020	307	627	138	335	7,510
Disposals	-	-	(134)	-	(1)	-	-	(135)
Depreciation	-	(1,762)	(8,293)	(481)	(399)	(230)	(401)	(11,566)
Exchange differences	(656)	(543)	(771)	(62)	(12)	(13)	(79)	(2,136)
	20,959	27,366	31,350	1,292	907	464	1,199	83,537
At February 28, 2019								
Cost	20,959	57,178	152,533	8,503	7,249	3,093	2,769	252,284
Accumulated depreciation	-	(29,812)	(121,183)	(7,211)	(6,342)	(2,629)	(1,570)	(168,747)
	20,959	27,366	31,350	1,292	907	464	1,199	83,537

Depreciation expense of $11,566 (2018 – $11,035) is included in the consolidated statement of income (loss): $10,502 (2018 – $9,950) in 'cost of sales' and $1,064 (2018 – $1,085) in 'administration costs'.

8 Intangible assets and goodwill

	Goodwill	Computer software	Patents, products & designs	Customer lists	Other	Total
At February 29, 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
Year ended February 28, 2018						
Beginning balance	8,301	463	7,862	2,382	15	19,023
Additions	-	67	275	-	80	422
Amortization	-	(139)	(1,082)	(621)	-	(1,842)
Exchange differences	1,267	55	954	324	7	2,607
	9,568	446	8,009	2,085	102	20,210
At February 28, 2018						
Cost	9,568	8,063	14,845	6,596	832	39,904
Accumulated amortization	-	(7,617)	(6,836)	(4,511)	(730)	(19,694)
	9,568	446	8,009	2,085	102	20,210
Year ended February 28, 2019						
Beginning balance	9,568	446	8,009	2,085	102	20,210
Additions	-	339	882	-	(80)	1,141
Amortization	-	(225)	(1,138)	(630)	(16)	(2,009)
Exchange differences	(625)	(26)	(418)	(123)	(4)	(1,196)
	8,943	534	7,335	1,332	2	18,146
At February 28, 2019						
Cost	8,943	8,139	14,889	6,165	699	38,835
Accumulated amortization	-	(7,605)	(7,554)	(4,833)	(697)	(20,689)
	8,943	534	7,335	1,332	2	18,146

Amortization expense of $2,009 (2018 – $1,842) is included in the consolidated statement of income (loss): $1,406 (2018 – $1,397) in ‘cost of sales’ and $603 (2018 – $445) in ‘administration costs’.

As at February 28, 2019, the Company capitalized $882 (2018 – $275) of development costs, net of research and development tax credits of $234 (2018 – $142), as patents, products and designs.

9 Accounts payable and accrued liabilities

	As at February 28, 2019 $	As at February 28, 2018 $
Trade accounts payable	31,016	23,635
Accrued liabilities	40,039	35,597
Other	3,855	4,209
	74,910	63,441

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, 2019:

Unsecured

Credit facilities available	Borrowing rates
$64,546 (CA$85,000) (2018 – $66,360 (CA$85,000)) (note 25)	Prime to prime + 0.75% (2018 – 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, 2019, an amount of $13,620 (2018 – $7,782) was drawn against these unsecured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $12,991 (2018 – $17,445) 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, 2019, $6,162 (2018 – $6,794) was drawn against this facility.

b) Foreign subsidiaries and structured entities have the following credit facilities available as at February 28, 2019:

Secured by corporate guarantees

Credit facilities available	Borrowing rates
Foreign subsidiaries $62,779 (€48,162; KW4,485,600; INR270,000) (2018 – $56,497 (€40,057; KW3,712,300; INR270,000)) (note 25)	0.20% to 9.75% (2018 – 0.20% to 8.84%)
Foreign structured entities $3,737 (KW4,203,600) (2018 – $3,938 (KW4,262,000)) (note 25)	1.50% to 6.55% (2018 – 1.50% to 4.29%)

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, 2019 and February 28, 2018. 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 $6,965 (2018 – $2,530).

As at February 28, 2019, an amount of $16,187 (2018 – $13,066) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $5,828 (2018 – $5,548) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

11 Accruals for performance guarantees and provisions

a) Accrual for performance guarantees

	As at February 28, 2019 $	**As at February 28, 2018 $**
Balance – Beginning of year	32,655	27,440
Opening adjustment – IFRS 15 (note 3)	(7,231)	-
Adjusted balance – Beginning of the year	**25,424**	**27,440**
Additional provisions	6,320	7,842
Used during the year	(3,370)	(2,678)
Reversed during the year	(4,030)	(3,634)
Exchange differences	(1,330)	3,685
Balance – End of year	23,014	32,655

The company's accrual for performance guarantees consist of possible late delivery and other contractual non-compliance penalties or liquidated damages. Management's best estimates considers the specific contractual terms and forward-looking performance risks. The accrual is recognized when the Company has a present legal or constructive obligation as a result of a past event, and the amount to be disbursed can be reliably estimated.

b) Warranty provision

	As at February 28, 2019 $	As at February 28, 2018 $
Balance – Beginning of year	10,798	10,600
Additional provisions	2,150	2,328
Used during the year	(1,702)	(2,208)
Reversed during the year	(2,118)	(1,355)
Exchange differences	(634)	1,433
Balance – End of year	8,494	10,798

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, 2019 $	As at February 28, 2018 $
French subsidiaries		
Unsecured bank loan (€2,752; February 28, 2018 – nil) (note 12(a))	3,142	-
Unsecured bank loan (€1,804; February 28, 2018 – €2,402) (note 12(b))	2,059	2,934
Unsecured bank loan (€417; February 28, 2018 – nil) (note 12(c))	477	-
Unsecured bank loan (€127; February 28, 2018 – €228) (note 12(d))	145	278
Italian subsidiary		
Unsecured bank loan (€256; February 28, 2018 – €359) (note 12(e))	292	438
Unsecured bank loan (€280; February 28, 2018– €355) (note 12(f))	319	434
Unsecured state bank loan (€67; February 28, 2018 – €168) (note 12(g))	77	206
Unsecured bank loan (€51; February 28, 2018 – €153) (note 12(h))	59	187
Unsecured bank loan (nil; February 28, 2018 – €182) (note 12(i))	-	222
Unsecured bank loan (€133; February 28, 2018 – €400) (note 12(j))	152	489
Unsecured bank loan (nil; February 28, 2018 – €170) (note 12(k))	-	207
Unsecured bank loan (€188; February 28, 2018 – €563) (note 12(l))	214	687
Unsecured bank loan (nil; February 28, 2018 – €198) (note 12(m))	-	241
Unsecured state bank loan (€1,359; February 28, 2018 – €1,610) (note 12(n))	1552	1,967
Korean structured entity		
Secured bank loan (KW3,600; February 28, 2018 – KW8,400) (note 12(o))	3	8
Secured bank loan (KW8,000,000; February 28, 2018 – KW8,000,000) (note 12(p))	7,112	7,392
Other (note 12(q))	6,248	6,439
	21,851	22,129
Less: Current portion	8,609	8,151
	13,242	13,978

a) The unsecured bank loan of $3,142 (€2,752) bears interest at 0.42% and is repayable in monthly instalments of $58, expiring in 2023.

b) The unsecured bank loan of $2,059 (€1,804) bears interest at 0.20% and is repayable in monthly instalments of $57, expiring in 2022.

c) The unsecured bank loan of $477 (€417) bears interest at 0.53% and is repayable in monthly instalments of $10, expiring in 2023.

d) The unsecured bank loan of $145 (€127) bears interest at 0.89% and is repayable in monthly instalments of $9, expiring in 2020.

e) The unsecured bank loan of $292 (€256) bears interest at 2.91% and is repayable in monthly instalments, expiring in 2021.

f) The unsecured bank loan of $319 (€280) bears interest at 4.90% and is repayable in monthly instalments, expiring in 2021.

g) The unsecured state bank loan of $77 (€67) is non-interest bearing and is repayable in variable semi-annual instalments, expiring in 2020.

h) The unsecured bank loan of $59 (€51) bears interest at the 3-month Euribor rate plus 1.7% and is repayable in quarterly instalments of $27, expiring in 2019.

i) The unsecured bank loan of nil bears interest at the 6-month Euribor rate plus 1.25% and is repayable in quarterly instalments of $95, expired in 2018.

j) The unsecured bank loan of $152 (€133) bears interest at the 3-month Euribor rate plus 1.8% and is repayable in quarterly instalments of $70, expiring in 2019.

k) The unsecured bank loan of nil bears interest at the 3-month Euribor rate plus 1.6% and is repayable in quarterly instalments of $90, expired in 2018.

l) The unsecured bank loan of $214 (€188) bears interest the 3-month Euribor rate plus 1.6% and is repayable in quarterly instalments of $98, expiring in 2019.

m) The unsecured bank loan of nil bears interest at 1.37% and is repayable in monthly instalments of $28, expired in 2018.

n) The unsecured state bank loan of $1,552 (€1,359) bears interest at 3% and is repayable in variable semi-annual instalments, expiring in 2024.

o) The secured bank loan of $3 (KW3,600) 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.

p) The secured bank loan of $7,112 (KW8,000,000) bears interest at 2.21% and is repayable in quarterly instalments of $222, expiring in 2025.

q) Included in Other is an amount of $4,990 (€4,371) (February 28, 2018 – $5,083 (€4,162)) 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 (loss).

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

	$
February 29, 2020	8,609
February 28, 2021	3,032
February 28, 2022	2,908
February 28, 2023	2,082
February 29, 2024	1,700
Subsequent years	3,520
	21,851

The aggregate net book value of the assets pledged as collateral under long-term debt agreements amounted to $11,534 (2018 – $12,411).

s) 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, 2019 $	As at February 28, 2018 $
6,055,368 Subordinate Voting Shares (notes 13(c) and (d))	65,964	65,964
15,566,567 Multiple Voting Shares	7,126	7,126
	73,090	73,090

c) Pursuant to its Normal Course Issuer Bid, the Company was entitled to repurchase for cancellation a maximum of 151,549 of the issued Subordinate Voting Shares of the Company, representing approximately 2.5% of the issued shares of such class as at October 18, 2017, during the ensuing 12-month period ended October 30, 2018. During the year ended February 28, 2018, 45,300 Subordinate Voting Shares were purchased for a cash consideration of $630 and cancelled. The amount by which the repurchase amount was above the stated capital of the shares had been debited to retained earnings. During the year ended February 28, 2019, there were no Subordinate Voting Shares repurchased for cancellation.

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 $17 (2018 – $40) was recorded in the consolidated statement of income (loss) and credited to contributed surplus.

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 29, 2017	140,000	$14.50 (CA$19.26)	38.4
Outstanding – February 28, 2018	140,000	$15.04 (CA$19.26)	26.4
Exercisable – February 28, 2018	95,000	$15.37 (CA$19.69)	
Outstanding – February 28, 2018	140,000	$15.04 (CA$19.26)	26.4
Outstanding – February 28, 2019	140,000	$14.63 (CA$19.26)	14.4
Exercisable – February 28, 2019	130,000	$14.86 (CA$19.57)	

e) On July 13, 2017, the Company adopted a PSU plan allowing the Board of Directors, through its Corporate Governance and Human Resources ("CGHR") Committee, to grant PSUs to certain of its full-time employees. A PSU is a notional unit whose value is based on the volume weighted average price of the Company's Subordinate Voting Shares on the Toronto Stock Exchange for the 20 trading days immediately preceding the grant date. The PSU plan is non-dilutive since vested PSUs shall be settled solely in cash. Each PSU grant shall vest at the end of a three-year performance cycle, which will normally start on March 1 of the year in which such PSU is granted and end on the last day of February of the third year following such grant, subject to the achievement of certain performance objectives over such cycle, as determined by the Company's CGHR Committee.

As at February 28, 2019, the Company had a total of 24,611 (2018 – 25,250) PSUs outstanding, representing a total liability of $71 (2018 - $82) which is included in accounts payable and accrued liabilities. A compensation recovery of $9 (2018 – cost of $82) was recorded in the consolidated statement of income (loss) and debited (credited in 2018) to accounts payable and accrued liabilities. No payments have been made in relation to PSUs since the inception of the plan. As at February 28, 2019, 981 PSUs were forfeited, and no PSUs have vested.

f) On July 13, 2017, the Company adopted a DSU plan allowing the Board of Directors, through its CGHR Committee, to grant DSUs to certain of its independent directors and full-time employees. A DSU is a notional unit whose value is based on the volume weighted average price of the Company's Subordinate Voting Shares on the Toronto Stock Exchange for the 20 trading days immediately preceding the grant date. The DSU plan is non-dilutive since vested DSUs shall be settled solely in cash. Each DSU grant shall vest at the earlier of:

- the sixth anniversary of its grant date; or
- the day the holder of the DSU attains the retirement age, which, unless otherwise determined by the CGHR Committee, is the earliest of age 65, or the age at which the combination of years of service at the Company plus his or her age is equal to 75, being understood that the retirement age shall not be less than 55 years old.

For more certainty, a grant made to an independent director or full-time employee who has reached the retirement age will be deemed immediately vested, unless otherwise determined by the CGHR Committee at or after the time of grant. Notwithstanding the foregoing, grants of DSUs made to non-employee directors of the Company shall vest on their grant date.

As at February 28, 2019, the Company had a total of 28,768 (2018 – 12,464) DSUs outstanding, representing a total liability of $98 (2018 - $78) which is included in accounts payable and accrued liabilities. A compensation cost of $29 (2018 – $78) was recorded in the consolidated statement of income (loss) and credited to accounts payable and accrued liabilities. A payment of $9 has been made in relation to the DSUs in 2019 (2018 – nil) and 11,178 (2018 – 4,918) DSUs have vested at the end of the fiscal year. As at February 28, 2019, 327 DSU's were forfeited.

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 (loss) and amounted to:

	2019 **$**	**2018** **$**
Sales	924	(1,212)
Cost of sales	(866)	(1,215)
Other expense (income)	(185)	(1,823)

15 Cost of sales

	2019 $	2018 $
Change in inventories of finished goods and work in progress	3,531	10,868
Raw materials and consumables used	149,881	133,498
Employee expenses, excluding scientific research investment tax credits (note 17)	77,861	72,796
Depreciation and amortization (notes 7, 8 and 19)	11,908	11,347
Movement in inventory provision – net (note 5)	2,518	828
Foreign exchange loss (note 14)	866	1,215
Other production overhead costs	34,705	36,550
	281,270	267,102

In accordance with the current fiscal year's presentation, the Company has also elected to adjust its comparative figures to reflect a more accurate allocation of cost of sales and administration costs.

16 Administration costs

	2019 $	2018 $
Employee expenses, excluding scientific research investment tax credits (note 17)	46,532	45,033
Scientific research investment tax credits (notes 17 and 18)	(2,237)	(2,978)
Commissions	5,850	7,619
Freight to customers	5,122	4,344
Professional fees	15,679	13,509
Movement in allowance for doubtful accounts (note 25)	841	(354)
Depreciation and amortization (notes 7, 8 and 19)	1,667	1,530
Other	19,882	19,010
	93,336	87,713

17 Employee expenses

	2019 $	2018 $
Wages and salaries	88,960	84,259
Social security costs	28,740	27,732
Scientific research investment tax credits (note 18)	(2,237)	(2,978)
Share-based compensation (note 13(d), (e) and (f))	37	200
Other	6,656	5,638
	122,156	114,851

18 Research and development expenses

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

	2019 $	2018 $
Research and development expenditures	9,304	9,608
Less: Scientific research and development investment tax credits	(2,237)	(2,978)
	7,067	6,630

19 Depreciation and amortization costs

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

	2019 $	2018 $
Depreciation of property, plant and equipment	11,566	11,035
Amortization of intangible assets	2,009	1,842
	13,575	12,877

20 Income taxes

	2019 $	2018 $
Current taxes:		
Current tax on profits for the year	8,270	9,023
Adjustments in respect of prior years	(4,982)	(94)
	3,288	8,929
Deferred taxes:		
Origination and reversal of temporary differences	(9,078)	(8,458)
Adjustments in respect of prior years	3,489	(110)
	(5,589)	(8,568)
Income tax expense (recovery)	(2,301)	361

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:

	2019 $	2018 $
Income tax at statutory rate of 26.68% (2018 – 26.78%)	(2,053)	(4,958)
Tax effects of:		
Difference in statutory tax rates in foreign jurisdictions	1,640	1,396
Effect of U.S. Tax Reform*	-	4,259
Taxable foreign exchange gain	327	(303)
Losses not tax effected	724	1,151
Losses utilized not previously tax effected	(525)	-
Prior period adjustments and assessments	(1,494)	(204)
Benefit attributable to a financing structure	(891)	(917)
Other	(29)	(63)
Income tax expense	(2,301)	361

* U.S. Tax Reform was substantially enacted on December 22, 2017 under its official name "An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018". As a result of the enactment of this legislation, the Company's U.S. subsidiary recorded a one-time tax expense of $4,259, of which $2,258 was due to the new mandatory repatriation tax and $2,001 was due to the effect of the tax rate reduction on its net deferred income tax assets.

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

	2019 $	2018 $
Deferred income tax assets:		
To be realized after more than 12 months	20,878	17,479
To be realized within 12 months	5,069	4,555
Deferred income tax liabilities:		
To be realized after more than 12 months	(1,780)	(2,272)
To be realized within 12 months	(1,958)	(617)
Net deferred income tax asset	22,209	19,145

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

	2019 $	2018 $
Balance – Beginning of year	19,145	10,167
Recovery to consolidated statement of income	5,589	8,568
Opening retained earnings adjustment due to adoption of IFRS 15 (note 3)	(2,490)	-
Exchange differences	(35)	410
Balance – End of year	22,209	19,145

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

	2019 $	2018 $
Property, plant and equipment	(2,075)	(2,917)
Intangible assets	(2,762)	(3,180)
Non-deductible provisions and reserves	11,720	8,034
Investment tax credits	(1,132)	(1,505)
Inventories	3,341	8,836
Non-capital loss carryforwards	11,560	9,505
Other	1,557	372
	22,209	19,145

The Company has concluded that the deferred tax assets relating to the non-capital loss carryforwards will be recoverable before their expiry using the estimated future taxable income based on the business plans and budgets of the Company. These losses expire between 2038 and indefinitely.

The Company did not recognize deferred income tax assets of $3,364 (2018 – $3,287) in respect of non-capital losses amounting to $14,867 (2018 – $14,086) 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 $368 (2018 – $368) in respect of capital losses amounting to $2,745 (2018 – $2,745) that can be carried forward indefinitely against future taxable capital gains.

Deferred tax liabilities of $5,494 (2018 – $6,594) 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, 2019 totalled $290,671 (2018 – $295,379).

21 Loss per share

a) Basic

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

	2019	**2018**
Net loss attributable to Subordinate and Multiple Voting shareholders	$(4,882)	$(17,811)
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,621,935	21,640,632
Basic loss per share	$(0.23)	$(0.82)

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.

	2019	**2018**
Net loss attributable to Subordinate and Multiple Voting shareholders	$(4,882)	$(17,811)
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,621,935	21,640,632
Weighted average number of Subordinate and Multiple Voting Shares for diluted loss per share	21,621,935	21,640,632
Diluted loss per share	$(0.23)	$(0.82)

As at February 28, 2019, 140,000 stock options have an antidilutive effect (2018 – 140,000).

22 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, 2019, the aggregate maximum value of these guarantees, if exercised, amounted to $69,202 (2018 –$80,437). The guarantees expire as follows:

	$
February 29, 2020	22,969
February 28, 2021	17,838
February 28, 2022	8,131
February 28, 2023	1,384
February 29, 2024	9,738
Subsequent years	9,142
	69,202

b) The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3,988 (2018 – $3,430), which are covered by letters of credit.

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

	$
February 29, 2020	964
February 28, 2021	1,446
February 28, 2022	1,035
February 28, 2023	691
February 29, 2024	628
Subsequent years	10,999
	15,763

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, 2019, legal and related costs for these matters amounted to $9,212 (2018 – $8,213).

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.

23 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:

	2019	**2018**
	$	**$**
Affiliated company owned by certain relatives of controlling shareholder		
Purchases – Material components	1,013	1,230
Amount charged by the controlling shareholder to one of the Company's subsidiaries and certain of its executives		
Rent based on weekly usage	-	12
Accounts payable and accrued liabilities		
Affiliated companies	98	342
Key management[1] compensation		
Salaries and other short-term benefits	4,206	4,291
Share-based compensation – Options	17	40
Share-based compensation – PSUs & DSUs	20	160

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

24 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, 2019

	Canada $	United States $	France $	Italy $	Other $	Consolidation Adjustment $	Consolidated $
Sales							
Customers -							
Domestic	47,657	109,618	41,957	2,108	16,616	-	217,956
Export	65,186	-	55,964	33,593	(5,834)	-	148,909
Intercompany (export)	37,235	8,707	222	376	77,068	(123,608)	-
Total	150,078	118,325	98,143	36,077	87,850	(123,608)	366,865
Property, plant and equipment	30,736	6,165	12,935	1,871	31,830	-	83,537
Intangible assets and goodwill	1,986	-	9,219	6,887	54	-	18,146
Other identifiable assets	215,979	27,796	153,350	52,608	118,874	(145,933)	422,674
Total identifiable assets	248,701	33,961	175,504	61,366	150,758	(145,933)	524,357

February 28, 2018

	Canada $	United States $	France $	Italy $	Other $	Consolidation Adjustment $	Consolidated $
Sales							
Customers -							
Domestic	18,176	81,026	39,095	20,134	24,936	-	183,367
Export	58,033	-	60,485	14,993	21,085	-	154,596
Intercompany (export)	28,461	7,331	445	1,426	32,685	(70,348)	-
Total	104,670	88,357	100,025	36,553	78,706	(70,348)	337,963
Property, plant and equipment	33,441	6,688	13,322	2,548	33,865	-	89,864
Intangible assets and goodwill	1,403	-	9,885	8,855	67	-	20,210
Other identifiable assets	213,553	20,531	169,190	40,953	114,796	(128,904)	430,119
Total identifiable assets	248,397	27,219	192,397	52,356	148,728	(128,904)	540,193

25 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
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, 2019 and February 28, 2018 are as follows:

	Range of exchange rates		**Gain (loss)** (In thousands of U.S. dollars)		**Notional amount** (In thousands of indicated currency)	
	February 28, 2019	**February 28, 2018**	**February 28, 2019 $**	**February 28, 2018 $**	**February 28, 2019**	**February 28, 2018**
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.36	1.26-1.28	(61)	(1,558)	US$26,000	US$92,000
Buy US$ for CA$ – 0 to 12 months	1.30	1.25	183	433	US$26,000	US$92,000
Sell US$ for € – 0 to 12 months	1.15-1.18	1.18-1.19	(15)	(2)	US$2,010	US$2,190
Buy US$ for € – 0 to 12 months	-	1.18-1.24	-	92	-	US$4,785
Sell € for US$ – 0 to 12 months	1.14	1.24-1.28	(2)	(39)	€907	€16,297
Buy € for US$ – 0 to 12 months	-	1.18	-	64	-	€15,390
Buy £ for € – 0 to 12 months	-	0.89	-	(1)	-	£281

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, 2019 and February 28, 2018:

	Net income (loss)	
	2019 $	**2018 $**
Canadian dollar strengthening against the U.S. dollar	(555)	(524)
Euro strengthening against the U.S. dollar	464	396

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, 2019, four (2018 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.5% (2018 – 9.6%), and the Company's ten largest customers accounted for 58.9% (2018 – 57.3%) of trade accounts receivable. In addition, one customer accounted for 10.9% of the Company's sales (2018 – 9.9%).

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.

For some trade accounts receivable, the Company may obtain security in the form of credit insurance which can be called upon if the counterparty is in default under the terms of the agreement.

The Company also applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables.

The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

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, 2019 $	As at February 28, 2018 $
Current	75,888	91,534
Past due 0 to 30 days	13,329	12,421
Past due 31 to 90 days	15,860	8,546
Past due more than 90 days	26,845	18,714
	131,922	131,215
Less: Allowance for doubtful accounts	1,662	1,088
Trade accounts receivable	130,260	130,127
Other receivables	7,260	7,255
Total accounts receivable	137,520	137,382

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

	As at February 28, 2019 $	As at February 28, 2018 $
Balance – Beginning of year	1,088	1,239
Bad debt expense	1,056	212
Recoveries of trade accounts receivable	(215)	(444)
Write-off of trade accounts receivable	(202)	(122)
Foreign exchange	(65)	203
Balance – End of year	1,662	1,088

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, 2019
	Total **$**	**Less than 1 year** **$**	**1 to 3 Years** **$**	**4 to 5 Years** **$**	**After 5 years** **$**
Long-term debt	21,851	8,609	5,940	3,782	3,520
Accounts payable and accrued liabilities	74,910	74,910	-	-	-
Customer deposits	40,240	40,240	-	-	-
Bank indebtedness and short-term bank loans	31,979	31,979	-	-	-
Derivative liabilities	83	83	-	-	-

					As at February 28, 2018
	Total **$**	**Less than 1 year** **$**	**1 to 3 Years** **$**	**4 to 5 Years** **$**	**After 5 years** **$**
Long-term debt	22,129	8,151	5,371	3,548	5,059
Accounts payable and accrued liabilities	63,411	63,411	-	-	-
Customer deposits	48,963	48,963	-	-	-
Bank indebtedness and short-term bank loans	21,922	21,922	-	-	-
Derivative liabilities	1,615	1,615	-	-	-

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, 2019
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	189	-	189	-
Liabilities				
Derivative liabilities	83	-	83	-

				As at February 28, 2018
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	604	-	604	-
Liabilities				
Derivative liabilities	1,615	-	1,615	-

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.

26 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, 2019 $	**As at February 28, 2018 $**
Bank indebtedness	29,807	20,848
Short-term bank loans	2,172	1,074
Current portion of long-term debt	8,609	8,151
Long-term debt	13,242	13,978
Total debt	53,830	44,051
Equity	308,833	321,617
Total debt-to-equity ratio	17.4%	13.7%

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.

27 Adjustments to reconcile net loss to cash provided by (used in) operating activities

	2019 $	**2018 $**
Depreciation of property, plant and equipment	11,566	11,035
Amortization of intangible assets	2,009	1,842
Deferred income taxes	(5,589)	(8,568)
Share-based compensation expense	17	40
Gain on disposal of property, plant and equipment	(9)	(87)
Net change in derivative assets and liabilities	(1,132)	1,595
Net change in other liabilities	256	1,137
	7,118	6,994

28 Changes in non-cash working capital items

	2019 $	2018 $
Accounts receivable	(140)	(10,349)
Inventories	5,137	2,594
Income taxes recoverable	(10,383)	(756)
Deposits and prepaid expenses	(395)	(724)
Accounts payable and accrued liabilities	11,314	3,159
Income tax payable	(640)	3,743
Customer deposits	(8,840)	5,652
Provisions	(2,335)	223
Accrual for performance guarantees	(5,029)	6,444
	(11,311)	9,986

29 Cash net of debt reconciliation

	2019 $	2018 $
Cash and cash equivalents	70,673	85,391
Long-term debt - repayable within one year (including Bank indebtedness and Short-term bank loans)	(40,588)	(30,073)
Long-term debt - repayable after one year	(13,242)	(13,978)
Cash net of debt	16,843	41,340
Cash and cash equivalents	70,673	85,391
Gross debt - fixed interest rates	(23,598)	(21,411)
Gross debt - variable interest rates	(30,232)	(22,640)
Cash net of debt	16,843	41,340

	Other Assets		Other Liabilities		
	Cash and cash equivalents / Bank indebtedness	Short-term bank loans	Current portion of long-term debt	Long-term debt	Total
Cash net of debt as at March 1, 2017	**76,227**	**(1,650)**	**(7,115)**	**(15,318)**	**52,144**
Cash flows	(19,705)	576	2,002	1,204	(15,923)
Foreign exchange adjustments	8,021	-	(443)	(1,238)	6,340
Other non-cash movements	-	-	(2,595)	1,374	(1,221)
Cash net of debt as at February 28, 2018	**64,543**	**(1,074)**	**(8,151)**	**(13,978)**	**41,340**
Cash flows	(20,230)	(1,098)	2,866	(3,268)	(21,730)
Foreign exchange adjustments	(3,447)	-	210	630	(2,607)
Other non-cash movements	-	-	(3,534)	3,374	(160)
Cash net of debt as at February 28, 2019	**40,866**	**(2,172)**	**(8,609)**	**(13,242)**	**16,843**

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
J. Mannebach	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, General Manager, Project Manufacturing & Global Sales
J. Ball	Chief Financial Officer
V. Apostolescu	Vice-President, Quality Assurance
S. Bruckert	Executive Vice-President, Human Resources and General Counsel, Corporate Secretary
J. Calabrese	Vice-President, Technical Sales, Multi-Turn Products
J. Del Buey	Vice-President, Technical Sales, Quarter-Turn Products
P. Dion	Vice-President, Sales, Process Industries
G. Perez	Vice-President, Product Technology and Strategic Initiatives
D. Tran	Executive Vice-President, General Manager, Severe Service, Head of Corporate Engineering, Research & Development
D. Velan	Vice-President, Marketing
R. Velan	Executive Vice-President, General Manager, MRO and Aftermarket
S. Velan	Vice-President, Information Technology and Transformation

Shareholder information

Head office

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Montreal, Quebec, Canada H4T 1G2

Website

www.velan.com

Investor relations

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Chief Financial Officer
7007 Côte-de-Liesse, Montreal, Quebec, Canada H4T 1G2
Tel.: (514) 748-7743, Ext. 5537
Fax: (514) 748-8635

Auditors

PricewaterhouseCoopers LLP

Transfer agent

AST Trust Company

Shares outstanding as at February 28, 2019

6,055,368 Subordinate Voting Shares
15,566,567 Multiple Voting Shares

Listing

Symbol: VLN

Price range

High CA $17.96
Low CA $7.85

Closing on February 28, 2019: CA $9.22

Annual meeting

The Annual Meeting of Shareholders will be held July 11, 2019,
at 3:00 p.m. in the Salle Saint-Denis of the:
Club Saint James
1145 Union Avenue
Montreal, Quebec, Canada H3B 3C2

Velan worldwide

Head Office

Montreal, QC, Canada
Velan Inc.

An extensive global network

- 13 production facilities
  - 4 plants in North America
  - 4 plants in Europe
  - 5 plants in Asia
- 2 stocking and distribution centers
- Hundreds of distributors worldwide
- Over 60 service shops worldwide

Manufacturing - Canada

Plant 1 and 5

Montreal, QC, Canada
Velan Inc.

Plant 2 and 7

Montreal, QC, Canada
Velan Inc.

Plant 4 and 6

Granby, QC, Canada
Velan Inc.

Manufacturing - U.S.A.

Plant 3

Williston, VT, USA
Velan Valve Corp.

Manufacturing - Europe

Plant

Lyon, France
Velan S.A.S.

Plant

Mennecy, France
Segault S.A.S.

Plant

Lisbon, Portugal
Velan Valvulas Industriais, Lda.

Plant

Lucca, Italy
Velan ABV S.r.l.

Manufacturing - Asia

Plant 1

Ansan City, South Korea
Velan Ltd.

Plant 2

Ansan City, South Korea
Velan Ltd.

Plant

Taichung, Taiwan
Velan-Valvac

Plant

Suzhou, China
Velan Valve (Suzhou) Co. Ltd.

Plant

Coimbatore, India
Velan Valves India Private Ltd.

Distribution centers

Stocking and distribution

Willich, Germany
Velan GmbH

Stocking and distribution

Houston, TX, U.S.A.
Vel*TEX*

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