VELAN

Annual report 2020

70 1950-2020

70 years of valve manufacturing

Highlights

A sense of enthusiasm and pride can be seen in the above photo as the first ever 34" Class 1500 forged pressure seal parallel slide valve made by Velan was completed. The order was for two 24" and two 34" valves, each weighing over fifteen tons, for main steam isolation in an olefins project in southern Texas.

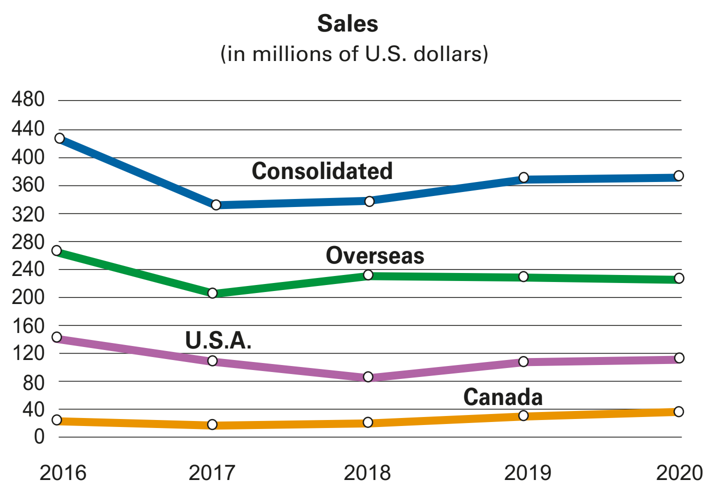
Duke Tran, Executive Vice-President, General Manager, Severe Service, at an independent lab witnessing the fire testing of five Velan valves including metal-seated ball valves and a Torqseal® 2.0 triple offset valve. Velan's very stringent testing requirements resulted in a 100% pass rate.

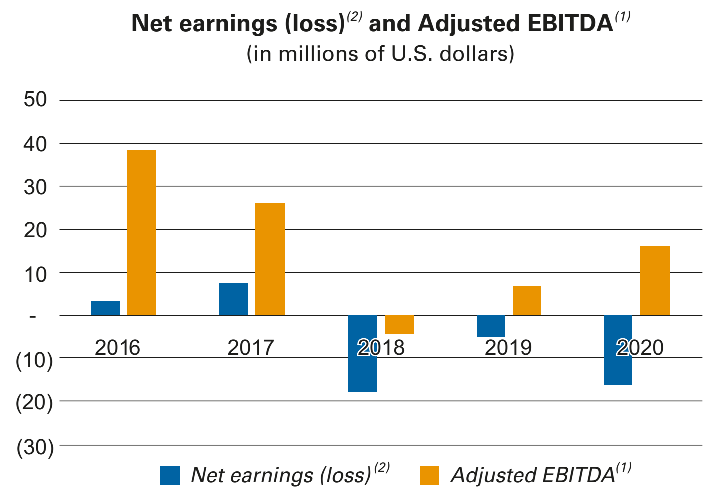
Three 36" Class 300 two-way metal-seated ball valves installed at a refinery in Egypt. Velan's Aftermarket and Technical Services provided on site assistance with the start-up.

Cover photo: *14" Class 600 Velan metal-seated switch valve, part of the same refinery installation shown in the above photo.*

Two of Velan's engineering initiatives this year involved: teaming up with Velan ABV to provide an integrated automated valve package for the mining industry; and gaining a foothold in the Ebullated bed market. The actuator, itself a unique design, was developed and patented by Velan ABV.

2020 Financial highlights





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

Years Ended	Feb 2020	Feb 2019	Feb 2018	Feb 2017	Feb 2016
Income statement data					
Sales	$ 371,625	$ 366,865	$ 337,963	$ 331,777	$ 426,895
Gross profit	88,134	85,595	70,861	88,528	104,283
Gross profit %	23.7%	23.3%	21.0%	26.7%	24.4%
Administration costs	85,189	93,336	87,713	75,868	77,974
Income (loss) before income taxes	(8,058)	(7,695)	(18,512)	12,994	12,587
Adjusted EBITDA(1)	16,088	7,087	(4,376)	26,201	38,563
Adjusted EBITDA(1) %	4.3%	1.9%	-1.3%	7.9%	9.1%
Adjusted EBITDA(1) per share	0.74	0.33	(0.20)	1.21	1.76
Net earnings (loss) (2)	(16,390)	(4,882)	(17,811)	7,737	3,641
Net earnings (loss) (2) %	-4.4%	-1.3%	-5.3%	2.3%	0.8%
Net earnings (loss) (2) per share (3)	(0.76)	(0.23)	(0.82)	0.36	0.17
Statement of financial position data					
Net cash	$ 31,010	$ 40,866	$ 64,543	$ 76,227	$ 84,340
Working capital	180,095	207,777	215,639	233,262	229,959
Property, plant, and equipment	98,179	83,537	89,864	91,535	95,257
Total assets	538,496	524,357	540,193	519,297	515,627
Total long-term debt	19,297	21,851	22,129	22,433	22,449
Equity	284,861	308,833	321,617	331,911	333,119
Number of employees					
Canada	619	716	732	763	787
United States	123	140	146	157	165
Europe	546	522	489	482	520
Asia	491	481	463	474	430
Total	1,779	1,859	1,830	1,876	1,902

(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 22 in the Notes to the Consolidated Financial Statements.

Dear Fellow Shareholders,

This year marks the 70th anniversary of our company which was founded by my father, AK Velan, in 1950. He started his company one year after arriving in Canada and right from his initial startup, he had a vision of becoming a global manufacturing company built on engineering and manufacturing expertise. The spirit of his entrepreneurship and great passion for industrial valves resonates with our people and in every valve we make.

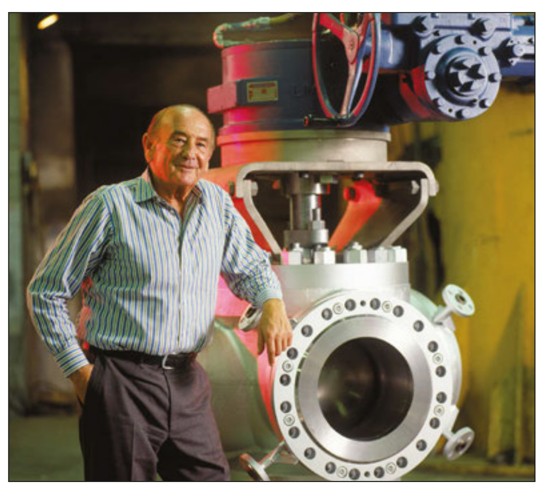
Tom Velan, Chairman of the Board

As Chairman of the Board and a member of the controlling shareholder family, I share in our shareholders' disappointment in the net loss reported for fiscal 2020 and the fall in the price of our shares which are currently trading at less than 40% of the net book value of our shareholder's equity as at February 29, 2020. On the other hand, I am encouraged by the progress made in deploying our V20 transformation plan which is a cornerstone for our future development. Our return to profitable growth depends on its success. Our operating results improved this year as EBITDA adjusted for the non-recurring V20 restructuring costs more than doubled from $7.1 million to $16.1 million.

At the time of writing this message, we are in the midst of the Covid-19 pandemic which is having a major impact on people all over the world and on the global economy including the oil industry which has been hit hard. So far, all our employees around the world have kept safe and all our facilities have introduced stringent distancing measures and working protocols. We are a company providing essential services to global energy and other industries, so we have continued to operate on a reduced basis throughout the lockdown periods.

These are clearly very challenging times for everyone, and I am really proud to witness how Yves Leduc, our executive team, and all employees around the world have risen to the occasion. On behalf of the Board of Directors, I want to thank Yves and all employees for their devoted work and perseverance under unprecedented circumstances. I also want to thank all our shareholders for the continuing support and the shared confidence in the renewed future for this 70-year-old company.

Tom Velan
Chairman of the Board



AK Velan, the engineer and entrepreneur who founded the company 70 years ago.

Message to our shareholders and employees

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

Highlights

- **Sales of $371.6 million**
- **Net loss[1] of $16.4 million**
- **Adjusted EBITDA[2] of $16.1 million**
- **Order Backlog of $406.8 million**
- **Order Bookings of $340.4 million**
- **Net Cash of $31.0 million**

Yves Leduc, Velan Inc's Chief Executive Officer, addressing employees during his weekly video message from his home during the COVID-19 pandemic.

What a year this has been! Fiscal year 2020 began with one of Velan's most significant announcements in its history, a transformation plan, known by every employee as V20, aiming to make the Company more agile and laser-focused on serving our customers. As the deployment efforts of the V20 plan grew in momentum, the company was able to deliver improved adjusted results, recovering from a terrible first quarter. And then, just when blue skies were looming, the global economy was shattered by COVID-19.

So, before diving into the year's summary, let me start off with what would normally be my conclusion: thanks to the great progress in transforming the Company, and to the many actions taken across its global operations, Velan is far better equipped and more resilient to navigate through the storm and to rebound when the economy recovers. Furthermore, our new President, Bruno Carbonaro, with us since November, brings his wealth of industrial experience and outstanding talents. Bruno, along with other highly capable new hires, are increasing our leadership capacity at a very important juncture in our history.

Sales, order bookings, and backlog: Recovering from very disappointing first quarter results

Sales increased by $4.7 million or 1.3% from the prior year, thanks to an increase in shipments from the Company's Italian operations that resulted from a record backlog in the upstream oil and gas industry. The Italian performance was partially offset by decreased shipments from the Company's North American and French operations.

Bookings decreased by $32.0 million or 8.6% from the prior year, when both our Italian and French subsidiaries had recorded significant project orders in their respective sectors. Also, in North America, our MRO business, experiencing a more normalized stocking replenishment cycle in fiscal year 2020, could not repeat the unusually high surge of non-project valve re-stocking orders experienced the previous year.

The Company ended the period with a backlog of $406.8 million, a decrease of $42.9 million or 9.5%, resulting from a book-to-bill ratio of 0.92. However, those numbers, while not satisfactory, are not fully reflecting the business performance of fiscal year 2020, as they were dragged down by a very poor booking and margin performance in the first quarter, that we have gradually recovered from in the following three quarters.

In addition, the Company's quotation activity has notably increased this year in sectors where margins are healthy, and concurrently decreased in other sectors where margins are much tighter. The shift is the result of deliberate screening, so that the net decrease in the Company's Backlog in the last year, which the Company aims to reverse, must be understood in this context.

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(2) 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.

Message to our shareholders and employees

A net loss(1), while Operating profit and EBITDA(2) show improvements when adjusted for restructuring and transformation costs

Net loss(1) amounted to $16.4 million or $0.76 per share compared to $4.9 million or $0.23 per share last year. Net loss(1) for the year was significantly impacted by a one-time $8.2 million non-cash tax adjustment to de-recognize unused tax losses as well as a non-recurring amount of $9.6 million, as part of the Company's restructuring and transformative V20 plan. These costs include cash severances, temporary project resources and their travel and lodging costs, as well as the moving costs related to dismantling and transportation of machinery and equipment required to optimize our manufacturing footprint. Excluding this investment and its after-tax impact as well as the extraordinary non-cash tax adjustment, the Company's net loss(1) would have been $1.2 million compared to $4.9 million last year, representing an improvement of $3.7 million.

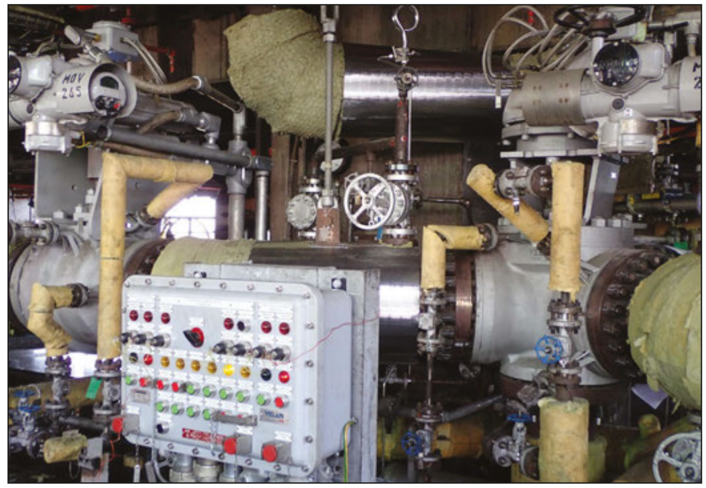
Meanwhile, operating profit before restructuring and transformation costs(2) amounted to $2.9 million compared to a comparable operating loss of $7.0 million last year. Adjusted EBITDA(2) amounted to $16.1 million or $0.74 per share compared to $7.1 million or $0.33 per share last year.

These improvements in our performance, adjusted for non-recurring transformation costs, are primarily attributable to successfully decreasing our administration costs and an increase in gross profit percentage. On this adjusted basis, the Company was able to make an operating profit for the first time since fiscal year 2017 while our adjusted EBITDA(2) of $16.1 million more than doubled compared to last year.

What drove gross profit to increase by $2.5 million for the fiscal year from 23.3% to 23.7%, or 40 basis points? Let us remember that gross profit landed on 19.2% at the end of the first quarter, so the recovery in gross margin in the following three quarters, averaging 25%, was significant. This came from a combination of several factors, reflecting, first, the exceptional shipment performance of our European operations. Second, a very poor first quarter performance by our North American operations was partially offset by an overall increase in margins through the last three quarters, thanks to reduction of our production overhead in accordance with the V20 plan, to a better mix, and to our business units' increased focus on higher quality orders.

V20: ahead of plan despite some early challenges

In the last twenty years, Velan has continued to live up to its superb brand reputation as leader in valve technology and product quality, while its business' competitiveness, mainly its North American operations, lost much ground to an increasingly competitive industry. Consequently, our business model had to be changed in order to better leverage our assets and strengths.



One of Velan's Severe Service Strategic Business Unit's (SBU) customer-centric offerings this year included three actuated Securaseal metal-seated ball valves, a Programmable Logic Controller (PLC), and local control panels into a single factory-tested package installed in one of the newest delayed coking units in the world.

The business case that led the Board of Directors to unanimously approve the strategy announced in January 2019, consisted in significant recurring bottom-line improvements achieved by fiscal year 2022, justifying one-off investment and restructuring costs to carry out the transformation. A year later, where do we stand? There is much good news.

First, thanks to the resourcefulness of our project teams and to growing North American project bookings, we will require less than half of the one-off V20 investment, while realizing higher recurring bottom-line benefits.

Second, although the greater portion of the V20 return on investment was to be realized in FY22 and beyond, the Company is already capturing the benefits of its modernized systems and new approach to markets, and in many ways, is already deeply transformed. This V20 progress update begins with a reminder of the five key pillars that define our corporate transformation:

1. Drive growth thanks to greater customer intimacy through five integrated and focused businesses, two of which already existed (French and Italian operations) and the next three basically re-centering our North American operations

2. Re-organize to consolidate four North American manufacturing plants into three, creating more specialized manufacturing centers

3. Drive substantial savings in cost and cycle time by shifting our North American manufacturing operations towards a leaner, less vertically integrated model centered on production cells

4. To our state-of-the-art low-cost Indian facility, transfer all non-nuclear and non-navy small-forged valves, as well as pressure-sealed valves normally destined to our MRO business

Message to our shareholders and employees

5. Finally, invest in systems and processes to improve customer service through, for example, best-of-class project management, modernized cost monitoring and configuration pricing

Progress against these pillars can be measured in a few compelling ways.

All five strategic businesses can boast of remarkable achievements, thanks to their business focus and coherent market activities. I already mentioned our Italian operations, delivering record sales and backlog in a breakthrough year, and our French operations, still by far our most successful business. Meanwhile in their first year, the newly created North American project manufacturing business units contributed to the Company's much improved performance in the second half of the year, registering excellent bookings in the petrochemical, mining, and power sectors, while earning the trust of the American defense industry with substantial orders in connection to its current shipbuilding activities.

In the fall, after several months of negotiations, an agreement between the Company and our unions was successfully reached on how to proceed with the shift towards a new lean production cell model. Following this milestone agreement, projects were accelerated and production in our large Montreal plant 2-7 will be stopped five months ahead of the original plan.

Production transfers to India will also be completed as planned this year. This move, combined with the reduction of production overhead in North America, will have a very positive impact on the economics of our global MRO and After-market business unit.

Finally, we are changing the way we do business and made substantial progress in modernizing our systems and processes, an effort initiated a few years back. Citing just one example, we have made our project management capabilities a distinctive competitive asset and the results, measured in terms of on-time delivery, are impressive and noticed by our customers.

Many other notable achievements

Fiscal year 2020 saw numerous other developments that will shape and grow our business, in areas like market development and product innovation. Let me mention only these three.

As I mentioned earlier, the Company's under performance in recent years was largely driven by our North American operations. Through this period, the economic performance of our international subs has remained steady. Our Italian operations, at Velan ABV, are a great example of this dynamism, as we recently signed a joint venture agreement with a Saudi partner, a key milestone in our Middle East strategy, the largest valve market in the world.

Paolo Ranieri, Chief Executive Officer of Velan ABV and Mr. Fahad M. Al-Ohaly, General Manager of Eastern Style Co shake hands before the signing of the agreement aiming to localize a manufacturing facility of Velan valves in the Saudi market. This partnership would give Velan entry into one of the largest markets in the world with the status of a Preferred Supplier.

Our French operations, renowned for their leadership in the nuclear market, have been able to diversify their innovation capabilities into several non-nuclear niches over the years, the latest successful venture securing new orders of cryogenic valves for the Indian aerospace industry, a very promising field. Just don't tell our French team that their business is "only nuclear": they will be quick to prove you wrong!

Finally, the market will soon see many new product introductions from Velan. The latest one, announced this spring, the launch of the Torqseal® 2.0 triple offset valve design, is major news for the industry. It leverages our twenty years track record with the technology, as we launch a ground-breaking new design that has a wide range of potential industrial applications.

Velan's Torqseal® 2.0 (patent pending) triple offset valve is engineered to deliver repeatable full bi-directional zero leakage, lower torques, and unmatched fugitive emissions performance.

Message to our shareholders and employees

COVID-19, both a dark shadow and an opportunity to stand out

Although this year's message to shareholders has a positive edge to it, the dangers of the terrible economic crisis that has assailed the world are certainly not lost on the Board and my management team. As supplier of critical equipment to essential industries, we were spared its most immediate and devastating consequences and our multi-national organization has responded admirably in enabling remote work in a matter of days, protecting those employees showing up every day at the shop, and ensuring the continuity of our global supply chain.

But no one can foretell how deep and long the global recession will go.

In such volatile environment, we should, first, be thankful for the progress made in fiscal year 2020 in driving process improvements, eliminating significant structural costs, and bringing about a new market focus. The combination of these actions has made the company lighter and more agile, and much more resilient to great shocks.

Second, we will continue improving the work environment, making it as safe and secure as possible for our employees. Like many other companies, we are writing the book on how to manage a manufacturing company through a pandemic. The well-being of our employees and their family is our most important concern.

Third, the crisis will inevitably reshape our industries. How do we plan through the fog? By remembering our raison d'être: we are a manufacturing and technology company, with a remarkable track record of standing for our customers with reputed products and services that keep those essential infrastructure industries, cornerstones to the world economies, safely running. Our

Above, hospital nurses thank Velan for their generosity. During this serious global coronavirus pandemic, Velan ABV made a donation to the local Hospital in Lucca, Italy and to the national health system. Velan China also supplied thousands of medical PPE (personal protective equipment) including masks to our worldwide operations who in turn donated masks within their local communities–showing teamwork at its best!

customers' needs will rapidly evolve; if we pay attention and listen to them, every single day, we will find innovative ways to serve them, to reassure them.

There is disruption ahead, and possibly upheaval…but our employees have already proven their capacity and resilience in handling enormous change and turbulence. Their resolve bolsters our confidence in an uncertain future. In many ways, the crisis is bringing our employees from across the world closer and collaboration has never been stronger. On behalf of our Board and the Velan family, I thank them, and add, let's keep going.

Yves Leduc
Chief Executive Officer

May 20, 2020

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. (“the Company”) for the year ended February 29, 2020. 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 29, 2020 and February 28, 2019. The Company’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”). 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 1,779 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 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 29, 2020	Fiscal year ended February 28, 2019[2]	Increase (decrease)	% Increase (decrease)
Consolidated statements of earnings (loss)				
Sales	$371.6	$366.9	$4.7	1.3%
Gross profit	88.1	85.6	2.5	2.9%
Gross profit %	23.7%	23.3%		
Net loss[3]	(16.4)	(4.9)	11.5	234.7%
Net loss[3] %	(4.4)%	(1.3)%		
Net loss[3] per share – basic and diluted	(0.76)	(0.23)	0.53	230.4%
Operating profit (loss) before restructuring and transformation costs[4]	2.9	(7.0)	9.9	141.4%
Adjusted EBITDA[4]	16.1	7.1	9.0	126.8%
Adjusted EBITDA[4] %	4.3%	1.9%		
Adjusted EBITDA[4] per share – basic and diluted	0.74	0.33	0.41	124.2%
Weighted average shares outstanding	21.6	21.6		
Consolidated statements of cash flows				
Cash provided by (used in) operating activities	9.6	(9.6)	19.2	200.0%
Cash used in investing activities	(11.7)	(8.1)	(3.6)	(44.4)%
Cash used by financing activities	(6.3)	(2.5)	(3.8)	(152.0)%
Demand data				
Net new orders received	340.4	372.4	(32.0)	(8.6)%
Period ending backlog of orders	406.8	449.7	(42.9)	(9.5)%

[1] *All dollar amounts in this schedule are denominated in U.S. dollars.*
[2] *The Company has adopted IFRS 16 at the beginning of the current fiscal year using the modified retrospective transition method whereby the comparative period was not restated.*
[3] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*
[4] *Non-IFRS measures – see reconciliations at the end of this report.*

Highlights of fiscal 2020 as well as factors that may impact fiscal 2021

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

- Sales amounted to $371.6 million, an increase of $4.7 million or 1.3% compared to last year. Sales were positively impacted by an increase in shipments from the Company's Italian operations which continued to deliver the record backlog, destined to the upstream oil and gas industry. This increase was partially offset by decreased shipments from the Company's North American and French operations. The decrease in shipments from the Company's North American operations is primarily attributable to an unusually high surge of non-project valve re-stocking orders from its distributors in the first quarter of the prior fiscal year.
- Administration costs amounted to $85.2 million, a decrease of $8.1 million or 8.7%. The decrease in administration costs was achieved despite the recording of a $0.9 million provision regarding the settlement of a product claim that was filed against the Company in a prior fiscal year as well as a slight increase in the 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 a long-term trend. The reduction in administration costs is mainly attributable to lower sales commissions as well as the higher freight charges that were incurred in the prior fiscal year in order to air freight a large delayed order. The Company also benefited from the reduction of staff levels, for which the related retirement packages were recorded in the last quarter of the previous year.
- Gross profit percentage increased by 40 basis points from 23.3% to 23.7%. This reflects a much-improved performance in the last three quarters of the year, each delivering above 24% in gross profit, a notable recovery from the first quarter where gross profit was only 19.2%. The recovery came from the strong sales volume and higher margin sales in the Company's European operations. Meanwhile, on a full-year comparison basis, this increase was partially offset by the lower sales volume shipped by the Company's North American operations. The gross profit percentage was also negatively impacted by the very low margins experienced in the first quarter in the Company's North American operations. However, these saw an overall improvement in margins through the last three quarters, thanks to the reduction of its production overhead in accordance with the V20 plan, a better product mix, and its business units' increased focus on higher quality orders.
- Net loss[1] amounted to $16.4 million or $0.76 per share compared to $4.9 million or $0.23 per share last year. Net loss[1] for the year was significantly impacted by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses as well as a charge of $9.6 million related to the Company's restructuring and transformative initiative, V20. Restructuring and transformation costs include cash severances and related costs paid or to be paid to former employees, temporary project resources and their travel and lodging costs as well as the moving costs related to dismantling and transportation of machinery and equipment to reflect the optimized manufacturing footprint plan. Excluding this $9.6 million charge, as well as the after-tax impact of these restructuring and transformation costs incurred during the year, the Company's net loss[1] would have been $9.4 million compared to $4.9 million last year, representing an increase in net loss[1] of $4.5 million which is primarily attributable to a non-cash income tax charge (see *Results of operations* section), partially offset by lower administration costs and an improved gross margin percentage.
- Operating profit before restructuring and transformation costs[2] amounted to $2.9 million compared to an operating loss of $7.0 million last year. Adjusted EBITDA[2] amounted to $16.1 million or $0.74 per share compared to $7.1 million or $0.33 per share last year. The improvement in operating profit before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to lowered administration costs and an increase in gross profit percentage. On this adjusted basis, the Company was able to make an operating profit for the first time since fiscal year 2017 while the Company's adjusted EBITDA more than doubled compared to last year.
- Net new orders received ("bookings") amounted to $340.4 million, a decrease of $32.0 million or 8.6% compared to last year. This decrease is due primarily to lower orders booked by the Company's Italian and French subsidiaries, which had recorded significant project orders relating to the upstream oil and gas and nuclear power industries in the previous fiscal year.
- The Company ended the period with a backlog of $406.8 million, a decrease of $42.9 million or 9.5% since the beginning of the current fiscal year. The decrease in backlog is primarily attributable to a lower book-to-bill[3] ratio of 0.92 and the weakening of the euro spot rate against the U.S. dollar over the course of the current fiscal year. Here again, those results, while not satisfactory, are not fully reflecting the business performance of fiscal year 2020, as they were dragged down by a very weak booking performance in the first quarter, that gradually improved in the following three quarters, namely in the

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[2] *Non-IFRS measures – see reconciliations at the end of this report.*
[3] *Defined as net new orders received compared to sales*

Company's North American operations, where, thanks to increased market and business focus through the new strategic business units, a book-to-bill ratio of 1.21 was achieved during the last two quarters.

- The Company ended the year with net cash of $31.0 million, a decrease of $9.9 million or 24.2% since the beginning of the year. This decrease is primarily attributable to investments in property, plant and equipment and intangible assets, long-term debt and lease liabilities repayments, as well as distributions to shareholders via dividends, partially offset by cash provided by operating activities and an increase in long-term debt. Net cash was also negatively impacted by V20 related disbursements as well as the weakening of the euro spot rate against the U.S. dollar over the course of the current year.
- Foreign currency impacts:
  - Based on average exchange rates, the euro weakened 4.6% against the U.S. dollar when compared to the same period last year. This weakening resulted in the Company's net profits and bookings from its European subsidiaries being reported as lower U.S. dollar amounts in the current year.
  - Based on average exchange rates, the Canadian dollar weakened 1.3% 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 unfavourable on the Company's results[1].

Fiscal year 2020 ended right before the World Health Organization declared the recent outbreak of a novel coronavirus ("COVID-19") a global pandemic. The outbreak of the COVID-19 epidemic late in the fiscal year slightly affected the results, but the Company was successful in greatly mitigating the impact of the emerging crisis, thanks to the tight monitoring of its global supply chain and to the pursued improvements under the V20 plan. In addition, the Company was able to deliver its highest sales quarter since fiscal 2015 as its Italian operations turned in the best quarterly performance in its history. The Company has also been able to significantly reduce its administration costs compared to the prior fiscal year and aims to lower them even further in the course of the next two fiscal years. Finally, progress will continue in the deployment of initiatives along the V20 restructuring and transformation plan. The plan ultimately aims to better serve its key markets through better company-wide alignment and increased focus, to reduce its structural costs and excess capacity, reorganize for agility and reduced cycle time and leverage its global footprint. The Company is also planning on relying on data-driven solutions that will allow better accuracy with respect to, for example, pricing decisions, cost tracking and allocation of resources.

Other factors that may impact fiscal year 2021

The outbreak of the COVID-19 virus has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruptions to businesses, globally resulting in an economic slowdown, including demand for products and ability to secure timely access to supplies as a result of various government mandated shutdowns. The Company has nonetheless been able to continue its operations with minimal interruption since it has been deemed to provide an essential service by various governmental authorities. Management continues to closely monitor the global situation surrounding the virus, as well as taking proactive steps to ensure the well-being and safety of its employees, and the continuity of its operations and businesses. It is too soon to assess how deep and long the global recession will go, nor is the Company able at this stage to reliably estimate the impact that these developments will have on the Company's financial results, conditions and cash flows. The Company has reacted swiftly to the crisis, protecting its supply chain, developing contingency plans, reducing its expenses, and staying close to its customers. Meanwhile, the COVID-19 pandemic has affected the progress of the V20 restructuring and transformative plan only in a very limited way. The Company still aims to have the V20 plan mostly completed, as scheduled, by the end of fiscal year 2021. Furthermore, there can be no assurance that additional 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 29, 2020	Fiscal year ended February 28, 2019	Fiscal year ended February 28, 2018
Operating Data			
Sales	$371,625	$366,865	$337,963
Net Earnings (loss)[1]	(16,390)	(4,882)	(17,811)
Earnings (loss) per Share			
- Basic	(0.76)	(0.23)	(0.82)
- Diluted	(0.76)	(0.23)	(0.82)
Balance Sheet Data			
Total Assets	538,496	524,357	540,193
Total Long-Term Financial Liabilities	19,609	21,723	22,200
Shareholder Data			
Cash dividends per share			
- Multiple Voting Shares[2]	0.09	0.09	0.31
- Subordinate Voting Shares	0.09	0.09	0.31
Outstanding Shares at report date			
- Multiple Voting Shares[2]	15,566,567		
- Subordinate Voting Shares	6,019,068		

Sales for fiscal year 2020 increased by 1.3% compared to fiscal year 2019. This increase was primarily attributable to an increase in shipments from the Company's Italian operations which continued to deliver the record backlog, destined to the upstream oil and gas industry. This increase was partially offset by decreased shipments from the Company's North American and French operations. The decrease in shipments from the Company's North American operations is primarily attributable to an unusually high surge of non-project valve restocking orders from its distributors in the first quarter of the prior fiscal year. 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.

Gross profit for fiscal year 2020 amounted to $88.1 million, an increase of $2.5 million from fiscal year 2019, while the gross profit percentage increased from the 23.3% reported in fiscal year 2019 to 23.7% in fiscal year 2020. This reflected a much-improved performance in the last three quarters of the year, each delivering above 24% in gross profit, a notable recovery from the first quarter where gross profit was only 19.2%. The recovery came from the strong sales volume and higher margin sales in the Company's European operations. Meanwhile, on a full-year comparison basis, this increase was partially offset by the lower sales volume shipped by the Company's North American operations. The gross profit percentage was also negatively impacted by the very low margins experienced in the first quarter in the Company's North American operations. However, these saw an overall improvement in margins through the last three quarters, thanks to the reduction of its production overhead in accordance with the V20 plan, a better mix, and its business units' increased focus on higher quality orders. 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.

Administration costs for fiscal year 2020 decreased by $8.1 million when compared to fiscal year 2019. This decrease was attributable to lower sales commissions and freight charges as well as benefiting from the reduction of staff levels, for which the related retirement packages were recorded in the last quarter of the previous year. This decrease was partially offset by a $0.9 million expense regarding the settlement of a product claim that was filed against the Company in a prior year as well as a slight increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). 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 the assessment of its current restructuring and transformation initiative, V20. The Company also experienced an increase in costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section).

[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 29, 2020 compared to the year ended February 28, 2019
(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year)

Sales

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Sales	$371.6	$366.9

Sales increased by $4.7 million or 1.3% from the prior year. Sales were positively impacted by an increase in shipments from the Company's Italian operations which continued to deliver the record backlog, destined to the upstream oil and gas industry. This increase was partially offset by decreased shipments from the Company's North American and French operations. The decrease in shipments from the Company's North American operations is primarily attributable to an unusually high surge of non-project valve re-stocking orders from its distributors in the first quarter of the prior fiscal year.

Bookings and backlog

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Bookings	$340.4	$372.4

Bookings decreased by $32.0 million or 8.6% from the prior year. The decrease in bookings is due primarily to lower orders booked in the Company's Italian and French operations, which had both recorded significant project orders relating to the upstream oil & gas and nuclear power industries in the previous fiscal year. 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 had 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. This decrease was partially offset by the suspension in the fourth quarter of the previous fiscal year of a $36.3 million large project order, booked in a prior fiscal year, to supply valves to a power plant in Vietnam. The decrease is also attributable to a poor booking performance in the first quarter of the fiscal year which the Company gradually recovered in the following three quarters.

(millions)	**February 2020**	**February 2019**	**February 2018**
Backlog	$406.8	$449.7	$464.5
For delivery within the subsequent fiscal year	$257.5	$299.6	$286.7
For delivery beyond the subsequent fiscal year	$149.3	$150.1	$177.8
Percentage – beyond the subsequent fiscal year	36.7%	33.4%	38.3%

As a result of sales outpacing bookings in the current fiscal year, the Company's book-to-bill ratio was 0.92 for the year. Furthermore, the total backlog decreased by $42.9 million or 9.5% since the beginning of the fiscal year, settling at $406.8 million. The backlog was negatively impacted by the lower book-to-bill ratio and the weakening of the euro spot rate against the U.S. dollar over the course of the year. The Company's quotation activity has notably increased this year in sectors where margins are healthy, and concurrently decreased in other sectors where the Company experiences the most aggressive competition and where margins are much tighter. The shift is the result of deliberate screening that is expected to take effect gradually as the Company replaces its existing backlog with higher margin orders. The net decrease in the Company's backlog in the last year, which the Company aims to reverse, must be understood in this context. In addition, and as stated earlier, the Company's booking performance throughout the year, while not satisfactory, is not fully reflecting the strong momentum experienced during the latter half of the year, namely in the Company's North American operations, where, thanks to increased market and business focus through the new strategic business units, a book-to-bill ratio of 1.21 was achieved.

Gross profit

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Gross profit	$88.1	$85.6
Gross profit percentage	23.7%	23.3%

Gross profit increased by $2.5 million for the fiscal year, while the gross profit percentage increased by 40 basis points from 23.3% to 23.7%. This reflects a much-improved performance in the last three quarters of the year, each delivering above 24% in gross profit, a notable recovery from the first quarter where gross profit was only 19.2%. The recovery came from the strong sales volume and higher margin sales in the Company's European operations. Meanwhile, on a full-year comparison basis, this increase was partially offset by the lower sales volume shipped by the Company's North American operations. The gross profit percentage was also negatively impacted by the very low margins experienced in the first quarter in the Company's North American operations. However, these saw an overall improvement in margins through the last three quarters, thanks to reduction of its production overhead in accordance with the V20 plan, a better product mix, and its business units' increased focus on higher quality orders. Overall, the Company delivered a backlog that dated back to the prior fiscal year, which meant that the margins did not yet reflect the impact of the margin improvement measures launched under the Company's restructuring and transformative V20 plan. The combined effect of these measures gradually took effect over the course of the year and will continue during the next year but the greater impact of the Company's V20 initiatives are only expected late in fiscal year 2021, when the task of reorganizing and reducing the Company's North American footprint is planned to be completed.

Administration costs

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Administration costs*	$85.2	$93.3
As a percentage of sales	22.9%	25.4%
*Includes asbestos-related costs of:	$9.6	$9.2

Administration costs decreased by $8.1 million or 8.7% for the fiscal year. The reduction in administration costs is primarily attributable to lower sales commissions as well as the higher freight charges that were incurred in the prior fiscal year in order to air freight a large delayed order. The Company also benefited from the reduction of staff levels, for which the related retirement packages were recorded in the last quarter of the previous year. This decrease was achieved despite the recording of a $0.9 million provision regarding the settlement of a product claim that was filed against the Company in a prior fiscal year and a slight increase in the costs recognized in connections 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 a long-term trend.

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.

Net finance costs

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Net finance costs	$1.4	$0.7

Net finance costs increased by $0.7 million for the fiscal year. While long-term debt is lower compared to the prior fiscal year, the Company's overall debt load increased over the course of the current fiscal year, particularly the bank indebtedness in its North American operations, resulting in an increase in its finance costs (see *Liquidity and Capital Resources* section).

Income taxes

(in thousands, excluding percentages)	Year ended February 29, 2020		Year ended February 28, 2019	
	$	%	$	%
Income tax at statutory rate of 26.6% (2019 – 26.7%)	(2,143)	26.6	(2,053)	26.7
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	1,469	(18.2)	1,640	(21.3)
Non-deductible foreign exchange loss	378	(4.7)	327	(4.3)
De-recognition of unused tax losses	8,256	(102.5)	724	(9.4)
Losses utilized not previously tax effected	(1,227)	15.3	(525)	6.8
Benefit attributable to a financing structure	(253)	3.1	(891)	11.6
Prior period tax adjustments and assessments	2,100	(26.1)	(1,494)	19.4
Other	(37)	0.5	(29)	0.4
Income tax expense (recovery)	8,543	(106.0)	(2,301)	29.9

The unfavorable movement in the Company's income tax expense in the current year is primarily attributable to the de-recognition of a portion of unused tax losses in the Company's North American operations. The unfavorable movement is also explained by U.S tax regulations addressing the deductibility of certain interest expenses and the base erosion provision for Global Intangible Low-taxed Income ("GILTI"), under which taxes on foreign income are imposed on the excess of a deemed return on tangible assets of certain foreign subsidiaries.

Net loss[1], Operating profit before restructuring and transformation costs[2] and Adjusted EBITDA[2]

(millions)	Year ended February 29, 2020	Year ended February 28, 2019
Net loss[1]	$(16.4)	$(4.9)
As a percentage of sales	(4.4)%	(1.3)%
Operating profit (loss) before restructuring and transformation costs[2]	$2.9	$(7.0)
Adjusted EBITDA[2]	$16.1	$7.1
As a percentage of sales	4.3%	1.9%

Net loss[1] amounted to $16.4 million or $0.76 per share compared to $4.9 million or $0.23 per share last year. Net loss[1] for the year was significantly impacted by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses as well as a charge of $9.6 million related to the Company's restructuring and transformative initiative, V20. Restructuring and transformation costs include cash severances and related costs paid or to be paid to former employees, temporary project resources and their travel and lodging costs as well as the moving costs related to dismantling and transportation of machinery and equipment to reflect the optimized manufacturing footprint plant. Excluding this $9.6 million charge, as well as the after-tax impact of restructuring and transformation costs incurred during the year, the Company's net loss[1] would have been $9.4 million compared to $4.9 million last year, representing an increase in net loss[1] of $4.5 million in net loss[1] which is primarily attributable to a non-cash income tax charge, partially offset by lower administration costs and an improved gross margin percentage. Operating profit before restructuring and transformation costs[2] amounted to $2.9 million compared to an operating loss of $7.0 million last year. Adjusted EBITDA[2] amounted to $16.1 million or $0.74 per share compared to $7.1 million or $0.33 per share last year. The improvement in operating profit before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to lowered administration costs and an increase in gross profit percentage.

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

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

SUMMARY OF QUARTERLY RESULTS

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

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

	QUARTERS ENDED							
	February 2020	**November 2019**	**August 2019**	**May 2019**	**February 2019**	**November 2018**	**August 2018**	**May 2018**
Sales	$113,641	$88,701	$85,467	$83,816	$105,345	$92,271	$91,375	$77,874
Net earnings (loss)[1]	(11,116)	(819)	1,369	(5,824)	1,519	(236)	(2,438)	(3,727)
Net earnings (loss)[1] per share								
- Basic	(0.51)	(0.04)	0.06	(0.27)	0.07	(0.01)	(0.11)	(0.17)
- Diluted	(0.51)	(0.04)	0.06	(0.27)	0.07	(0.01)	(0.11)	(0.17)

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 2020 and August 2018 due to increased shipments of such orders, while the lower sales amounts for the quarters ended in May 2018, May 2019, August 2019 and November 2019 were due to delays on the shipments of such orders. Sales were higher in the quarters ended in February 2019 and November 2018 due to increased shipments of a large project order in China, but, more significantly, as a result of a large surge in the MRO business. Net earnings[1] for the quarter ended in February 2019 was higher due to an improved sales volume and a more profitable product mix. The net loss[1] for the quarter ended in May 2019 was due to a less profitable product mix partly caused by the shipment of technically complex orders with lower margins. Net earnings[1] for the quarter ended August 2019 was due to a more profitable product mix. The net loss[1] for the quarters ended in August 2018 and November 2018 were largely due to the fact that the North American operations were below break even and additional costs were incurred in the quarter to meet delivery commitments. The net loss[1] for the quarter ended in May 2018 was due to a less profitable product mix and shipping delays caused by internal operational issues. The net loss[1] for the quarter ended in February 2020 was due to the de-recognition of unused tax losses as well as the $7.1 million spend on the Company’s restructuring and transformative initiative, V20.

RESULTS OF OPERATIONS – quarter ended February 29, 2020 compared to the quarter ended February 28, 2019

(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 29, 2020	Three-month period ended February 28, 2019
Sales	$113.6	$105.3

Sales increased by $8.3 million or 7.9% 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 subsidiary, while its North American operations realized lower sales. The Company’s Italian operations were able to register the best quarterly performance of the subsidiary’s history amidst the turbulence caused by the COVID-19 virus.

Bookings

(millions)	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Bookings	$88.3	$82.0

Bookings increased by $6.3 million or 7.7% for the quarter. The increase in bookings for the quarter is due primarily to large severe service orders booked in the Company’s North American operations. Additionally, bookings had negatively been impacted in the last quarter of the previous fiscal year by the suspension of a $36.3 million large project order which had been booked in a prior fiscal year, to supply valves to the power market in Vietnam. This increase in bookings was partially offset by lower order bookings in the

Company's Italian and French operations, which had both recorded significant project orders relating to the upstream oil & gas and nuclear power industries in the last quarter of previous fiscal year.

Gross profit

(millions)	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Gross profit	$27.9	$25.9
Gross profit percentage	24.6%	24.6%

Gross profit increased by $2.0 million for the quarter, while the gross profit percentage remained stable when compared to the prior year quarter. The increase in gross profit was achieved through an overall higher sales volume, while the Company's gross profit percentage remained stable due to less efficient sales mix when compared to the quarter of the previous year.

Administration costs

(millions)	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Administration costs*	$21.5	$27.1
As a percentage of sales	18.9%	25.7%
*Includes asbestos-related costs of:	$2.7	$3.2

Administration costs decreased by $5.6 million or 20.7% for the quarter. The Company benefited from the reduction of staff levels, for which the related retirement packages were recorded in the last quarter of the previous year. The decrease is also attributable to lower sales commissions as well as a decrease in costs associated with the Company's ongoing asbestos litigation (see *Contingencies* section). The fluctuation in asbestos costs is due more to the timing of settlements rather than a long-term trend.

Income taxes

(in thousands, excluding percentages)	Three-month period ended February 29, 2020		Three-month period ended February 28, 2019	
	$	%	$	%
Income tax at statutory rate of 26.6% (2019 – 26.7%)	(393)	26.6	(184)	26.7
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	658	(44.5)	483	(70.2)
Non-deductible (taxable) foreign exchange loss (gain)	31	(2.1)	(11)	1.6
De-recognition of unused tax losses	8,013	(541.8)	(416)	60.5
Losses utilized not previously tax effected	(782)	52.9	(525)	76.3
Drawback (Benefit) attributable to a financing structure	408	(27.6)	(218)	31.7
Prior period tax adjustments and assessments	2,100	(142.0)	(1,494)	217.2
Other	(125)	8.5	500	(72.7)
Income tax expense (recovery)	9,910	(670.0)	(1,865)	(271.1)

Net earnings (loss)[1], Operating profit before restructuring and transformation costs[2] and Adjusted EBITDA[2]

(millions)	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Net earnings (loss)[1]	$(11.1)	$1.5
As a percentage of sales	(9.8)%	1.4%
Operating profit (loss) before restructuring and transformation costs[2]	$6.2	$(0.7)
Adjusted EBITDA[2]	$9.9	$3.8
As a percentage of sales	8.7%	3.6%

Net loss[1] amounted to $11.1 million or $0.51 per share compared to net earnings[1] of $1.5 million or $0.07 per share last year. Net loss[1] for the quarter was significantly impacted by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses as well as a charge of $7.1 million related to the Company's restructuring and transformative initiative, V20. Restructuring and transformation costs include cash severances and related costs paid or to be paid to former employees, temporary project resources and their travel and lodging costs as well as the moving costs related to dismantling and transportation of machinery and equipment to reflect the optimized manufacturing footprint plant. Excluding this $7.1 million charge, as well as the after-tax impact of these restructuring and transformation costs incurred during the quarter, the Company's net loss[1] would have been $5.9 million compared to net earnings[1] of $1.5 million last year, representing a decrease in the Company's results of $7.4 million which is primarily attributable to a non-cash income tax charge, partially offset by lower administration costs and an improved gross margin. Operating profit before restructuring and transformation costs[2] amounted to $6.2 million compared to an operating loss of $0.7 million last year. Adjusted EBITDA[2] amounted to $9.9 million or $0.46 per share compared to $3.8 million or $0.18 per share last year. The improvement in operating profit before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to lowered administration costs and an increase in gross profit.

[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 29, 2020					
	Carrying value $	Less than 1 year $	1 to 3 Years $	4 to 5 Years $	After 5 years $	Total $
Long-term debt	19,297	8,311	5,420	3,349	2,217	19,297
Long-term lease liabilities	15,343	1,970	3,074	2,187	13,205	20,436
Accounts payable and accrued liabilities	74,271	74,271	-	-	-	74,271
Customer deposits	47,208	47,208	-	-	-	47,208
Bank indebtedness and short-term bank loans	45,696	45,696	-	-	-	45,696
Derivative liabilities	1,169	1,169	-	-	-	1,169

On February 29, 2020, the Company's order backlog was $406.8 million, and its net cash plus unused credit facilities amounted to $91.8 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. The Company also believes that its unused credit facilities are sufficient to overcome the COVID-19 pandemic and the adverse effects the virus has had on the world's economy. 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. As at February 29, 2020, the Company was in breach of one of its covenants and a waiver was obtained subsequent to year-end date which waives the covenants as of February 29, 2020 and May 31, 2020 at which point the Company anticipates that it will be fully compliant with its covenants.

As part of managing its liquidity risk, the Company also monitors the financial health of its key customers and suppliers.

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 2020	November 2019	February 2019	November 2018	February 2018
Net cash	$31.0	$39.0	$40.9	$50.0	$64.5

The Company's net cash decreased by $8.0 million or 20.5% over the course of the quarter and by $9.9 million or 24.2% since the beginning of the current fiscal year. This decrease is primarily attributable to investments in property, plant and equipment and intangible assets, long-term debt and lease liabilities repayments as well as distributions to shareholders via dividends, partially offset by cash provided by operating activities and an increase in long-term debt. Net cash was also negatively impacted by V20 related disbursements as well as the weakening of the euro spot rate against the U.S. dollar over the course of the year.

Cash provided by (used in) operating activities

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Cash provided by (used in) operating activities	$9.6	$(9.6)	$(3.7)	$(4.2)

Cash used in operating activities amounted to $3.7 million for the current quarter compared to $4.2 million in the prior year. The current quarter's usage of funds consisted of a net loss[1] adjusted for non-cash items of 9.7 million and positive non-cash working capital movements of $6.0 million. Cash provided by operating activities amounted to $9.6 million for the current year compared to cash used in operating activities of $9.6 million in the prior year. The current year's source of funds consisted of a net loss[1] adjusted for non-cash items of $4.5 million and positive non-cash working capital movements of $14.1 million.

Accounts receivable

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Accounts receivable increase	$1.3	$0.1	$13.8	$11.1

Accounts receivable balances are a function of the timing of sales and cash collections. The accounts receivable balance increased in both the current quarter and fiscal year due primarily to a greater proportion of the Company's accounts receivable, which consist primarily 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 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Inventories decrease (increase)	$(7.4)	$5.1	$7.9	$4.6
Customer deposits increase (decrease)	$8.3	$(8.8)	$(4.1)	$2.6

For the current quarter, inventories decreased since the Company had a strong shipping quarter. However, for the fiscal year as a whole, inventories increased due to the replenishment of stock following large shipments that occurred in prior quarters as well as the build up of inventory in reaction to the booking of certain larger project orders. In the prior fiscal year, the Company had large shipments closer to the end of the fiscal year 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 fiscal year and

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

decreased for the current quarter. 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.

Accounts payable and accrued liabilities

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Accounts payable and accrued liabilities increase (decrease)	$0.6	$11.3	$(1.0)	$5.3

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 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Additions to property, plant and equipment	$10.3	$7.5	$1.3	$1.1

The additions to property, plant and equipment in the current fiscal year include a 2.8M investment required by the local authorities to re-zone the land of the Company's Korean foundry.

Long-term lease liabilities

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Repayment of long-term lease liabilities	$1.6	nil	$0.4	nil

The Company has adopted IFRS 16 at the beginning of the current fiscal year using the modified retrospective transition method whereby the comparative period was not restated. As per the new standard, repayments of the capital portion of lease liabilities are considered financing activities in the statement of cash flow.

Long-term debt

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Increase in long-term debt	$1.1	$4.0	$ -	$ -
Repayment of long-term debt	$2.9	$3.6	$0.5	$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, one of the Company's French subsidiaries borrowed $1.1 million (€1.0 million) in the form of an unsecured bank loan, bearing interest at 0.30% and repayable in 60 monthly instalments, expiring in 2024.

Dividends paid and repurchase of shares

(millions)	Fiscal Year ended February 29, 2020	Fiscal Year ended February 28, 2019	Three-month period ended February 29, 2020	Three-month period ended February 28, 2019
Dividends paid	$2.0	$3.1	$0.5	$0.5
Repurchase of shares	$0.2	$-	$0.1	$ -

The Company changed its dividend policy two years ago, reducing the dividend from CA$0.10 per share per quarter to CA$0.03 per share per quarter. The revised policy took effect starting with the dividend payment of June 29, 2018. The dividend paid in the first quarter of the prior fiscal year was under the prior dividend policy.

The Board has decided it is appropriate in the current context to suspend the quarterly dividend, effective immediately. This decision will be reviewed on a quarterly basis.

The Board of Directors of the Company has authorized on October 10, 2019 a normal course issuer bid to purchase for cancellation up to 151,384 Subordinate Voting Shares representing approximately 2.5 % of the outstanding Subordinate Voting Shares of the Company. Following the approval of the Normal Course Issuer Bid by the TSX, the Company repurchased for cancellation a total of 36,300 Subordinate Voting Shares for a cash consideration of $0.2 million over the course of 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
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 under derivatives contracts as at February 29, 2020 and February 28, 2019 are as follows:

	Range of exchange rates		**Gain (loss)** (In thousands of U.S. dollars)		**Notional amount** (In thousands of indicated currency)	
	February 29, 2020	**February 28, 2019**	**February 29, 2020 $**	**February 28, 2019 $**	**February 29, 2020**	**February 28, 2019**
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.33-1.34	1.36	(923)	(61)	US$68,000	US$26,000
Buy US$ for CA$ – 0 to 12 months	1.31-1.33	1.30	357	183	US$68,000	US$26,000
Sell US$ for € – 0 to 12 months	-	1.15-1.18	-	(15)	-	US$2,010
Buy US$ for € – 0 to 12 months	1.10-1.11	-	(3)	-	US$1,205	-
Sell € for US$ – 0 to 12 months	1.10-1.14	1.14	(174)	(2)	€16,790	€907
Buy € for US$ – 0 to 12 months	1.10-1.11	-	198	-	€16,790	-
Sell US$ for KW – 0 to 12 months	1,139-1,171	-	(70)	-	US$1,647	-
Total Gain (loss)			**(615)**	**105**		

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 29, 2020 and February 28, 2019:

	Net loss	
	2020 $	**2019 $**
Canadian dollar strengthening against the U.S. dollar	(1,463)	(555)
Euro strengthening against the U.S. dollar	411	464

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 29, 2020, four (2019 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.0% (2019 – 10.5%), and the Company's ten largest customers accounted for 61.2% (2019 – 58.9%) of trade accounts receivables. In addition, one customer accounted for 13.4% of the Company's sales (2019 – 10.9%).

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. A loss allowance 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.

As at February 29, 2020, the lifetime expected loss allowance for trade receivables was determined as follows:

	As at February 29, 2020				
	Current	**Past due more than 30 days**	**Past due 31 to 90 days**	**Past due more than 90 days**	**Total**
Expected loss rate	1.041%	1.173%	1.289%	3.820%	
Gross carrying amount	83,711	16,619	7,445	21,989	129,764
Loss allowance	**871**	**195**	**96**	**840**	**2,002**

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 29, 2020 $	As at February 28, 2019 $
Current	83,711	75,888
Past due 0 to 30 days	16,619	13,329
Past due 31 to 90 days	7,445	15,860
Past due more than 90 days	21,989	26,845
	129,764	131,922
Less: Loss allowance	2,002	1,662
Trade accounts receivable	127,762	130,260
Other receivables	7,480	7,260
Total accounts receivable	135,242	137,520

The table below summarizes the movements in the loss allowance:

	As at February 29, 2020 $	As at February 28, 2019 $
Balance – Beginning of year	1,662	1,088
Loss allowance expense	1,045	1,056
Recoveries of trade accounts receivable	(95)	(215)
Write-off of trade accounts receivable	(552)	(202)
Foreign exchange	(58)	(65)
Balance – End of year	2,002	1,662

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. 1,561 claims were outstanding at the end of the reporting period (February 28, 2019 – 1,349). These claims were filed in the states of Arizona, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Louisiana, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, New Jersey, New York, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, Washington and West Virginia. During the current fiscal year, the Company resolved 436 claims (February 28, 2019 – 437) and was the subject of 648 new claims (February 28, 2019 – 596). 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 $2,677 for the quarter (February 28, 2019 - $3,185) and $9,621 for the year (February 28, 2019 - $9,212).

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 alleged damages to the Facility in excess of $9,000 related to allegedly defective valves supplied by Velan Valve Corp. The claim was for alleged strict product liability and alleged negligence. The Company vigorously defended its position and undertook all actions necessary to protect its reputation. During the year ended February 29, 2020, the Company made a final settlement of this case and recorded a net settlement of $850.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has entered into certain off-balance sheet arrangements. They are fully described in notes 11, 23 and 26 of the Company's audited consolidated financial statements. The types of transactions entered into, all of which are in the normal course of business, are as follows:

- Performance bond guarantees related to product warranty and on-time delivery
- Letters of credit issued to overseas suppliers
- Low value and/or Short-term 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. 29, 2020	Feb. 28, 2019	Feb. 29, 2020	Feb. 28, 2019
Purchases of material components	$325	$256	$708	$1,013

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.

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 29, 2020 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 29, 2020.

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 29, 2020 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 (loss).

Warranty 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 (loss).

Provision for performance guarantees

Provision 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 provision 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 (loss).

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. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization ("EBITDA") margin and revenue growth. 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 (loss).

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

COVID-19
The outbreak of the COVID-19 virus has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruptions to businesses globally resulting in an economic slowdown, including demand for products and ability to secure timely access to supplies as a result of various government mandated shutdowns. The Company has been able to continue its operations with minimal interruption since it has been deemed to provide an essential service by the government authorities. Management continues to closely monitor the global situation surrounding the virus, as well as taking proactive steps to ensure the well-being and safety of its employees, and the continuity of its operations and businesses. In developing estimates for the year ended February 29, 2020, management determined that COVID-19 has minimal impact on key assumptions. However, because of the uncertainty that exists, it is not possible to reliably estimate the impact that these developments will have on the Company's financial results, conditions and cash flows.

Consolidation
The Company consolidates the accounts of Juwon Special Steel Co. Ltd. in these consolidated 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 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 was adopted effective March 1, 2019 and the Company elected the modified retrospective transition method on the effective date, without restatement of the comparative figures. As such, comparative information continues to be reported under previous accounting standards.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract includes the right to control the use of an identified asset for a period of time in exchange for consideration.

In situations where the Company is a lessee, the result is the recording, at the lease commencement date, of a right-of-use asset and a lease liability for the present value of the future lease payments on the statement of financial position for most of its contracts that were considered operating leases under IAS 17. In order to determine the present value of the future lease payments, the Company uses the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses the incremental borrowing rate of each of its subsidiaries. The Company depreciates its right-of-use asset on the lesser of the lease term or the useful life of the asset using the straight-line method since it closely reflects the expected pattern of consumption of the future economic benefits.

The right-of-use asset may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or estimate. The lease liability is remeasured with a corresponding adjustment to the carrying value of the right-of use asset. If the carrying value of the right-of-use asset has been reduced to zero, the remaining adjustment is recorded in the statement of income (loss).

Cash payments for the principal portion of the lease liability are presented within the financial activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows. Payments associated with short-term leases and leases of low value assets are not included in the measurement of the lease liability and are presented in operating activities in the statement of cash flows.

At the date of initial application, the Company elected to measure the right-of-use asset in an amount equal to the lease liability. The Company also applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

a) The Company elected to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and elected to not apply the standard to contracts that were not previously identified as leases under IAS 17 and IFRIC 4.
b) The Company has elected to exclude intangible assets from the scope of this standard.
c) The Company used the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as the date of initial application, and lease contracts for which the underlying asset is of low value.
d) The Company used hindsight to determine the lease terms if the contract contained options to extend or terminate the lease term.

The following table reconciles the Company’s operating lease obligations at February 28, 2019 to the lease liabilities recognized on initial application of IFRS 16 at March 1, 2019.

Operating Lease Commitments disclosed as at February 28, 2019	**15,763**
Discounted using the lessee's weighted average incremental borrowing rate of 2.49% at the date of initial application	(4,249)
(Less): Short-term leases and low-value leases recognized on straight-line basis as expense	(331)
Add: Adjustments as a result of a different treatment of extension and termination options	3,980
Lease liability recognized as at March 1, 2019	**15,163**
Of which are:	
Current portion of long-term lease liabilities	1,290
Long-term lease liabilities	13,873

The recognized right-of-use assets relate to the following types of assets:

	As at February 29, 2020 $	As at March 1, 2019 $
Land	6,648	6,528
Buildings	6,559	7,150
Machinery & Equipment	359	113
Furniture & Fixtures	33	48
Data Processing Equipment	138	241
Rolling Stock	1,417	1,083
Total right-of-use assets	15,154	15,163

The following table summarizes the impact of adopting IFRS 16 on the Company's consolidated statement of financial position as at March 1, 2019. Prior amounts have not been restated. The Company's transition to IFRS 16 did not impact the Company's retained earnings.

	February 28, 2019 $	Adjustment due to IFRS 16 $	March 1, 2019 $
Non-current assets			
Property, Plant and Equipment	83,537	15,163	98,700
Current liabilities			
Current portion of long-term lease liabilities	-	1,290	1,290
Non-current liabilities			
Long-term lease liabilities	-	13,873	13,873

(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 Company has adopted the interpretation of IFRIC 23 on March 1, 2019 and concluded that it has no impact on previously reported results.

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.

The Company's financial condition and results of operations may be adversely affected by commodity price volatility. Crude oil and natural gas prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. Crude oil and natural gas prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil and natural gas; global economic conditions; the actions of the Organization of Petroleum Exporting Countries ("OPEC") and OPEC+; government regulation; political stability and geopolitical factors; the ability to transport crude to markets; developments related to the market for liquefied natural gas; the availability and prices of alternate fuel sources; and weather conditions.

Recently, global oil prices have weakened materially as a result of the recent global outbreak of a novel coronavirus ("COVID-19"), compounded by OPEC+, led by Saudi Arabia and Russia, failing to reach an agreement on constraining output. Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, OPEC+ actions, inflation, the availability and cost of credit, the deceleration of economic growth in China, trade disputes between the United States and China, civil unrest in Venezuela and Iran and the outbreak of COVID-19 have contributed to increased economic uncertainty and diminished expectations for the global economy. Further weakening of commodity prices could have a material adverse effect on the Company's business, financial condition and results of operations.

Disease and Epidemics

The impact of disease and epidemics may have a negative impact on the Company and its performance and financial position. In December 2019, a novel strain of coronavirus, known as "COVID-19" was identified in Wuhan, China. As of March 20, 2020, COVID-19 had spread to over 100 countries and been declared a pandemic by the World Health Organization. COVID-19 has resulted in, and renewed outbreaks of COVID-19 or new epidemics could result in, health or other government authorities requiring the closure of offices or other businesses, and could also result in a general economic decline. For example, such events may adversely impact economic activity through disruption in supply and delivery chains. Moreover, the Company's operations could be negatively affected if personnel are affected by or quarantined as the result of, or in order to avoid, exposure to a contagious illness. The Company has been designated as an "essential business" at this time, with minimal disruptions to operations.

A resulting negative impact on economic fundamentals and consumer confidence may negatively impact market value, increase market volatility, cause credit spreads to widen, and reduce liquidity, all of which could have an adverse effect on the business of the Company. The duration of the business disruption and related financial impact caused by a widespread health crisis cannot be reasonably estimated. The speed and extent of the spread of COVID-19, and the duration and intensity of resulting business disruption and related financial and social impact, are uncertain, and such adverse effects may be material. While governmental agencies and private sector participants will seek to mitigate the adverse effects of this coronavirus, which may include such measures as heightened sanitary practices, telecommuting, quarantine, curtailment or cessation of travel, and other restrictions, and the medical community is seeking to develop vaccines and other treatment options, the efficacy of such measures is uncertain. The Company's operations and business results could be materially adversely affected. The extent to which COVID-19 (or any other disease or epidemic) impacts business activity or investment results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain this coronavirus or treat its impact, among others.

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 and Debt Financing
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. At maturity of such instruments, the Company may also not be able to refinance such instruments at terms favorable to the Company, or at all. In addition, the terms of the Company`s indebtedness provide that, upon an event of default, such indebtedness becomes immediately due and payable. Failure to refinance existing indebtedness on favorable terms or to comply with the terms of such indebtedness could have a material adverse effect on the Company's results of operations and its financial position.

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 regard to the outcome of 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 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.

Canada and five other countries have ratified the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP"), entered into force on December 31, 2018 in the six countries and which is intended to allow for preferential market access among the countries that are parties to the CPTPP. The CPTPP entered into force between Canada and Vietnam on January 14, 2019. It is uncertain what effect CPTPP will have on Velan (and its customers and suppliers) and the industrial products industry.

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.

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 2020 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.

Operating profit (loss) before restructuring and transformation costs and Adjusted net earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA")

For the fiscal year ended:	Feb. 29, 2020	Feb. 28, 2019	Feb. 28, 2018	Feb. 28, 2017	Feb. 28, 2016
Operating profit (loss)	(6,669)	(7,000)	(18,315)	13,068	12,388
Adjustment for:					
Restructuring and transformation costs	9,566	-	-	-	2,759
Operating profit (loss) before restructuring and transformation costs	**2,897**	**(7,000)**	**(18,315)**	**13,068**	**15,147**
Net income (loss)[1]	(16,390)	(4,882)	(17,811)	7,737	3,641
Adjustments for:					
Goodwill impairment loss	-	-	-	-	11,510
Depreciation of property, plant and equipment	10,803	11,566	11,035	11,943	13,301
Amortization of intangible assets	2,177	2,009	1,842	1,767	2,008
Finance costs – net	1,389	695	197	74	(199)
Income taxes	8,543	(2,301)	361	4,680	8,302
EBITDA	**6,522**	**7,087**	**(4,376)**	**26,201**	**38,563**
Adjustment for:					
Restructuring and transformation costs	9,566	-	-	-	2,759
Adjusted EBITDA	**16,088**	**7,087**	**(4,376)**	**26,201**	**41,322**

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

For the quarter ended:	Feb. 29, 2020	Feb. 28, 2019
Operating loss	(908)	(665)
Adjustment for:		
Restructuring and transformation costs	7,086	-
Operating profit (loss) before restructuring and transformation costs	**6,178**	**(665)**
Net income (loss)[1]	(11,116)	1,519
Adjustments for:		
Depreciation of property, plant and equipment	2,758	3,461
Amortization of intangible assets	679	677
Finance costs – net	550	23
Income tax expense (recovery)	9,911	(1,865)
EBITDA	**2,782**	**3,815**
Adjustment for:		
Restructuring and transformation costs	7,086	-
Adjusted EBITDA	**9,868**	**3,815**

The term "operating profit or loss before restructuring and transformation costs" is defined as operating profit or loss plus restructuring and transformation costs. The Company opted to not adjust the prior year figures due to the different nature of the expenses, which were more related to the assessment of the required restructuring and transformation plan rather than the execution of the plan itself. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

The term "adjusted EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus restructuring and transformation costs, depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. The Company opted to not adjust the prior year figures due to the different nature of the expenses, which were more related to the assessment of the required restructuring and transformation plan rather than the execution of the plan itself. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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

Velan Inc.

Consolidated Financial Statements
For the years ended February 29, 2020 and February 28, 2019

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 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive 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 the 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.

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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 otherwise 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 to communicate with 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 Jean-François Lecours.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
May 20, 2020

[1] CPA auditor, CA, public accountancy permit No. A126402

Velan Inc.

Consolidated Statements of Financial Position

As at February 29, 2020 and February 28, 2019
(in thousands of U.S. dollars)

	February 29, 2020 $	February 28, 2019 $
Assets		
Current assets		
Cash and cash equivalents	75,327	70,673
Short-term investments	627	658
Accounts receivable (note 4)	135,242	137,520
Income taxes recoverable	8,747	16,863
Inventories (note 5)	170,265	165,583
Deposits and prepaid expenses	5,191	4,612
Derivative assets	555	189
	395,954	396,098
Non-current assets		
Property, plant and equipment (notes 7 and 8)	98,179	83,537
Intangible assets and goodwill (note 9)	17,148	18,146
Deferred income taxes (note 21)	26,702	25,947
Other assets	513	629
	142,542	128,259
Total assets	538,496	524,357
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	44,317	29,807
Short-term bank loans	1,379	2,172
Accounts payable and accrued liabilities (note 11)	74,271	75,407
Income taxes payable	1,493	495
Customer deposits	47,208	40,240
Provisions (note 12)	14,963	8,494
Provision for performance guarantees (note 12)	21,127	23,014
Derivative liabilities	1,169	83
Current portion of long-term lease liabilities (note 8)	1,621	-
Current portion of long-term debt (note 13)	8,311	8,609
	215,859	188,321
Non-current liabilities		
Long-term lease liabilities (note 8)	13,722	-
Long-term debt (note 13)	10,986	13,242
Income taxes payable	1,576	1,742
Deferred income taxes (note 21)	2,869	3,738
Other liabilities	8,623	8,481
	37,776	27,203
Total liabilities	253,635	215,524
Total equity	284,861	308,833
Total liabilities and equity	538,496	524,357

Commitments and contingencies (note 23)

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

Approved by the Board of Directors

T.C. Velan, Director | **Yves Leduc, Director**

Velan Inc.

Consolidated Statements of Loss

For the years ended February 29, 2020 and February 28, 2019
(in thousands of U.S. dollars, excluding per share amounts)

	2020 $	2019 $
Sales (note 25)	371,625	366,865
Cost of sales (notes 5 and 16)	283,491	281,270
Gross profit	88,134	85,595
Administration costs (note 17)	85,189	93,336
Restructuring and transformation costs (note 20)	9,566	-
Other expense (income)	48	(741)
Operating loss	(6,669)	(7,000)
Finance income	1,220	865
Finance costs	(2,609)	(1,560)
Finance costs – net	(1,389)	(695)
Loss before income taxes	(8,058)	(7,695)
Income taxes (note 21)	8,543	(2,301)
Net loss for the year	(16,601)	(5,394)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(16,390)**	**(4,882)**
Non-controlling interests	(211)	(512)
	(16,601)	(5,394)
Loss per share (note 22)		
Basic	(0.76)	(0.23)
Diluted	(0.76)	(0.23)
Dividends declared per Subordinate and Multiple Voting Share	0.09 (CA$0.12)	0.09 (CA$0.12)

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

Velan Inc.

Consolidated Statements of Comprehensive Loss

For the years ended February 29, 2020 and February 28, 2019
(in thousands of U.S. dollars, excluding per share amounts)

	2020 $	2019 $
Comprehensive loss		
Net loss for the year	(16,601)	(5,394)
Other comprehensive loss		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(5,215)	(9,300)
Comprehensive loss	(21,816)	(14,694)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(21,447)	(14,082)
Non-controlling interests	(369)	(612)
	(21,816)	(14,694)

Other comprehensive loss is composed solely of items that may be reclassified subsequently to the consolidated statement of loss.

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 29, 2020 and February 28, 2019
(in thousands of U.S. dollars, excluding per share amounts)

	Equity attributable to the Subordinate and Multiple Voting shareholders						
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	Total equity
Balance – February 28, 2018	73,090	6,057	(19,790)	261,409	320,766	5,592	326,358
Net loss for the year	-	-	-	(4,882)	(4,882)	(512)	(5,394)
Other comprehensive loss	-	-	(9,200)	-	(9,200)	(100)	(9,300)
Effect of share-based compensation (note 14 (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
Net loss for the year	-	-	-	(16,390)	(16,390)	(211)	(16,601)
Other comprehensive loss	-	-	(5,057)	-	(5,057)	(158)	(5,215)
Effect of share-based compensation (note 14 (d))	-	(9)	-	-	(9)	-	(9)
Share repurchase (note 14 (c))	(395)	195	-	-	(200)	-	(200)
Dividends							
Multiple Voting Shares	-	-	-	(1,395)	(1,395)	-	(1,395)
Subordinate Voting Shares	-	-	-	(552)	(552)	-	(552)
Balance – February 29, 2020	72,695	6,260	(34,047)	236,269	281,177	3,684	284,861

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

Velan Inc.

Consolidated Statements of Cash Flows

For the years ended February 29, 2020 and February 28, 2019
(in thousands of U.S. dollars, excluding per share amounts)

	2020 $	2019 $
Cash flows from		
Operating activities		
Net loss for the year	(16,601)	(5,394)
Adjustments to reconcile net loss to cash provided (used) by operating activities (note 28)	12,125	7,118
Changes in non-cash working capital items (note 29)	14,119	(11,311)
Cash provided (used) by operating activities	9,643	(9,587)
Investing activities		
Short-term investments	31	(11)
Additions to property, plant and equipment	(10,303)	(7,510)
Additions to intangible assets	(1,781)	(1,141)
Proceeds on disposal of property, plant and equipment, and intangible assets	272	144
Net change in other assets	102	403
Cash used by investing activities	(11,679)	(8,115)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(1,963)	(3,102)
Dividends paid to non-controlling interest	-	(927)
Repurchase of shares (note 14 (c))	(200)	-
Short-term bank loans	(793)	1,098
Increase in long-term debt	1,122	3,989
Repayment of long-term debt	(2,896)	(3,586)
Repayment of long-term lease liabilities	(1,575)	-
Cash used by financing activities	(6,305)	(2,528)
Effect of exchange rate differences on cash	(1,515)	(3,447)
Net change in cash during the year	(9,856)	(23,677)
Net cash – Beginning of the year	40,866	64,543
Net cash – End of the year	31,010	40,866
Net cash is composed of:		
Cash and cash equivalents	75,327	70,673
Bank indebtedness	(44,317)	(29,807)
	31,010	40,866
Supplementary information		
Interest received (paid)	(904)	26
Income taxes received (paid)	3,006	(10,459)
Excluded adjustment recognized on adoption of IFRS 16:		
Adjustment to right-of-use assets (note 3)	15,163	-

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 as issued by the International Accounting Standards Board ("IFRS").

These consolidated financial statements were approved by the Company's Board of Directors on May 20, 2020.

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.

Consolidation

These consolidated 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 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 loss for the year.

Financial instruments

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

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.

Short-term investments

Short-term investments include all highly liquid investments with original maturities greater than three months but less than one year.

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 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 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 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 income taxes. Taxes are recognized in the consolidated statement of 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.

Provision for performance guarantees

Provision 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. Provision for performance guarantees is not recognized for costs that need to be incurred to operate in the future or expected future operating losses.

Provision 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

For fiscal year ended February 28, 2019 (Prior to the adoption of IFRS 16)

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 loss on a straight-line basis over the term of the lease.

For fiscal year ended February 29, 2020

In situations where the Company is a lessee, it recognizes a right-of-use asset and a lease liability when the asset is available for use. The right-of-use asset is measured at the amount of the lease liability adjusted for any initial direct costs, prepaid lease payments, restoration costs, and any lease incentives received. The right-of-use asset is depreciated over the shorter of the lease term and useful life of the asset using the straight-line method since it closely reflects the expected pattern of consumption of the future economic benefits. The right-of-use asset may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is measured at the present value of lease payments payable discounted using the implicit rate or the Company’s incremental borrowing rate when the implicit rate cannot be determined. It is subsequently measure at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or estimate. Cash payments for the principal portion of the lease liability are presented within the financial activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows.

The Company has elected to apply the recognition exemptions for short term leases and leases where the underlying asset has a low value whereby payments made are charged to the consolidated statement of 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.

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 loss.

Warranty 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 loss.

Provision for performance guarantees

Provision 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 provision for performance guarantees on the consolidated statement of financial position with a corresponding impact made to sales on the consolidated statement of loss.

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. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization (“EBITDA”) margin and revenue growth. 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 loss.

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

COVID-19

The outbreak of the novel coronavirus (“COVID-19”) has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruptions to businesses globally resulting in an economic slowdown, including demand for products and ability to secure timely access to supplies as a result of various government mandated shutdowns. The Company has been able to continue its operations with minimal interruption since it has been deemed to provide an essential service by various governmental authorities. Management continues to closely monitor the global situation surrounding the virus, as well as taking proactive steps to ensure the well-being and safety of its employees, and the continuity of its operations and businesses. In developing estimates for the year ended February 29, 2020, management determined that COVID-19 has minimal impact on key assumptions. However, because of the uncertainty that exists, it is not possible to reliably estimate the impact that these developments will have on the Company's financial results, conditions and cash flows.

Consolidation

The Company consolidates the accounts of Juwon Special Steel Co. Ltd. in these consolidated 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 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 was adopted effective March 1, 2019 and the Company elected the modified retrospective transition method on the effective date, without restatement of the comparative figures. As such, comparative information continues to be reported under previous accounting standards.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract includes the right to control the use of an identified asset for a period of time in exchange for consideration.

In situations where the Company is a lessee, the result is the recording, at the lease commencement date, of a right-of-use asset and a lease liability for the present value of the future lease payments on the statement of financial position for most of its contracts that were considered operating leases under IAS 17. In order to determine the present value of the future lease payments, the Company uses the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company uses the incremental borrowing rate of each of its subsidiaries. The Company depreciates its right-of-use asset on the lesser of the lease term or the useful life of the asset using the straight-line method since it closely reflects the expected pattern of consumption of the future economic benefits.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

The right-of-use asset may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or estimate. The lease liability is remeasured with a corresponding adjustment to the carrying value of the right-of use asset. If the carrying value of the right-of-use asset has been reduced to zero, the remaining adjustment is recorded in the statement of loss.

Cash payments for the principal portion of the lease liability are presented within the financial activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows. Payments associated with short-term leases and leases of low value assets are not included in the measurement of the lease liability and are presented in operating activities in the statement of cash flows.

At the date of initial application, the Company elected to measure the right-of-use asset in an amount equal to the lease liability. The Company also applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

a) The Company elected to apply the standard to contracts that were previously identified as leases under IAS 17 and IFRIC 4 and elected to not apply the standard to contracts that were not previously identified as leases under IAS 17 and IFRIC 4.
b) The Company has elected to exclude intangible assets from the scope of this standard.
c) The Company used the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as the date of initial application, and lease contracts for which the underlying asset is of low value.
d) The Company used hindsight to determine the lease terms if the contract contained options to extend or terminate the lease term.

The following table reconciles the Company's operating lease obligations at February 28, 2019 to the lease liabilities recognized on initial application of IFRS 16 at March 1, 2019.

Operating Lease Commitments disclosed as at February 28, 2019	**15,763**
Discounted using the lessee's weighted average incremental borrowing rate of 2.49% at the date of initial application	(4,249)
(Less): Short-term leases and low-value leases recognized on straight-line basis as expense	(331)
Add: Adjustments as a result of a different treatment of extension and termination options	3,980
Lease liability recognized as at March 1, 2019	**15,163**
Of which are:	
Current portion of long-term lease liabilities	1,290
Long-term lease liabilities	13,873

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

The recognized right-of-use assets relate to the following types of assets:

	As at February 29, 2020 $	**As at March 1, 2019 $**
Land	6,648	6,528
Buildings	6,559	7,150
Machinery & Equipment	359	113
Furniture & Fixtures	33	48
Data Processing Equipment	138	241
Rolling Stock	1,417	1,083
Total right-of-use assets	15,154	15,163

The following table summarizes the impact of adopting IFRS 16 on the Company's consolidated statement of financial position as at March 1, 2019. Prior amounts have not been restated. The Company's transition to IFRS 16 did not impact the Company's retained earnings.

	February 28, 2019 $	**Adjustment due to IFRS 16 $**	**March 1, 2019 $**
Non-current assets			
Property, Plant and Equipment	83,537	15,163	98,700
Current liabilities			
Current portion of long-term lease liabilities	-	1,290	1,290
Non-current liabilities			
Long-term lease liabilities	-	13,873	13,873

(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 Company has adopted the interpretation of IFRIC 23 on March 1, 2019 and concluded that it has no impact on previously reported results.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

4 Accounts receivable

	As at February 29, 2020 $	As at February 28, 2019 $
Trade accounts receivable	129,764	131,922
Loss allowance	(2,002)	(1,662)
Other receivables	7,480	7,260
Total accounts receivable	135,242	137,520

The table below summarizes the movements in the loss allowance:

	As at February 29, 2020 $	As at February 2, 2019 $
Balance – Beginning of year	1,662	1,088
Loss allowance expense	1,045	1,056
Recoveries of trade accounts receivable	(95)	(215)
Write-off of trade accounts receivable	(552)	(202)
Foreign exchange	(58)	(65)
Balance – End of year	2,002	1,662

The loss allowance is included in the administration costs on the consolidated statement of loss.

Amounts charged to the loss allowance account are generally written off when there is not reasonable expectation of recovery.

5 Inventories

	As at February 29, 2020 $	As at February 28, 2019 $
Raw materials	35,920	35,858
Work in process	95,123	96,863
Finished goods	39,222	32,862
	170,265	165,583

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of $3,971 (2019 – $2,518), including reversals of $3,905 (2019 – $7,111).

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

6 Subsidiaries and transactions with non-controlling interests

a) Interest in subsidiaries

Set out below are the Company's principal subsidiaries at February 29, 2020. 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 2020	2019	% of ownership interest held by the non-controlling interests 2020	2019	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 cash equivalents 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 8% (2019 – 6%) of the Company's cash and cash equivalents and short-term investments are subject to such restrictions. The total amount of cash and cash equivalents and short-term investments subject to such restrictions as at February 29, 2020 was $5,741 (2019 – $3,972).

c) Non-controlling interests

Set out below is summarized financial information for each subsidiary 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 13(o)). The amounts disclosed for each subsidiary are before intercompany eliminations.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

Summarized statements of financial position	Juwon Special Steel Co. Ltd.		Velan Valvac Manufacturing Co. Ltd.	
	As at February 29, 2020	As at February 28, 2019	As at February 29, 2020	As at February 28, 2019
	$	$	$	$
Current assets	5,621	5,754	4,839	5,323
Current liabilities	8,316	5,716	1,246	1,712
Current net assets (liabilities)	(2,695)	38	3,593	3,611
Non-current assets	13,924	12,109	1,924	1,878
Non-current liabilities	6,867	7,461	19	47
Non-current net assets	7,057	4,648	1,905	1,831
Net assets	4,362	4,686	5,498	5,442
Accumulated non-controlling interest	3,032	3,397	652	655

Summarized statements of comprehensive income (loss)	Juwon Special Steel Co. Ltd.		Velan Valvac Manufacturing Co. Ltd.	
	2020	2019	2020	2019
	$	$	$	$
Sales	16,202	14,251	7,450	7,403
Net income (loss) for the year	(9)	(941)	55	101
Other comprehensive income (loss)	(315)	(201)	-	-
Total comprehensive income (loss) for the year	(324)	(1,142)	55	101
Net loss allocated to non-controlling interest	(207)	(508)	(4)	(4)
Dividends paid to non-controlling interest	-	927	-	-

Summarized statements of cash flows	Juwon Special Steel Co. Ltd.		Velan Valvac Manufacturing Co. Ltd.	
	2020	2019	2020	2019
	$	$	$	$
Cash flows from operating activities	1,309	(1,303)	694	(26)
Cash flows from investing activities	(2,786)	505	(86)	(101)
Cash flows from financing activities	(312)	(1,810)	-	-
Net increase (decrease) in cash and cash equivalents	(1,789)	(2,608)	608	(127)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

7 Property, plant and equipment

	Land	Buildings	Machinery & equipment	Furniture & fixtures	Data processing equipment	Rolling Stock	Leasehold improvements	Right-of-use assets (note 8)	Total
	$	$	$	$	$	$	$	$	$
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
Year ended February 29, 2020									
Beginning balance	20,959	27,366	31,350	1,292	907	464	1,199	15,163	98,700
Additions	5,239	1,036	3,164	35	549	133	147	1,768	12,071
Modifications to lease terms	-	-	-	-	-	-	-	593	593
Disposals	-	-	(131)	-	-	(22)	-	(118)	(271)
Depreciation	-	(1,980)	(5,709)	(385)	(510)	(192)	(242)	(1,785)	(10,803)
Exchange differences	(900)	(266)	(385)	(22)	(11)	(16)	(44)	(467)	(2,111)
	25,298	26,156	28,289	920	935	367	1,060	15,154	98,179
At February 29, 2020									
Cost	25,298	56,518	151,576	8,428	7,669	2,868	2,798	16,895	272,050
Accumulated depreciation	-	(30,362)	(123,287)	(7,508)	(6,734)	(2,501)	(1,738)	(1,741)	(173,871)
	25,298	26,156	28,289	920	935	367	1,060	15,154	98,179

Depreciation expense of $10,803 (2019 – $11,566) is included in the consolidated statement of loss: $8,792 (2019 – $10,502) in ‘cost of sales’ and $2,011 (2019 – $1,064) in ‘administration costs’.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

8 Leases

a) Right-of-use assets

	Land	Buildings	Machinery & equipment	Furniture & fixtures	Data processing equipment	Rolling Stock	Total
	$	$	$	$	$	$	$
Year ended February 29, 2020							
Beginning balance (note 3)	6,528	7,150	113	48	241	1,083	15,163
Additions	-	363	295	-	-	1,110	1,768
Modifications to lease terms	485	38	52	-	-	18	593
Disposals	-	-	-	-	-	(118)	(118)
Depreciation	(109)	(808)	(96)	(13)	(103)	(656)	(1,785)
Exchange differences	(256)	(184)	(5)	(2)	-	(20)	(467)
	6,648	6,559	359	33	138	1,417	15,154
At February 29, 2020							
Cost	6,755	7,358	454	46	241	2,041	16,895
Accumulated depreciation	(107)	(799)	(95)	(13)	(103)	(624)	(1,741)
	6,648	6,559	359	33	138	1,417	15,154

b) Long-term lease liabilities

	As at February 29, 2020	**As at March 1, 2019**
	$	**$**
Current portion of long-term lease liabilities	1,621	1,290
Long-term lease liabilities	13,722	13,873
	15,343	15,163

Amounts recognized in the consolidated statement of loss:

	2020
	$
Expenses relating to short-term leases (included in ‘cost of sales’ and ‘administration costs’)	311
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (included in ‘cost of sales’ and ‘administration costs’)	153
Expenses related to variable lease payments (included in ‘cost of sales’ and ‘administration costs’)	128
Interest expenses (included in ‘finance costs’)	389

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

9 Intangible assets and goodwill

	Goodwill	Computer software	Patents, products & designs	Customer lists	Other	Total
	$	$	$	$	$	$
At February 28, 2018						
Cost	9,568	8,063	14,845	6,596	832	39,904
Accumulated depreciation	-	(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	-	-	1,221
Disposals and transfers	-	-	-	-	(80)	(80)
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
Year ended February 29, 2020						
Beginning Balance	8,943	534	7,335	1,332	2	18,146
Additions	-	337	1,444	-	-	1,781
Disposals and transfers	-	(2)	-	-	-	(2)
Amortization	-	(309)	(1,265)	(603)	-	(2,177)
Exchange differences	(344)	(14)	(199)	(43)	-	(600)
	8,599	546	7,315	686	2	17,148
At February 29, 2020						
Cost	8,599	8,176	15,872	5,928	673	39,248
Accumulated amortization	-	(7,630)	(8,557)	(5,242)	(671)	(22,100)
	8,599	546	7,315	686	2	17,148

Amortization expense of $2,177 (2019 – $2,009) is included in the consolidated statement of loss: $1,349 (2019 – $1,406) in ‘cost of sales’ and $828 (2019 – $603) in ‘administration costs’.

As at February 29, 2020, the Company capitalized $1,444 (2019 – $882) of development costs, net of research and development tax credits of $605 (2019 – $234), as patents, products and designs.

The Company’s goodwill is associated with the CGU related to Velan S.A.S. In 2019, the Company tested this CGU for impairment and concluded that no goodwill impairment needed to be recorded, given an excess of $37,761 compared to a carrying amount of $26,446. In 2020, the Company has not identified material changes in the composition of the CGU, its carrying amount or its results of operations, amongst others. In accordance with IFRS, the Company has not tested this CGU for impairment.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

10 Credit facilities

a) The Company and its U.S. subsidiary company, Velan Valve Corp., have the following credit facilities available as at February 29, 2020:

Unsecured

Credit facilities available	Borrowing rates
$63,338 (CA$85,000) (2019 – $64,546 (CA$85,000))	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 on June 30.

As at February 29, 2020, an amount of $33,341 (2019 – $13,620) was drawn against these unsecured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $9,183 (2019 – $12,991) was drawn against these unsecured credit facilities in the form of letters of credit and letters of guarantee. This credit facility is subject to certain covenants. As at February 29, 2020, the Company was in breach of one of its covenants and a waiver was obtained subsequent to year-end date which waives the covenants as of February 29, 2020 and May 31, 2020 at which point the Company anticipates that it will be fully compliant with its covenants.

In addition to the unsecured credit facilities above, the Company maintains a facility with Export Development Canada of $30,000 (2019 – $40,000) for letters of credit and letters of guarantee. As at February 29, 2020, $6,404 (2019 – $6,162) was drawn against this facility. The credit facility expires on August 30, 2020 and is renewed annually.

b) Foreign subsidiaries and structured entities have the following credit facilities available as at February 29, 2020:

Secured by corporate guarantees

Credit facilities available	Borrowing rates
Foreign subsidiaries $66,677 (€53,662; KW4,281,800; INR270,000; NTD 15,000) (2019 – $62,779 (€48,162; KW4,485,600; INR270,000)) (note 27)	0.20% to 9.30%
Foreign structured entities $5,720 (KW6,900,000) (2019 – $3,737 (KW4,203,600)) (note 27)	2.86% to 3.49%

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 29, 2020. 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 $7,016 (2019 – $6,965).

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

As at February 29, 2020, an amount of $10,976 (2019 – $16,187) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $8,069 (2019 – $5,828) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

11 Accounts payable and accrued liabilities

	As at February 29, 2020 $	As at February 28, 2019 $
Trade accounts payable	32,091	31,016
Dividend payable	482	497
Accrued liabilities	33,847	40,039
Other	7,851	3,855
	74,271	75,407

12 Provisions

a) Provision for performance guarantees

	As at February 29, 2020 $	As at February 28, 2019 $
Balance – Beginning of year	23,014	25,424
Additional provisions	5,447	6,320
Used during the year	(1,266)	(3,370)
Reversed during the year	(5,285)	(4,030)
Exchange differences	(783)	(1,330)
Balance – End of year	21,127	23,014

The company's provision 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.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

b) Warranty provision

	As at February 29, 2020 $	As at February 28, 2019 $
Balance – Beginning of year	8,494	10,798
Additional provisions	5,983	2,150
Used during the year	(2,641)	(1,702)
Reversed during the year	(2,061)	(2,118)
Exchange differences	(298)	(634)
Balance – End of year	9,477	8,494

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.

c) Severance provision

	As at February 29, 2020 $
Balance – Beginning of year	-
Additional provisions	6,760
Used during the year	(1,274)
Balance – End of year	5,486

During the year ended February 29, 2020, the Company recorded a $6,760 severance provision on its consolidated statement of financial position. Excluding an amount of $519, the provision is relating to the Company's ongoing restructuring and transformation initiative (note 20). The Company has paid $1,274 worth of severance packages and related expenses during the fiscal year ended February 29, 2020, which brought the provision at $5,486 at the end of the fiscal year.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

13 Long-term debt

	As at February 29, 2020 $	As at February 28, 2019 $
French subsidiaries		
Unsecured bank loan (€2,156; February 28, 2019 – (€2,752) (note 13(a))	2,367	3,142
Unsecured bank loan (€1,204; February 28, 2019 – €1,804) (note 13(b))	1,321	2,059
Unsecured bank loan (€318; February 28, 2019 – €417) (note 13(c))	349	477
Unsecured bank loan (€25; February 28, 2019 – €127) (note 13(d))	28	145
Unsecured bank loan (€867; February 28, 2019 – nil) (note 13(e))	952	-
Italian subsidiary		
Unsecured bank loan (€148; February 28, 2019 – €256) (note 13(f))	163	292
Unsecured bank loan (€182; February 28, 2019– €280) (note 13(g))	200	319
Unsecured state bank loan (€33; February 28, 2019 – €67) (note 13(h))	37	77
Unsecured bank loan (nil; February 28, 2019 – €51) (note 13(i))	-	59
Unsecured bank loan (nil; February 28, 2019 – €133) (note 13(j))	-	152
Unsecured bank loan (nil; February 28, 2019 – €188) (note 13(k))	-	214
Unsecured state bank loan (€1,150; February 28, 2019 – €1,359) (note 13(l))	1,262	1,552
Korean structured entity		
Secured bank loan (nil; February 28, 2019 – KW3,600) (note 13(m))	-	3
Secured bank loan (KW7,757,040; February 28, 2019 – KW8,000,000) (note 13(n))	6,431	7,112
Other (note 13(o))	6,187	6,248
	19,297	21,851
Less: Current portion	8,311	8,609
	10,986	13,242

a) The unsecured bank loan of $2,367 (€2,156) bears interest at 0.42% and is repayable in monthly instalments of $55, expiring in 2023.

b) The unsecured bank loan of $1,321 (€1,204) bears interest at 0.20% and is repayable in monthly instalments of $55, expiring in 2022.

c) The unsecured bank loan of $349 (€318) bears interest at 0.53% and is repayable in monthly instalments of $9, expiring in 2023.

d) The unsecured bank loan of $28 (€25) bears interest at 0.89% and is repayable in monthly instalments of $9, expiring in 2020.

e) The unsecured bank loan of $952 (€867) bears interest at 0.30% and is repayable in monthly instalments of $18, expiring in 2024.

f) The unsecured bank loan of $163 (€148) bears interest at 2.50% and is repayable in monthly instalments of $10, expiring in 2021.

g) The unsecured state bank loan of $200 (€182) bears interest at 4.50% and is repayable in monthly instalments of $9, expiring in 2021.

h) The unsecured bank loan of $37 (€33) is non-interest bearing and is repayable in semi-annual instalments of $37, expiring in 2020.

i) The unsecured bank loan of nil bears interest at the 3-month Euribor rate plus 1.7% and is repayable in quarterly instalments of $28, expired in 2019.

j) The unsecured bank loan of nil bears interest at the 3-month Euribor rate plus 1.8% and is repayable in quarterly instalments of $72, expired 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 $101, expired in 2019.

l) The unsecured state bank loan of $1,262 (€1,150) bears interest at 3% and is repayable in semi-annual instalments of $126, expiring in 2024.

m) The secured bank loan of nil bears interest at 1.50% and was repaid in 2020. Certain land, a building, and certain machinery and equipment were pledged as collateral for this loan.

n) The secured bank loan of $6,431 (KW7,757,040) bears interest at 1.97% and is repayable in quarterly instalments of $201, expiring in 2025. Certain land, a building, and certain machinery and equipment are pledged as collateral for this loan.

o) Included in Other is an amount of $5,042 (€4,593) (February 28, 2019 – $4,990 (€4,371)) 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 loss.

The aggregate net book value of the assets pledged as collateral under long-term debt agreements amounted to $8,763 (2019 – $11,534).

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

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

14 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 29, 2020 $	As at February 28, 2019 $
6,019,068 Subordinate Voting Shares (February 28, 2019 – 6,055,368) (notes 13(c) and (d))	65,569	65,964
15,566,567 Multiple Voting Shares	7,126	7,126
	72,695	73,090

c) Pursuant to its Normal Course Issuer Bid, the Company is entitled to repurchase for cancellation a maximum of 151,384 of the issued Subordinate Voting Shares of the Company, representing approximately 2.5% of the issued shares of such class as at October 10, 2019, during the ensuing 12-month period ending October 22, 2020. During the year ended February 29, 2020, 36,300 (2019 – nil) Subordinate Voting Shares were purchased for a cash consideration of $200 (2019 – nil) and cancelled.

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 stock-based compensation expense reversal of $9 (2019 – compensation cost of $17) was recorded in the consolidated statement of loss and debited (2019 – credited) to contributed surplus.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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

	Number of shares	Weighted average exercise price	Weighted average contractual life in months
Outstanding – February 28, 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)	
Outstanding – February 28, 2019	140,000	$14.63 (CA$19.26)	14.4
Expired/forfeited	(110,000)	$15.39 (CA$20.37)	-
Outstanding – February 29, 2020	30,000	$11.33 (CA$15.22)	2.5
Exercisable – February 29, 2020	30,000	$11.33 (CA$15.22)	

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 29, 2020, the Company had nil (2019 – 24,611) PSUs outstanding, representing a total liability of nil (2019 - $71 which was included in accounts payable and accrued liabilities). A compensation cost recovery of $71 (2019 – $9) was recorded in the consolidated statement of loss and decreased accounts payable and accrued liabilities. No payments have been made in relation to PSUs since the inception of the plan. For the year ended February 29, 2020, 20,675 PSUs expired (2019 – nil), 4,297 PSUs (2019 – 981) 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.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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 29, 2020, the Company had a total of 45,268 (2019 – 28,768) DSUs outstanding, representing a total liability of $127 (2019 - $98) which is included in accounts payable and accrued liabilities. A compensation cost of $29 (2019 – $29) was recorded in the consolidated statement of loss and increased accounts payable and accrued liabilities. A total of 23,756 (2019 – 16,369) DSUs were granted during the course of the current fiscal year. No payments (2019 – 9$) has been made in relation to the DSUs in 2020 and 18,503 (2019 – 11,178) DSUs have vested at the end of the fiscal year. For the year ended February 29, 2020, 6,827 DSUs (2019 – 327) were forfeited.

15 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 expense (income) and amounted to:

	2020 **$**	**2019** **$**
Sales	109	924
Cost of sales	(372)	(866)
Other expense (income)	2	(185)

16 Cost of sales

	2020 **$**	**2019** **$**
Change in inventories of finished goods and work in progress	(7,292)	3,531
Raw materials and consumables used	170,334	149,881
Employee expenses, excluding scientific research investment tax credits	74,150	77,861
Depreciation and amortization	10,141	11,908
Movement in inventory provision – net	3,971	2,518
Foreign exchange loss	372	866
Other production overhead costs	31,815	34,705
	283,491	281,270

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

17 Administration costs

	2020 $	2019 $
Employee expenses, excluding scientific research investment tax credits	44,367	46,532
Scientific research investment tax credits	(2,280)	(2,237)
Commissions	4,029	5,850
Freight to customers	4,279	5,122
Professional fees	14,804	15,679
Movement in allowance for doubtful accounts	953	841
Depreciation and amortization	2,839	1,667
Other	16,198	19,882
	85,189	93,336

18 Employee expenses

	2020 $	2019 $
Wages and salaries	85,318	88,960
Social security costs	27,520	28,740
Scientific research investment tax credits	(2,280)	(2,237)
Share-based compensation	(15)	37
Costs relating to workforce reduction	6,760	-
Other	5,175	6,656
	122,478	122,156

19 Research and development expenses

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

	2020 $	2019 $
Research and development expenditures	8,263	9,304
Less: Scientific research and development investment tax credits	(2,280)	(2,237)
	5,983	7,067

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

20 Restructuring and transformation costs

On January 10, 2019, the Company announced measures to improve its operational efficiency and optimize its manufacturing footprint in North America. The Company's current production is gradually being reorganized from four North American plants to three more specialized plants that will be structured to better support the new business units' market strategies. The production of certain non-project valves produced in North America, as well as less complex project valves are also being transferred to India. The workforce reduction and plant consolidation commenced during the fourth quarter of the current fiscal year and should be completed over the course of the ensuing twelve months.

During the current fiscal year, the Company incurred restructuring and transformation costs of $9,566 (2019 – nil), which consisted primarily of cash severance and related costs paid or to be paid to former employees, temporary project resources and their travel and lodging costs as well as the moving costs related to dismantling and transportation of machinery and equipment to reflect the optimized manufacturing footprint plan.

The portion of these restructuring and transformation costs relating to workforce reduction amounted to $6,241 while $3,325 related to plant consolidation and optimization. The Company has paid $1,274 worth of severance packages and related expenses during the fiscal year ending February 29, 2020 which brought the provision at $5,486 at the end of the fiscal year. All other restructuring and transformation costs are expensed as incurred.

21 Income taxes

	2020 **$**	**2019** **$**
Current taxes:		
Current tax on profits for the year	7,822	8,270
Adjustments in respect of prior years	2,485	(4,982)
	10,307	3,288
Deferred income taxes:		
Origination and reversal of temporary differences	(1,923)	(9,078)
Adjustments in respect of prior years	159	3,489
	(1,764)	(5,589)
Income tax expense (recovery)	8,543	(2,301)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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:

	2020 $	2019 $
Income tax at statutory rate of 26.60% (2019 – 26.68%)	(2,143)	(2,053)
Tax effects of:		
Difference in statutory tax rates in foreign jurisdictions	1,469	1,640
Taxable foreign exchange gain	378	327
De-recognition of unused tax losses	8,256	724
Losses utilized not previously tax effected	(1,227)	(525)
Prior period adjustments and assessments	2,100	(1,494)
Benefit attributable to a financing structure	(253)	(891)
Other	(37)	(29)
Income tax expense (recovery)	8,543	(2,301)

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

	2020 $	2019 $
Deferred income tax assets:		
To be realized after more than 12 months	18,447	20,878
To be realized within 12 months	8,255	5,069
Deferred income tax liabilities:		
To be realized after more than 12 months	(1,300)	(1,780)
To be realized within 12 months	(1,569)	(1,958)
Net deferred income tax asset	23,833	22,209

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

	2020 $	2019 $
Balance – Beginning of year	22,209	16,655
Recovery of income taxes in the consolidated statement of loss	1,764	5,589
Exchange differences	(140)	(35)
Balance – End of year	23,833	22,209

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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

	2020 $	2019 $
Property, plant and equipment	(2,980)	(2,075)
Intangible assets	(1,764)	(2,762)
Non-deductible provisions and reserves	13,705	11,720
Investment tax credits	(1,432)	(1,132)
Inventories	3,574	3,341
Non-capital loss carryforwards	10,462	11,560
Other	2,268	1,557
	23,833	22,209

The Company did not recognize deferred income tax assets of $10,312 (2019 – $3,364) in respect of non-capital losses amounting to $40,611 (2019 – $14,867) that can be carried forward to reduce taxable income in future years. These losses expire between 2021 and indefinitely. For the remainder of non-capital losses, the Company has concluded that their related deferred income tax assets will be recoverable before their expiry dates using the estimated future taxable income based on the business plans and budgets of the Company. These losses expire beginning in 2038 to indefinitely.

The Company did not recognize deferred income tax assets of $368 (2019 – $368) in respect of capital losses amounting to $2,745 (2019 – $2,745) that can be carried forward indefinitely against future taxable capital gains.

Deferred income tax liabilities of $5,391 (2019 – $5,494) 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 29, 2020 totalled $266,930 (2019 – $290,671).

22 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.

	2020	2019
Net loss attributable to Subordinate and Multiple Voting shareholders	$(16,390)	$(4,882)
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,614,875	21,621,935
Basic loss per share	$(0.76)	$(0.23)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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.

	2020	**2019**
Net loss attributable to Subordinate and Multiple Voting shareholders	$(16,390)	$(4,882)
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,614,875	21,621,935
Weighted average number of Subordinate and Multiple Voting Shares for diluted loss per share	21,614,875	21,621,935
Diluted loss per share	$(0.76)	$(0.23)

As at February 29, 2020, 30,000 stock options have an antidilutive effect (2019 – 140,000).

23 Commitments and contingencies

a) In the normal course of business, the Company issues performance bond guarantees related to product warranty and on-time delivery as well as advance payment guarantees and bid bonds. As at February 29, 2020, the aggregate maximum value of these guarantees, if exercised, amounted to $55,992 (2019 – $69,202). The guarantees expire as follows:

	$
February 28, 2021	22,571
February 28, 2022	8,363
February 28, 2023	2,412
February 29, 2024	13,851
February 28, 2025	1,786
Subsequent years	7,009
	55,992

b) The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3,550 (2019 – $3,988), which are covered by letters of credit.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

c) Future minimum payments under operating leases (related mainly to information technology equipment) are as follows:

	$
February 28, 2021	397
February 28, 2022	294
February 28, 2023	172
February 29, 2024	31
February 28, 2025	23
	917

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 recorded in the consolidated financial statements.

During the year ended February 29, 2020, legal and related costs for these matters amounted to $9,621 (2019 – $9,212). These costs are expensed as incurred.

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 recorded in the consolidated financial statements.

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 alleged damages to the Facility in excess of $9,000 related to allegedly defective valves supplied by Velan Valve Corp. The claim was for alleged strict product liability and alleged negligence. During the year ended February 29, 2020, the Company has recorded a final net settlement of $850 in regard to the claim.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

24 Related party transactions

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

	2020 $	2019 $
Affiliated company owned by certain relatives of controlling shareholder		
Purchases – Material components	708	1,013
Accounts payable and accrued liabilities		
Affiliated companies	91	98
Key management[1] compensation		
Salaries and other short-term benefits	4,532	4,206
Share-based compensation – Options	(9)	17
Share-based compensation – PSUs & DSUs	(42)	20

25 Segment reporting

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

	As at February 29, 2020						
	Canada $	United States $	France $	Italy $	Other $	Consolidated Adjustment $	Consolidated $
Sales							
Customers -							
Domestic	32,454	106,210	46,823	846	21,985	-	208,318
Export	36,998	-	42,637	67,427	16,245	-	163,307
Intercompany (export)	40,046	14,208	349	337	60,068	(115,008)	-
Total	109,498	120,418	89,809	68,610	98,298	(115,008)	371,625
Property, plant and equipment	31,931	7,466	19,035	6,309	33,438	-	98,179
Intangible assets and goodwill	2,981	-	8,834	5,291	42	-	17,148
Other identifiable assets	169,065	70,534	153,828	59,457	123,802	(153,517)	423,169
Total identifiable assets	203,977	78,000	181,697	71,057	157,282	(153,517)	538,496

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

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

							As at February 28, 2019
	Canada	**United States**	**France**	**Italy**	**Other**	**Consolidated 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

26 Financial risk management

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

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

Overview

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

	Risks			
	Market			
Financial instrument	**Currency**	**Interest rate**	**Credit**	**Liquidity**
Cash and cash equivalents	x	x	x	
Short-term investments	x	x	x	
Accounts receivable	x		x	
Derivative assets	x		x	
Bank indebtedness	x	x		x
Short-term bank loans	x	x		x
Accounts payable and accrued liabilities	x			x
Customer deposits	x			x
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 under derivatives contracts as at February 29, 2020 and February 28, 2019 are as follows:

	Range of exchange rates		**Gain (loss)** (In thousands of U.S. dollars)		**Notional amount** (In thousands of indicated currency)	
	February 29, 2020	**February 28, 2019**	**February 29, 2020 $**	**February 28, 2019**	**February 29, 2020**	**February 28, 2019**
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.33-1.34	1.36	(923)	(61)	US$68,000	US$26,000
Buy US$ for CA$ – 0 to 12 months	1.31-1.33	1.30	357	183	US$68,000	US$26,000
Sell US$ for € – 0 to 12 months	-	1.15-1.18	-	(15)	-	US$2,010
Buy US$ for € – 0 to 12 months	1.10-1.11	-	(3)	-	US$1,205	-
Sell € for US$ – 0 to 12 months	1.11-1.14	1.14	(174)	(2)	€16,790	€907
Buy € for US$ – 0 to 12 months	1.10-1.11	-	198	-	€16,790	-
Sell US$ for KW – 0 to 12 months	1,139-1,171	-	(70)	-	US$1,647	-
Total Gain (loss)			**(615)**	**105**		

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 loss 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, provision 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 29, 2020 and February 28, 2019:

	Net loss	
	2020 $	**2019 $**
Canadian dollar strengthening against the U.S. dollar	(1,463)	(555)
Euro strengthening against the U.S. dollar	411	464

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.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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 29, 2020, four (2019 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.0% (2019 – 10.5%) and the Company's ten largest customers accounted for 61.2% (2019 – 58.9%) of trade accounts receivable. In addition, one customer accounted for 13.4% of the Company's sales (2019 – 10.9%).

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. A loss allowance 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.

As at February 29, 2020, the lifetime expected loss allowance for trade receivables was determined as follows:

					As at February 29, 2020
	Current	**Past due more than 30 days**	**Past due 31 to 90 days**	**Past due more than 90 days**	**Total**
Expected loss rate	1.041%	1.173%	1.289%	3.820%	
Gross carrying amount	83,711	16,619	7,445	21,989	129,764
Loss allowance	**871**	**195**	**96**	**840**	**2,002**

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.

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.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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

	As at February 29, 2020					
	Carrying value $	**Less than 1 year $**	**1 to 3 Years $**	**4 to 5 Years $**	**After 5 years $**	**Total $**
Long-term debt	19,297	8,311	5,420	3,349	2,217	19,297
Long-term lease liabilities	15,343	1,970	3,074	2,187	13,205	20,436
Accounts payable and accrued liabilities	74,271	74,271	-	-	-	74,271
Customer deposits	47,208	47,208	-	-	-	47,208
Bank indebtedness and short-term bank loans	45,696	45,696	-	-	-	45,696
Derivative liabilities	1,169	1,169	-	-	-	1,169

	As at February 28, 2019					
	Carrying value $	**Less than 1 year $**	**1 to 3 Years $**	**4 to 5 Years $**	**After 5 years $**	**Total $**
Long-term debt	21,851	8,609	5,940	3,782	3,520	21,851
Accounts payable and accrued liabilities	74,910	74,910	-	-	-	74,910
Customer deposits	40,240	40,240	-	-	-	40,240
Bank indebtedness and short-term bank loans	31,979	31,979	-	-	-	31,979
Derivative liabilities	83	83	-	-	-	83

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.

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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

	As at February 29, 2020			
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	555	-	555	-
Liabilities				
Derivative liabilities	1,169	-	1,169	-

	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	-

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

27 Capital management

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

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

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

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

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

	As at February 29, 2020 $	As at February 28, 2019 $
Bank indebtedness	44,317	29,807
Short-term bank loans	1,379	2,172
Current portion of long-term lease liabilities	1,621	-
Current portion of long-term debt	8,311	8,609
Long-term lease liabilities	13,722	-
Long-term debt	10,986	13,242
Total debt	80,336	53,830
Equity	284,861	308,833
Total debt-to-equity ratio	28.2%	17.4%
Adjusted total debt-to-equity ratio (note a))	22.8%	17.4%

a) Adjusted total debt-to-equity ratio

Excluding the impact of the transition to IFRS 16, which was adopted prospectively without restatement of prior periods, on the Company's financial statements, the debt-to-equity ratio would have been 22.8% as at February 29, 2020.

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 is not subject to any capital requirements imposed by a regulator.

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

	2020 $	2019 $
Depreciation of property, plant and equipment	10,803	11,566
Amortization of intangible assets	2,177	2,009
Deferred income taxes	(1,764)	(5,589)
Share-based compensation expense (recovery)	(9)	17
Gain on disposal of property, plant and equipment	(117)	(9)
Net change in derivative assets and liabilities	720	(1,132)
Net change in other liabilities	315	256
	12,125	7,118

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

29 Changes in non-cash working capital items

	2020 $	2019 $
Accounts receivable	(1,251)	(140)
Inventories	(7,360)	5,137
Income taxes recoverable	8,022	(10,383)
Deposits and prepaid expenses	(711)	(395)
Accounts payable and accrued liabilities	581	11,314
Income tax payable	848	(640)
Customer deposits	8,345	(8,840)
Provisions	6,753	(2,335)
Provision for performance guarantees	(1,108)	(5,029)
	14,119	(11,311)

30 Debt from financing activities reconciliation

	Short-term bank loans	Long-term lease liabilities	Long-term debt	Total
Debt as at March 1, 2018	**1,074**	**-**	**22,129**	**23,203**
Cash flows	1,098	-	403	1,501
Foreign exchange adjustments	-	-	(840)	(840)
Other non-cash movements	-	-	159	159
Debt as at February 28, 2019	**2,172**	**-**	**21,851**	**24,023**
IFRS 16 transition adjustments	-	15,143	-	15,143
Debt as at March 1, 2019	**2,172**	**15,143**	**21,851**	**39,166**
Cash flows	(793)	(1,575)	(1,774)	(4,142)
Foreign exchange adjustments	-	(468)	(780)	(1,248)
Other non-cash movements	-	2,243	-	2,243
Debt as at February 29, 2020	**1,379**	**15,343**	**19,297**	**36,019**

Directors and officers

Corporate directors

T. Velan	Chairman of the Board
W. Sheffield	Lead Director
D. Granovsky	Director
J. Latendresse	Director
Y. Leduc	Director
J. Mannebach	Director
R. Velan	Director

Corporate officers

Y. Leduc	Chief Executive Officer
B. Carbonaro	President and Acting Executive Vice-President, General Manager, Project
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	Senior Vice-President, Sales, Process Industries
Y. Lauzé	Vice-President, Engineering
R. Ostiguy	Vice-President, Finance
G. Perez	Vice-President, Product Technology and Strategic Initiatives
D. Tran	Executive Vice-President, General Manager, Severe Service
D. Velan	Vice-President, Marketing
R. Velan	Executive Vice-President, General Manager, MRO and Aftermarket
S. Velan	Vice-President, Transformation Office and Information Technology

Shareholder information

Head office

7007 Côte-de-Liesse
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 29, 2020

6,019,068 Subordinate Voting Shares
15,566,567 Multiple Voting Shares

Listing

Symbol: VLN

Price range

High	CA $10.90
Low	CA $6.50

Closing on February 29, 2020: CA $7.00

Annual meeting

The Annual Meeting of Shareholders will be held July 9, 2020, at 3:00 p.m. This year, due to the global COVID-19 pandemic, the Annual Meeting of Shareholders will be held in a virtual only format, via online live webcast.

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.
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Pour une version française de ce rapport annuel, adressez-vous à:

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