VELAN
Annual report 2021

Highlights

Velan ABV employees perform NDT and dimensional tests on a 52" ball valve using a ScanArm and 3D digitalization software to maximize the efficiency of the process.

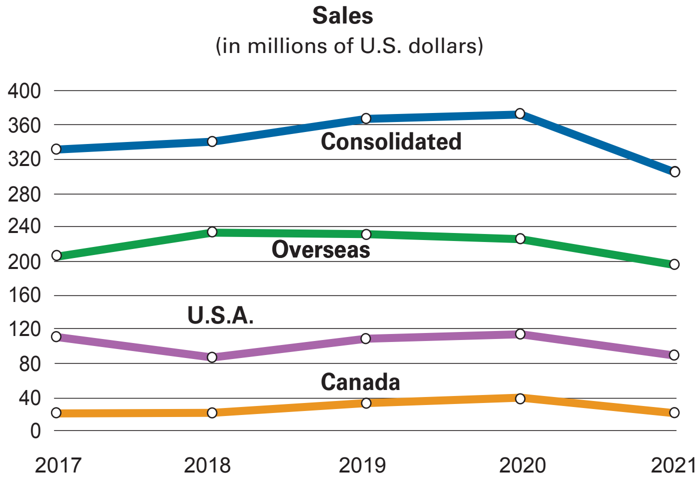
The nuclear team at Velan S.A.S. was happy to participate in Nuclear Industry China's 2020 exhibition held this past October in Beijing.

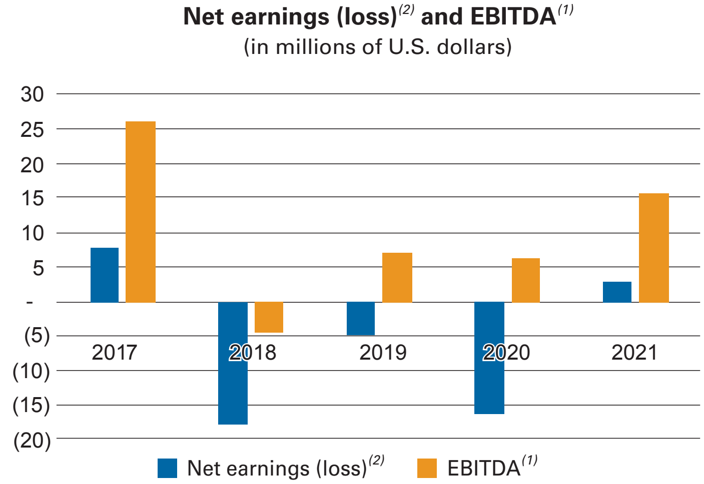
A segment of Velan's new cell layout to assemble large valves in Granby, Canada. Velan installed 25 manufacturing cells in Montreal, Granby, and India as part of the V20 transformation process.

Velan was featured as the cover story, "Velan: 70 years of excellence", in Valve World magazine this past June.

Cover photo: *A Velan Securaseal pneumatically operated severe service metal-seated ball valve used for isolating high-pressure oil with catalyst fines in a hydrocracking unit in Asia.*

2021 Financial highlights





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

Years Ended	Feb 2021	Feb 2020	Feb 2019	Feb 2018	Feb 2017
Income statement data					
Sales	$ 302,063	$ 371,625	$ 366,865	$ 337,963	$ 331,777
Gross profit	80,539	88,134	85,595	70,861	88,528
Gross profit %	26.6%	23.7%	23.3%	21.0%	26.7%
Administration costs	80,091	85,189	93,336	87,713	75,868
Income (loss) before income taxes	1,375	(8,058)	(7,695)	(18,512)	12,994
EBITDA[1]	15,573	6,522	7,087	(4,376)	26,201
EBITDA[1] %	5.2%	1.8%	1.9%	-1.3%	7.9%
EBITDA[1] per share	0.72	0.30	0.33	(0.20)	1.21
Net earnings (loss)[2]	2,867	(16,390)	(4,882)	(17,811)	7,737
Net earnings (loss)[2] %	1.0%	-4.4%	-1.3%	-5.3%	2.3%
Net earnings (loss)[2] per share[3]	0.13	(0.76)	(0.23)	(0.82)	0.36
Statement of financial position data					
Net cash	$ 62,953	$ 31,010	$ 40,866	$ 64,543	$ 76,227
Working capital	219,606	174,811	207,777	215,639	233,262
Property, plant, and equipment	96,327	98,179	83,537	89,864	91,535
Total assets	580,833	538,496	524,357	540,193	519,297
Total long-term debt	58,091	19,297	21,851	22,129	22,433
Equity	300,221	284,861	308,833	321,617	331,911
Number of employees					
Canada	546	619	716	732	763
United States	109	123	140	146	157
Europe	557	546	522	489	482
Asia	469	491	481	463	474
Total	1,681	1,779	1,859	1,830	1,876

(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.

VELAN

James A. Mannebach
Chairman of the Board

Dear Shareholders,

Nearly thirty years ago while traveling in Europe with a colleague, we happened to pass a building proudly bearing the Velan name. At the time I was not familiar with the Company. My colleague, a veteran of decades in our industry, remarked that Velan stood without equal in its products, application knowledge, and commitment to customers, remarking that they do things no one else can do. I am deeply humbled to be entrusted with appointment as Chairman of the Board of Velan, which as first revealed to me so long ago, remains without peer in our industry.

Our Company has not merely persevered, we have excelled in the past fiscal year in the face of a market unlike any ever seen. The COVID pandemic, which destroyed much of the world's economy, brought unprecedented challenges to our business as well. Yet, quick and decisive action, led by our CEO Yves Leduc, with a concentrated effort throughout the world, assured our business was properly recognized as essential in each of our global markets.

While necessary to continue operations, alone this recognition would have meant nothing without the heroic efforts of our men and women striving to meet the needs of our customers while assuring health and safety of our team. While grateful to all, I am especially inspired by our colleagues who reported to work each day in our factories producing products and solutions sought after by our customers throughout the world. As a result, as countless companies ceased to do business, Velan strengthened its market leading position.

As always, our industry is changing, at an accelerating pace. Our position as market leader is being attacked by recent entrants, new technologies and rapidly evolving expectations of our customers. Stepping up to the challenge we announced a transformational program designed to assure not only that we remain cost competitive, but critically that we deepen intimacy with our customers assuring that Velan remains the first choice when faced with general purpose or the most demanding of technical applications. Despite the challenges of COVID, our Company accelerated the V-20 program and we are encouraged by its transformational effects to date; we are seeing critical improvement in operating efficiencies and most notably, owing to our sharper customer focus, we earned outstanding order intake, ending the year with near record backlog, demanding crisp execution in the new fiscal year. While hard work remains ahead, our improving cost position and enhanced customer centric structure precisely position us for expansive growth in each of our strategic businesses.

Working with Yves, Bruno Carbonaro, our President and the Company's global leaders, my focus will be on growth in all our markets and restoring positive returns to our stakeholders. We are committed to successful completion of the V-20 transformation, assuring that our Company is best positioned to exceed the demands of the market. As true long ago at the start of my journey with Velan, our Company remains a recognized leader throughout the world as we continue to do things no one else can do.

In closing I express my deepest appreciation for the tireless efforts of our colleagues throughout the world. In these days of COVID lockdown, uncertainty and unrelenting stress your commitment stirs and strengthens our resolve. Thank you. I also thank Board Member Jacques Latendresse, retiring after eight years of service to our Company. His passionate unrelenting insistence that the Company urgently strive for excellence serves as his legacy and our continuing challenge. Finally, to our shareholders, we are grateful for your continued support and patience as we work to transform your Company. The growing momentum of the past year bolsters our confidence as we embrace the next chapter of our Company's future.

James A. Mannebach
Chairman of the Board

Message to our shareholders and employees

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

2021 Highlights

Sales		**Order Backlog**	
v 18.7%	**$302.1M**	^ 38.3%	**$562.5M**
Net earnings[1]		**Order Bookings**	
^ $19.3m	**$2.9M**	^ 25.3%	**$426.6M**
EBITDA[2]		**Net Cash**	
^ 140%	**$15.6M**	^ 103.2%	**$63.0M**

Yves Leduc
Chief Executive Officer

Results summary

Fiscal year 2021 will be remembered as a watershed year for Velan. Although our sales were severely impacted by the global pandemic, the Company made great progress on many fronts while demonstrating its commitment to protecting its employees and customers, ensuring the integrity of our global supply chain, as well as to responsibly supporting each of the many local communities where we are present.

In the end, we closed the year with notably improved results, delivering net profits for the first time in four years and increased our backlog by near 40%. Equally important, we succeeded in deploying our V20 transformation strategy faster than originally planned, thereby laying the base for our North American operations' financial health to return. This is evidenced by the sharp reduction in our production overhead costs in North America and the surge in margins observed in all our strategic businesses.

The dive of our sales was mitigated by Canadian federal subsidies, profits from the sale of our Montreal plant, and important cost reduction measures taken in North America. Combined, these avoided the Company lay-offs which would have weakened us going into this fiscal year. Instead, we expect to build on our bookings momentum, substantially improve our sales, and fully realize the benefits of our V20 plan, a major milestone that clears the path for directing more energy and focus to our growth strategy.

A company leading by example in health and safety

The day after the pandemic was declared, we held our first crisis committee, attended by the CEO and maintained every week since, and established the still active Covid-19 response team. We stayed in touch with our customers and suppliers, and with all our stakeholders and I am proud of how our employees in every site and plant have risen to the occasion, immediately adjusting work practices, remotely or in our plants, quickly deploying the protocols and measures to maximize the safety and health of our employees. We concluded the year with one of our best health and safety records ever.

One of the highest backlogs in our history–during the worst economic crisis since the Great Depression

We are a supplier of critical equipment to essential industries, authorized to continue operations even during lockdowns, but the shock on our sales and operations was nonetheless dramatic: for example, customers delayed shipment release and the lockdown of our Indian supply chain gravely affected our plants during the fall. We estimate that at least two thirds of the drop in sales in fiscal year 2021 were caused by the global economic crisis.

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Message to our shareholders and employees

Our employees' response was fantastic. From China sending masks to North America and Europe, procuring oxygen concentrators for our employees in India to joining forces to create new valve designs, or even finding alternate routes when breaks in global logistics interrupted the flow of material, never has the spirit of teamwork and solidarity been more evident between Velan employees across the world.

The global pandemic has hit our MRO business the hardest, deeply affecting our non-project orders as the North American market suffered greatly from the oil price depression during the spring. But our four other strategic businesses grew our backlog to its highest level in over eight years, thanks to our strong market position in the Middle East, India, Southeast Asia, and China, in the nuclear, petrochemical and oil production sectors, as well as to new product designs that are true market or innovation breakthroughs. Meanwhile orders were won thanks to the wide range of options provided by an agile and diverse global manufacturing capacity, a competitive advantage we have leveraged more than ever before.

Velan's plant in Suzhou, China was certified for API6D valves opening a range of opportunities for supply of goods for FPSO customers.

Transforming the company in North America: a major step forward

A gradual erosion of our business' competitiveness, mainly in our North American operations, led our Board of directors' unanimous approval of the V20 plan in January 2019, a transformation strategy that aimed to better leverage our assets and strengths and to unlock significant recurring bottom-line improvements. In March 2020, when the pandemic broke out, we had barely undertaken the investment-intensive portion of the plan. After briefly considering delaying the project, the decision was made to instead accelerate the deployment of our V20 agenda taking measures to reduce expenses and resources.

General Manager of Velan SAS Jean Luc Mazel with Thomas Rudigoz, Member of Parliament for the first constituency of the Rhône had a constructive discussion on the strengths of the nuclear industry while touring the plant in Lyon.

In these challenging circumstances, we effectively carried out the transformation plan last year, ahead of schedule, and as a result, the Company has entered fiscal year 2022 with significantly reduced structural costs and much improved margins in our North American operations. Also, we accelerated the closure and sale of one of our two large plants in Montreal and all remaining plants, including our plant in India, have been reconfigured in line with a less vertically integrated manufacturing model based on production cells. This successful improvement of our margins of our North American operations was one of the key goals of V20 (we coined the effort "Margin IQ").

On the other hand, the task of transforming our manufacturing model into a leaner and more agile operations in North America is not over yet. The combination of new processes and adapted capabilities, along with COVID-driven disruptions, the move of machinery, the accelerated plant closure, created turbulence causing significant production delays in our North American plants. This is going to be a key area of focus in the months to come.

Strong growth prospects, strong people

There were many other achievements to report during this remarkable year. These are only just a few of them, each constituting a building block for our growth ambitions:

- Following the collapse of the oil price in April, the spectacular rebound of Velan-ABV, our Italian operation, fueled in part by a breakthrough in its Middle East business

Velan Portugal completing its flagship product line of hydrofluoric acid valves with the successful transfer of the small forged line of valves from Montreal becoming part of Velan Portugal standard. manufacturing. program.

- The certification of our plant in Suzhou, China, to produce API 6D valves for our Italian operations, which, thanks to freed-up capacity in Lucca, Italy, are now able to meet the surge in demand for its high-end products
- The many breakthroughs of our French operations in the cryogenic and big science fields and in their control valve products, proving once again they are not "just about nuclear"

Velan's India plant reconfigured in line with a less vertically integrated manufacturing model based on production cells as part of the V20 transformation process.

Bruno Carbonaro

President and Acting Executive Vice-President, General Manager, Project

"Despite the pandemic which negatively impacted our revenues, the year was marked by many successes: the very strong order intake for our core product lines in Asia–and in particular–in China, the deployment of our new more agile manufacturing system following the closure of a plant in Canada and the transfer of machining activities to our Asian suppliers, and continued innovation activity with the introduction of the new triple offset and ball valves.

Velan begins the new year well positioned to support the recovery of its North American customers and to continue to develop its installed base in Asia, where we will progressively strengthen our commercial and industrial resources."

Message to our shareholders and employees

- The outstanding bookings of our Severe Service strategic business, resulting in large part from the patient efforts initiated in 2017 of obtaining licensor approvals for specialized petrochemical applications
- The successful transformation of our Indian facility into a versatile hub for our MRO products as well as for specialized multi-turn products serving our end-user customers in India and Southeast Asia.

In summary, it has been a year like no other. We had to learn how to make our global manufacturing operations work while coping with a devastating global health crisis and pursuing a complex transformation: no book had ever been written on how to do this. What a way to celebrate Velan's 70th anniversary!

The pandemic brought about a deep sense of loneliness that each of us must have had to grapple with so often in the last fifteen months. Yet remarkable things were achieved by our employees, uniting to overcome extraordinary challenges, both personal and professional. I want to express my deepest gratitude to all our employees and their families, for their courage, their perseverance, and resilience.

Our progress this year would not have been possible without the work and commitment of our experienced Board of Directors, who remained dedicated to Velan's success throughout the most difficult moments. I want to thank our new chairman, Jim Mannebach, for his great support and the wealth of business experience and wise counseling that he provided both the board and me personally.

In March 2020, in my weekly video, the first of many initiated to inform our employees across the world of our navigation course through unchartered waters, I predicted that Velan would come out of the storm stronger than when it hit us. Clearly, we are stronger, although still faced with many challenges ahead of us. As we are now turning a lot more attention to our growth strategy, the uncertainty of a world in flux continues to cloud the way, but we like our odds and look forward to the journey.

Yves Leduc
Chief Executive Officer

Investment highlights

- Stellar brand reputation with 70-years track record of outstanding product quality, engineering and innovation capabilities
- One of broadest and deepest global base of end-users and installed valves in the industry and leading presence in the fast-growing markets of China, Southeast Asia, and India
- V20 program delivering breakthrough cost savings and contributing to surge in bookings
- Growth momentum fueled by improved margins and highest backlog since FY2013
- Portfolio of diversified business platforms opening multiple entries into attractive and fragmented industrial sectors in the flow control industry

This 14" Class 2500 forged pressure seal valve, installed in a power plant in Florida–part of a large long-term contract with Velan to supply over 100 (12"–24") valves over 5 years.

May 19, 2021

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the year ended February 28, 2021. This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2021 and February 29, 2020. 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 12 manufacturing plants worldwide with 1,681 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 two 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 28, 2021	Fiscal year ended February 29, 2020	Increase (decrease)	% Increase (decrease)
Consolidated statements of earnings (loss)				
Sales	$302.1	$371.6	$(69.5)	(18.7)%
Gross profit	80.5	88.1	(7.6)	(8.6)%
Gross profit %	26.6%	23.7%		
Net earnings (loss)[2]	2.9	(16.4)	19.3	117.7%
Net earnings (loss)[2] %	1.0%	(4.4)%		
Net earnings (loss)[2] per share – basic and diluted	0.13	(0.76)	0.89	117.1%
Operating profit (loss) before restructuring and transformation costs (income)[3]	(1.7)	2.9	(4.6)	(158.6)%
EBITDA[3]	15.6	6.5	9.1	140.0%
Adjusted EBITDA[3]	11.6	16.1	(4.5)	(28.0)%
Adjusted EBITDA[3] %	3.8%	4.3%		
Adjusted EBITDA[3] per share – basic and diluted	0.54	0.74	(0.20)	(27.0)%
Weighted average shares outstanding	21.6	21.6		
Consolidated statements of cash flows				
Cash provided by (used in) operating activities	(9.1)	9.6	(18.7)	(194.8)%
Cash provided by (used in) investing activities	2.9	(11.7)	14.6	124.8%
Cash provided (used) by financing activities	33.1	(6.3)	39.4	625.4%
Demand data				
Net new orders received ("bookings")	426.6	340.4	86.2	25.3%
Period ending backlog of orders	562.5	406.8	155.7	38.3%

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

Highlights of fiscal 2021 as well as factors that may impact fiscal 2022

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

- Net earnings[1] amounted to $2.9 million or $0.13 per share compared to a net loss[1] of $16.4 million or $0.76 per share last year. Net earnings[1] for the year was positively impacted by a $7.2 million after tax gain recognized on the disposal of one of the Company's Montreal plants, a vital part of the North American manufacturing footprint optimization plan which was planned in the scope of V20. The disposed plant's production has been transferred within the remaining North American plants and the Company's Indian operations. The improvement in net earnings[1] was also explained by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses in the prior fiscal year (see *Results of operations* section). Finally, the Company's results were improved by an increase in its gross profit percentage combined with a reduction of administration costs as well as restructuring and transformation costs, which includes a $1.4 million severance provision reversal. These improvements were partially offset by a lower sales volume and $1.5 million of unrealized foreign exchange losses incurred over the course of the fiscal year. The negative impact of the reduced sales volume on the Company's net earnings[1] for the year was offset by the recording of $13.1 million of non-recurring pandemic wage subsidies, specifically the Canada Emergency Wage Subsidy, which were allocated between cost of sales, administration expenses and restructuring and transformation costs. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic, as such lay-offs would have weakened the Company going into the subsequent fiscal year. Instead, the Company is expecting to build on its bookings momentum, substantially improve its sales, and fully realize the benefits of its V20 plan.
- Operating loss before restructuring and transformation income[2] amounted to $1.7 million compared to an operating profit before restructuring and transformation costs[2] of $2.9 million last year. Adjusted EBITDA[2] amounted to $11.6 million or $0.54 per share compared to $16.1 million or $0.74 per share last year. The deterioration in operating loss before restructuring and transformation income[2] and adjusted EBITDA[2] is primarily attributable to a lower sales volume and $1.5 million of unrealized foreign exchange losses incurred over the course of the fiscal year, partially offset by an improved gross profit percentage and lowered administration costs.
- Sales amounted to $302.1 million, a decrease of $69.5 million or 18.7% compared to last year. Sales were negatively impacted by the reduction of non-project orders recorded by the Company's North American operations due to the unfavorable market conditions triggered by the novel coronavirus ("COVID-19") global pandemic, as well as the impact of the drop in the price of oil on capex and maintenance spending in the oil and gas industry, which has significantly affected the Company's distribution channels. The shipments in the Company's North American and Italian subsidiaries were negatively impacted by continued supply chain and production issues created by the pandemic, while its North American operations were also negatively affected by inefficiencies experienced in reconfiguring the manufacturing layout in the Canadian plants under the V20 program which caused production delays.
- Gross profit percentage increased by 290 basis points from 23.7% to 26.6%. The increase in the gross profit percentage was primarily attributable to the delivery of a product mix with a greater proportion of higher margin product sales, from margin improvements resulting from the production overhead savings brought by the Company's restructuring and transformation initiatives, as well as from the more selective screening and improved pricing discipline initiated over the last two years, as part of the V20 plan, in North American quotation activities, that led to substantially improved margins in its project business. The increase is also attributable to favorable movements of $3.2 million in warranty and $5.2 million in late delivery penalties provisions due to an improved outlook in these areas as well as the recording of $7.0 million of non-recurring pandemic wage subsidies which offset the impact of the lower sales volume for the fiscal year. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic.
- Administration costs amounted to $80.1 million, a decrease of $5.1 million or 6.0%. The decrease is primarily attributable to a $5.7 million reduction of administration salary expenses due to non-recurring pandemic wage subsidies as well as the on-going effort to reduce administration overhead expenses including travel expenses and office maintenance costs, caused principally by the travel restrictions and social distancing measures that were enforced in a majority of countries over the course of the fiscal year. The Company's administration costs were also higher in the prior fiscal year due to the recording of a $0.9 million provision regarding the settlement of a product claim. The decrease in administration costs was partially offset by a $1.4 million increase in the costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section).

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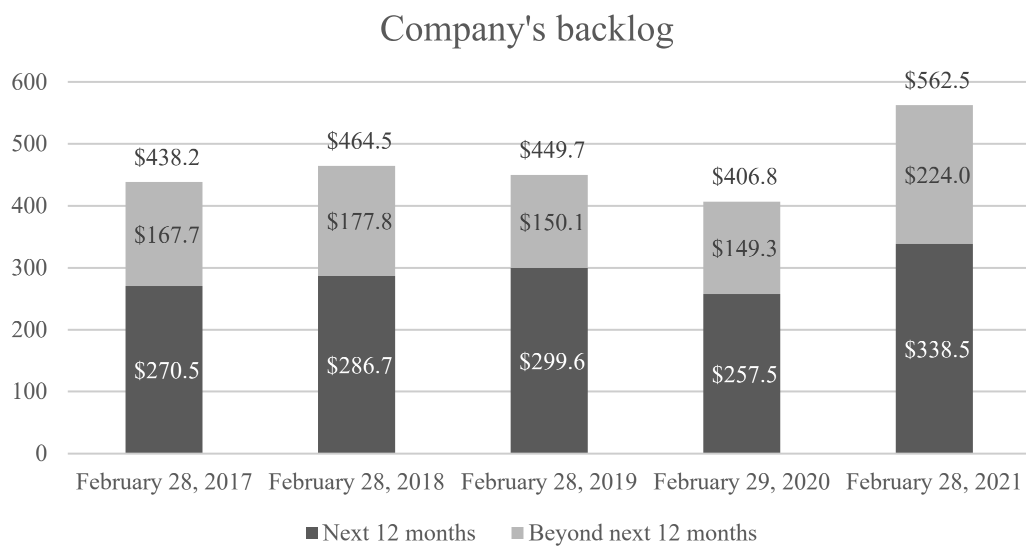
[2] *Non-IFRS measures – see reconciliations at the end of this report.*



- The Company ended the period with a backlog of $562.5 million, an increase of $155.7 million or 38.3% since the beginning of the current fiscal year. The backlog was positively impacted by a strong book-to-bill ratio and the strengthening of the euro spot rate against the U.S. dollar over the course of the fiscal year. The backlog also increased for the period due temporary factors such as delays in shipments created by the COVID-19 pandemic and the reconfiguration of the Canadian plants under the V20 program.
- Bookings amounted to $426.6 million, an increase of $86.2 million or 25.3% compared to last year. This increase is primarily attributable to large project orders booked in the Company's French, Italian and North American operations, notably in the nuclear, downstream oil and gas and process markets. This increase was partially offset by a decrease in non-project orders booked in the Company's North American operations.
- The Company ended the year with net cash of $63.0 million, an increase of $32.0 million or 103.2% since the beginning of the year. Management believes that the available net cash and unused credit facilities, along with future cash flows generated from operations, are sufficient for the Company to meet its financial obligations, increase its capacity of liquidity, satisfy its working capital requirements, and execute its business strategy. The increase in net cash is primarily attributable to an increase in long-term debt combined with proceeds on the disposal of a manufacturing plant, partially offset by temporary negative non-cash working capital movements, investments in property, plant and equipment, long-term debt repayments and V20 related disbursements. Net cash was positively impacted by the strengthening of the euro spot rate against the U.S. dollar over the course of the fiscal year. In light of the ongoing pandemic and receipt of government subsidies, the Company has suspended the payment of all dividends as well as share buybacks in fiscal year 2021.
- Foreign currency impacts:
  - Based on average exchange rates, the euro strengthened 4.1% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits and bookings from its European subsidiaries being reported as higher U.S. dollar amounts in the current fiscal year.
  - Based on average exchange rates, the Canadian dollar weakened 0.7% 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 fiscal year.
  - Based on spot exchange rates, the euro strengthened by 10.4% against the U.S. dollar when compared to the rate at the end of the prior fiscal year. This strengthening resulted in the previously mentioned unrealized currency losses on the conversion of monetary assets and liabilities by the Company's European subsidiaries. Furthermore, the euro strengthening was the main driver of a positive cumulative translation adjustment of $13.2 million which was recorded directly in equity through other comprehensive income.
  - The net impact of the above currency swings was generally unfavourable on the Company's net earnings[1], although it was generally favourable on the Company's equity.

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

The Company celebrated its 70th anniversary in the midst of a pandemic which forced businesses to adapt to a new and extremely challenging environment. As Velan is considered in most countries to be a supplier of critical equipment to essential industries, the Company was spared from production lockdowns but nonetheless felt multiple consequences on its operations and its supply chain. As the virus spread to the countries where Velan operates, the Company was swift in implementing exemplary sanitary measures, social distancing, health surveys and protocols in case of outbreaks to maximize the safety and health of its employees.

The Company managed through the turbulence by finding solutions to the multiple challenges that occurred during the year. As an example, a new financing agreement was finalized, providing increased flexibility for potential future growth opportunities. Additionally, and despite the global crisis' dramatic impact on its operations, the Company was able to improve its financial health with a notably increased backlog and margins thanks to the progress achieved through the V20 restructuring and transformation plan. Finally, the Company was able to achieve great progress in accelerating the deployment of its V20 plan with the sale of one of its manufacturing plants in Montreal, which was part of its North American footprint consolidation initiative, with limited resources in the particular and unusual context throughout the year.

Other factors that may impact fiscal year 2022

Although the main focus remains to address the continuing challenges resulting from the COVID-19 pandemic, the Company has the additional assignment to ensure the timely delivery of its near-record backlog while sorting through the production inefficiencies that came with the reconfiguration of its Canadian plants. The backlog at the end of fiscal 2021 is showing notable growth in all the Company's business units except for the MRO segment, which suffered from the economic slowdown caused by the COVID-19 pandemic, thereby causing its bookings to sharply fall. Additionally, the aforementioned increased backlog, which contains improved margins, provided added flexibility for the Company who is now turning its attention to its growth strategy.

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. 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.

SUMMARY OF RESULTS

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

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

	Fiscal year ended February 28, 2021	Fiscal year ended February 29, 2020	Fiscal year ended February 28, 2019
Operating Data			
Sales	$302,063	$371,625	$366,865
Net Earnings (loss)[1]	2,867	(16,390)	(4,882)
Earnings (loss) per Share – Basic and diluted	0.13	(0.76)	(0.23)
Balance Sheet Data			
Total Assets	580,833	538,496	524,357
Total Long-Term Financial Liabilities	56,443	19,609	21,723
Shareholder Data			
Cash dividends per share			
- Multiple Voting Shares[2]	-	0.09	0.09
- Subordinate Voting Shares	-	0.09	0.09
Outstanding Shares at report date			
- Multiple Voting Shares[2]	15,566,567		
- Subordinate Voting Shares	6,019,068		

Sales for fiscal year 2021 decreased by 18.7% compared to fiscal year 2020. This decrease was primarily attributable to the reduction of non-project orders recorded by the Company's North American operations due to the unfavorable market conditions triggered by the COVID-19 pandemic, as well as the impact of the drop in the price of oil on capex and maintenance spending in the oil and gas industry, which had significantly affected the Company's distribution channels. The shipments in the Company's North American and Italian subsidiaries were negatively impacted by continued supply chain and production issues created the COVID-19 pandemic, while its North American operations were also negatively impacted by inefficiencies experienced in reconfiguring the manufacturing layout in the Canadian plants under the V20 program which caused production delays. 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 its 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 was 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.

Gross profit for fiscal year 2021 amounted to $80.5 million, a decrease of $7.6 million from fiscal year 2020, while the gross profit percentage increased from the 23.7% reported in fiscal year 2020 to 26.6% in fiscal year 2021. The increase in the gross profit percentage was primarily attributable to the delivery of a product mix with a greater proportion of higher margin product sales, from margin improvements resulting from the production overhead savings brought by the Company's restructuring and transformation initiatives, as well as from the more selective screening and improved pricing discipline initiated over the last two years, as part of the V20 plan, in North American quotation activities, that led to substantially improved margins in its project business. The increase was also attributable to favorable movements of $3.2 million in warranty and $5.2 million in late delivery penalties provisions due to an improved outlook in these areas as well as the recording of $7.0 million of non-recurring pandemic wage subsidies which offset the impact of the lower sales volume for the fiscal year. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic. 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 improved performance came from the strong sales volume and higher margin sales in the Company's European operations, partially offset by the lower sales volume shipped by the Company's North American operations.

Administration costs for fiscal year 2021 decreased by $5.1 million when compared to fiscal year 2020. The decrease was primarily attributable to a $5.7 million reduction of administration salary expenses due to non-recurring pandemic wage subsidies as well as the on-going effort to reduce administration overhead expenses including travel expenses and office maintenance costs, caused principally by the travel restrictions and social distancing measures that were enforced in a majority of countries over the course of the fiscal year. The decrease in administration costs was partially offset by a $1.4 million increase in the costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section). 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 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).

The fiscal year 2021 net earnings[1] was positively impacted by a $7.2 million after tax gain recognized on the disposal of one of the Company's Montreal plants. The fiscal year 2020 net loss[1] was negatively impacted by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses (see *Results of operations* 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 28, 2021 compared to the year ended February 29, 2020

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

Sales

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Sales	$302.1	$371.6

Sales decreased by $69.5 million or 18.7% from the prior year. Sales were negatively impacted by the reduction of non-project orders recorded by the Company's North American operations due to the unfavorable market conditions triggered by the COVID-19 global pandemic, as well as the impact of the drop in the price of oil on capex and maintenance spending in the oil and gas industry, which has significantly affected the Company's distribution channels. The shipments in the Company's North American and Italian subsidiaries were also negatively impacted by continued supply chain and production issues created by the pandemic, while the North American operations were also negatively impacted by inefficiencies experienced in reconfiguring the manufacturing layout in the Canadian plants under the V20 program which caused production delays.

Bookings and backlog

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Bookings	$426.6	$340.4

Bookings increased by $86.2 million or 25.3% from the prior year. The increase in bookings is primarily attributable to large project orders booked in the Company's French, Italian and North American operations, notably in the nuclear, downstream oil and gas and process markets. This increase was partially offset by a decrease in non-project orders booked in the Company's North American operations.

(millions)	**February 2021**	**February 2020**	**February 2019**
Backlog	$562.5	$406.8	$449.7
For delivery within the subsequent fiscal year	$338.5	$257.5	$299.6
For delivery beyond the subsequent fiscal year	$224.0	$149.3	$150.1
Percentage – beyond the subsequent fiscal year	39.8%	36.7%	33.4%

As a result of bookings outpacing sales in the current fiscal year, the Company's book-to-bill ratio was 1.41 for the year. Furthermore, the total backlog increased by $155.7 million or 38.3% since the beginning of the fiscal year, settling at $562.5 million. The backlog was positively impacted by a strong book-to-bill ratio resulting from the Company's effective market development efforts targeting end-user applications in India, South East Asia, and China, where the Company is well positioned and, to a lesser extent, the strengthening of the euro spot rate against the U.S. dollar over the course of the fiscal year. The backlog also increased in the year due to the delays in shipments created by the COVID-19 pandemic and the reconfiguration of the Canadian plants under the V20 program.

Gross profit

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Gross profit	$80.5	$88.1
Gross profit percentage	26.6%	23.7%

Gross profit decreased by $7.6 million for the fiscal year, while the gross profit percentage increased by 290 basis points from 23.7% to 26.6%. The increase in the gross profit percentage was primarily attributable to the delivery of a product mix with a greater proportion of higher margin product sales, from margin improvements resulting from the production overhead savings brought by the Company's restructuring and transformation initiatives as well as from the more astute screening and pricing discipline initiated over the last two years, as part of the V20 plan, in North American quotation activities, that led to substantially improved margins in its project business. The increase is also attributable to favorable movements of $3.2 million in warranty and $5.2 million in late delivery penalties provisions due to an improved outlook in these areas as well as the recording of $7.0 million of non-recurring pandemic wage subsidies which offset the impact of the lower sales volume for the fiscal year. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic.

Administration costs

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Administration costs*	$80.1	$85.2
As a percentage of sales	26.5%	22.9%
*Includes asbestos-related costs of:	$11.0	$9.6

Administration costs decreased by $5.1 million or 6.0% for the fiscal year. The decrease in administration costs is primarily attributable to a $5.7 million reduction of administration salary expenses provided by non-recurring pandemic wage subsidies combined with the on-going effort to reduce administration overhead expenses including travel expenses and office maintenance costs, caused principally by the travel restrictions and social distancing measures that were enforced in a majority of countries over the course of the fiscal year. The Company's administration costs were also higher in the prior fiscal year due to the recording of a $0.9 million provision regarding the settlement of a product claim. The decrease in administration costs was partially offset by a $1.4 million increase in the costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section).

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.

Other expense

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Other expense	$2.1	$0.1

Other expense increased by $2.0 million for the fiscal year. The increase in other expenses is primarily due to land clean-up costs of a former factory. These costs are unrelated to the sale of the Montreal manufacturing plant that occurred this fiscal year.

Income taxes

(in thousands, excluding percentages)	Year ended February 28, 2021		Year ended February 29, 2020	
	$	%	$	%
Income tax at statutory rate of 26.5% (2020 – 26.6%)	364	26.5	(2,143)	26.6
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	469	34.1	1,469	(18.2)
Non-deductible (taxable) foreign exchange losses (gains)	(274)	(19.9)	378	(4.7)
De-recognition of unused tax losses	-	-	8,256	(102.5)
Non-taxable portion of taxable capital gain	(798)	(58.0)	-	-
Losses not tax effected (losses utilized not previously tax effected)	478	34.7	(1,227)	15.3
Global Intangible Low-Taxed Income ("GILTI")	(211)	(15.4)	2,636	(32.7)
Benefit attributable to a financing structure	(300)	(21.8)	(253)	3.1
Prior period tax adjustments and assessments	(522)	(38.0)	(536)	6.6
Other	(28)	(2.0)	(37)	0.5
Income tax expense (recovery)	(822)	(59.8)	8,543	(106.0)

The favorable movement in the Company's income tax recovery in the current fiscal year is primarily attributable to the non-taxable portion of the taxable capital gain on the disposal of the Montreal plant. The unfavorable movement in the Company's income tax expense in the prior fiscal year is primarily attributable to the de-recognition of a portion of the future benefit of unused tax losses in the Company's North American operations.

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

(millions)	Year ended February 28, 2021	Year ended February 29, 2020
Net earnings (loss)[1]	$2.9	$(16.4)
As a percentage of sales	1.0%	(4.4)%
Operating profit (loss) before restructuring and transformation costs (income)[2]	$(1.7)	$2.9
Adjusted EBITDA[2]	$11.6	$16.1
As a percentage of sales	3.8%	4.3%

Net earnings[1] amounted to $2.9 million or $0.13 per share compared to a net loss[1] of $16.4 million or $0.76 per share last year. Net earnings[1] for the year was positively impacted by a $7.2 million after-tax gain recognized on the disposal of one of the Company's Montreal plants, a vital part of the North American manufacturing footprint optimization plan which was planned in the scope of V20. The disposed plant's production has been transferred within the remaining North American plants and the Company's Indian operations. The improvement in net earnings[1] was also explained by a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses in the prior fiscal year (see *Results of operations* section). Finally, the Company's results were improved by an increase in its gross profit percentage combined with a reduction in administration costs as well as restructuring and transformation costs, which includes a $1.4 million severance provision reversal. These improvements were partially offset by a lower sales volume and $1.5 million of unrealized foreign exchange losses incurred over the course of the fiscal year. The negative impact of the reduced sales volume on the Company's net earnings[1] for the year was offset by the recording of $13.1 million of non-recurring pandemic wage subsidies which were allocated between cost of sales, administration expenses and restructuring and transformation costs. Operating loss before restructuring and transformation income[2] amounted to $1.7 million compared to an operating profit before restructuring and transformation costs[2] of $2.9 million last year. Adjusted EBITDA[2] amounted to $11.6 million or $0.54 per share compared to $16.1 million or $0.74 per share last year. The deterioration in operating loss before restructuring and transformation income[2] and adjusted EBITDA[2] is primarily attributable to a lower sales volume and $1.5 million of unrealized foreign exchange losses incurred over the course of the fiscal year, partially offset by an improved gross profit percentage and lowered administration costs. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic, as they would have weakened the Company going into the subsequent fiscal year. Instead, the Company is expecting to build on its bookings momentum, substantially improve its sales, and fully realize the benefits of its V20 plan.

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

RESULTS OF OPERATIONS – quarter ended February 28, 2021 compared to the quarter ended February 29, 2020

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

Sales

(millions)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Sales	$85.5	$113.6

Sales decreased by $28.1 million or 24.7% for the quarter. Sales for the quarter were negatively impacted by the reduction of non-project orders recorded by the Company's North American operations due to the unfavorable market conditions triggered by the COVID-19 pandemic, as well as the impact of the drop in the price of oil on capex and maintenance spending in the oil and gas industry, which have significantly affected the Company's distribution channels. The Company's reduced quarterly shipments are also attributable to continued supply chain and production issues created by the COVID-19 pandemic as well as inefficiencies experienced in reconfiguring the manufacturing layout in the Canadian plants under the V20 program which caused production delays.

Bookings

(millions)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Bookings	$80.9	$88.3

Bookings decreased by $7.4 million or 8.4% for the quarter. The decrease in bookings for the quarter is primarily attributable to a reduction of large project orders recorded by the Company's North American operations. Additionally, bookings were negatively impacted by the lower non-project orders recorded by the Company's North American operations due to the negative impact of the COVID-19 pandemic which caused a drop in the price of oil in 2019-2020 that continued to significantly affect the Company's distribution channels through the rest of the fiscal year.

Gross profit

(millions)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Gross profit	$23.1	$27.9
Gross profit percentage	27.0%	24.6%

Gross profit decreased by $4.8 million for the quarter, while the gross profit percentage increased by 240 basis points from 24.6% to 27.0%. The increase in the gross profit percentage for the quarter was primarily attributable to the margin improvements resulting from the production overhead savings brought by the Company's restructuring and transformation initiatives. The increase is also attributable to the recording of $1.3 million of non-recurring pandemic wage subsidies which offset the impact of the lower sales volume for the quarter. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic.

Administration costs

(millions)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Administration costs*	$24.2	$21.5
As a percentage of sales	28.3%	18.9%
*Includes asbestos-related costs of:	$2.9	$2.7

Administration costs increased by $2.7 million or 12.6% for the quarter. The increase in administration costs for the quarter is primarily attributable to the lower R&D tax credit and capitalizable costs recorded in the current quarter.

Income taxes

(in thousands, excluding percentages)	Three-month period ended February 28, 2021		Three-month period ended February 29, 2020	
	$	%	$	%
Income tax at statutory rate of 26.5% (2020 – 26.6%)	(621)	26.5	(393)	26.6
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	69	(2.9)	658	(44.5)
Non-deductible foreign exchange loss	90	(3.9)	31	(2.1)
De-recognition of unused tax losses	-	-	8,013	(541.8)
Non-taxable portion of taxable capital gain	(798)	34.0	-	-
Losses utilized not previously tax effected	(295)	12.6	(782)	52.9
Global Intangible Low-Taxed Income ("GILTI")	(211)	9.0	2,636	(178.2)
Drawback (Benefit) attributable to a financing structure	(110)	4.7	408	(27.6)
Prior period tax adjustments and assessments	(522)	22.3	(536)	36.2
Other	87	(3.7)	(125)	8.5
Income tax expense (recovery)	(2,311)	98.6	9,910	(670.0)

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

(millions)	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Net earnings (loss)[1]	$0.3	$(11.1)
As a percentage of sales	0.4%	(9.8)%
Operating profit (loss) before restructuring and transformation costs[2]	$(0.7)	$6.2
Adjusted EBITDA[2]	$2.9	$9.9
As a percentage of sales	3.4%	8.7%

[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.*

Net earnings[1] amounted to $0.3 million or $0.02 per share compared to a net loss[1] of $11.1 million or $0.51 per share last year. The improvement in net earnings[1] for the quarter was primarily due to the recording in the prior fiscal year of a $8.2 million non-cash tax adjustment to de-recognize a portion of unused tax losses as well as a reduction of restructuring and transformation costs combined with an improved gross profit percentage in the current quarter. This increase in net earnings[1] was partially offset by a lower sales volume and an increase in administration costs. The negative impact on the Company's net earnings[1] of the reduced sales volume for the quarter was offset by the recording of $2.4 million of non-recurring pandemic wage subsidies which were allocated between cost of sales, administration expenses and restructuring and transformation costs. Operating loss before restructuring and transformation costs[2] amounted to $0.7 million compared to an operating profit of $6.2 million last year. Adjusted EBITDA[2] amounted to $2.9 million or $0.14 per share compared to $9.9 million or $0.46 per share last year. The deterioration in operating loss before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to a lower sales volume and higher administration costs, partially offset by an improved gross profit percentage. The recording of wage subsidies allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic, as such lay-offs would have weakened the Company going into the subsequent fiscal year. Instead, the Company is expecting to build on its bookings momentum, substantially improve its sales, and fully realize the benefits of its V20 plan.

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 2021	**November 2020**	**August 2020**	**May 2020**	**February 2020**	**November 2019**	**August 2019**	**May 2019**
Sales	$85,510	$71,560	$68,340	$76,653	$113,641	$88,701	$85,467	$83,816
Net earnings (loss)[1]	338	9,527	(5,112)	(1,886)	(11,116)	(819)	1,369	(5,824)
Net earnings (loss)[1] per share								
- Basic and diluted	0.02	0.44	(0.24)	(0.09)	(0.51)	(0.04)	0.06	(0.27)

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 quarter ended in February 2020 due to increased shipments of such orders, while the lower sales amounts for the quarters ended in May 2019, August 2019 and November 2019 were due to delays on the shipments of such orders. Sales were lower in the quarters ended in May 2020, August 2020, November 2020 and February 2021 due to the many disruptions caused by the COVID-19 pandemic as well as inefficiencies experienced in reconfiguring the Canadian plants under the V20 program. 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 quarter ended in February 2020 was due to the de-recognition of unused tax losses as well as the $7.1 million spent on the Company's restructuring and transformative initiative, V20. The net loss[1] for the quarters ended in May 2020 and August 2020 was due to a lower sales volume, the expenses incurred by the Company in the scope of its restructuring and transformation plan as well as unrecognized tax losses, primarily in the Company's North American operations. The net loss[1] for the quarter ended in August 2020 was also negatively impacted by land clean-up costs of a former factory. Net earnings[1] for the quarter ended in November 2020 was achieved through the gain realized on the disposal of one of the Company's manufacturing plants in Montreal. The net earnings[1] for the quarter ended in February 2021 was obtained through an improved gross profit percentage and lower restructuring and transformation costs despite a lower sales volume and higher administration costs.

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

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

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

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

	As at February 28, 2021					
	Carrying value $	Less than 1 year $	1 to 3 Years $	4 to 5 Years $	After 5 years $	Total $
Long-term debt	58,091	10,436	32,620	8,319	10,212	61,587
Long-term lease liabilities	14,227	1,852	2,554	1,535	13,327	19,268
Accounts payable and accrued liabilities	90,840	90,840	-	-	-	90,840
Customer deposits	62,083	62,083	-	-	-	62,083
Bank indebtedness and short-term bank loans	11,735	11,735	-	-	-	11,735
Derivative liabilities	303	303	-	-	-	303

The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3,590, which are covered by letters of credit.

Future minimum payments under low value / short term leases are as follows:

	$
February 28, 2022	316
February 28, 2023	177
February 29, 2024	75
February 28, 2025	22
	590

On February 28, 2021, the Company's order backlog was $562.5 million, and its net cash plus unused credit facilities amounted to $152.5 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity of liquidity, 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 remaining stages of 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 is in compliance with all covenants related to its debt and credit facilities.

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

The Company's North American operations secured over the course of the fiscal year new financing in the form of a $17.7 million secured mortgage loan and a $65.0 million revolving credit facility which will be used to support the Company's operations, complete its restructuring and transformation plan as well as provide the necessary capital to pursue future growth initiatives, while strengthening its balance sheet as the world economy still faces a period of uncertainty.

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 2021	November 2020	February 2020	November 2019	February 2019
Net cash	$63.0	$73.0	$31.0	$39.0	$40.9

The Company's net cash decreased by $10.0 million or 13.7% over the course of the quarter and increased by $32.0 million or 103.2% since the beginning of the current fiscal year. This decrease for the quarter is primarily attributable to temporary negative non-cash working capital movements combined with the reimbursement of short-term bank loans, partially offset by an increase in long-term debt. The increase for the fiscal year is primarily attributable to an increase in long-term debt combined with proceeds on the disposal of a manufacturing plant, partially offset by temporary negative non-cash working capital movements, investments in property, plant and equipment, long-term debt repayments and V20 related disbursements. Net cash was positively impacted by the strengthening of the euro spot rate against the U.S. dollar over the course of the fiscal year.

Cash provided by (used in) operating activities

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Cash provided by (used in) operating activities	$(9.1)	$9.6	$(16.8)	$(3.7)

Cash used in operating activities amounted to $16.8 million for the current quarter compared to $3.7 million in the prior year. The current quarter's usage of funds consisted of a net loss[1] adjusted for non-cash items of 3.2 million and negative non-cash working capital movements of $13.6 million. Cash used in operating activities amounted to $9.1 million for the current year compared to cash provided by operating activities of $9.6 million in the prior year. The current year's usage of funds consisted of a net loss[1] adjusted for non-cash items of $1.9 million and positive non-cash working capital movements of $7.2 million.

Accounts receivable

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Accounts receivable decrease (increase)	$8.4	$(1.3)	$(14.1)	$(13.8)

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

Inventories

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Inventories decrease (increase)	$(26.1)	$(7.4)	$(11.0)	$7.9
Customer deposits increase (decrease)	$11.0	$8.3	$4.2	$(4.1)

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

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

Accounts payable and accrued liabilities

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Accounts payable and accrued liabilities increase (decrease)	$13.6	$0.6	$11.4	$(1.0)

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

Additions to property, plant and equipment

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Additions to property, plant and equipment	$9.8	$10.3	$2.3	$1.3
Proceeds on disposal of property, plant and equipment	$13.7	$0.3	$-	$0.1

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

On November 2, 2020, the Company sold one of its Montreal manufacturing plants. The sale was a vital part of the North American manufacturing footprint optimization plan which was planned in the scope of its restructuring and transformation plan. The disposed plant's production has been transferred within the remaining North American plants and the Company's Indian operations. The net proceeds for the disposition of the building and the land was $12.4 million, while the net book value of the assets was $2.8 million which resulted in a gain of $9.6 million Additionally, during the fiscal year, the Company used the service of an auctioneer to dispose of some excess machinery and equipment in preparation for the plant sale.

Long-term debt

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Increase in long-term debt	$18.2	$1.1	$3.9	$ -
Repayment of long-term debt	$3.6	$2.9	$0.7	$0.5
Change in revolving credit facility	$22.1	$-	$11.3	$-

During the current quarter, the Company's French subsidiary borrowed $3.0 million in the form of an unsecured bank loan, bearing interest at a variable rate and expiring in 2026.

During the fiscal year, the Company's North American operations borrowed $11.6 million in the form of a secured mortgage loan bearing monthly interest payments at a yearly interest rate of 3.80%, with principal payments beginning in October 2021 and repayable over 15 years. Additionally, its Italian subsidiary secured three new long-term debt issuances with two financial institutions as part of the measures and initiatives put in place by the Italian government to support companies in the current pandemic context. Specifically, the subsidiary borrowed $3.6 million in the form of unsecured bank loans, bearing interest between 1.00% and 1.25%, with principal repayments beginning in 2021 and 2022 and repayable in monthly and quarterly installments, expiring in 2025 and 2026.

On July 3, 2020, the Company secured new financing in the form of a $65,000 multi-currency revolving credit facility subject to a borrowing base calculation and renewable every three years. This revolving credit facility can be drawn in US dollars or Canadian dollars. Drawings bear interest at either the US Base rate, US Prime rate, Canadian prime rate, CDOR or LIBOR, plus a margin based on the Company's excess availability. Under the terms of the credit facility, the Company is required to satisfy a restrictive covenant based on a financial ratio. As at February 28, 2021, the Company was in compliance with its covenant.

Dividends paid and repurchase of shares

(millions)	Fiscal Year ended February 28, 2021	Fiscal Year ended February 29, 2020	Three-month period ended February 28, 2021	Three-month period ended February 29, 2020
Dividends paid	$0.5	$2.0	$-	$0.5
Repurchase of shares	$-	$0.2	$-	$0.1

At the end of the fiscal year ended February 29, 2020, the Board of Directors deemed appropriate to suspend the quarterly dividend. The decision remains unchanged and will be reviewed on a quarterly basis.

The Board of Directors of the Company had 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 the prior fiscal year. The Board of Directors elected not to renew the normal course issuer bid during the current fiscal 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 28, 2021 and February 29, 2020 are as follows:

	Range of exchange rates		Fair value (In thousands of U.S. dollars)		Notional amount (In thousands of indicated currency)	
	February 28, 2021	**February 29, 2020**	**February 28, 2021 $**	**February 29, 2020 $**	**February 28, 2021**	**February 29, 2020**
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.30	1.33-1.34	(135)	(923)	US$22,000	US$68,000
Buy US$ for CA$ – 0 to 12 months	1.22	1.31-1.33	48	357	US$22,000	US$68,000
Buy US$ for € – 0 to 12 months	-	1.10-1.11	-	(3)	-	US$1,205
Sell € for US$ – 0 to 12 months	1.22-1.24	1.11-1.14	(168)	(174)	€18,363	€16,790
Buy € for US$ – 0 to 12 months	1.16-1.20	1.10-1.11	148	198	€18,363	€16,790
Sell US$ for KW – 0 to 12 months	-	1,139-1,171	-	(70)	-	US$1,647

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

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits and long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 28, 2021 and February 29, 2020:

	Net income (loss)	
	2021 **$**	**2020** **$**
Canadian dollar strengthening against the U.S. dollar	(1,429)	(1,463)
Euro strengthening against the U.S. dollar	593	411

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

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

Cash flow and fair value interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 28, 2021, five (2020 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.6% (2020 – 15.0%) and the Company's ten largest customers accounted for 63.5% (2020 – 61.2%) of trade accounts receivables. In addition, one customer accounted for 13.7% of the Company's sales (2020 – 13.4%).

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. For some trade accounts receivable, the Company may obtain security in the form of credit insurance which can be called upon if the counterparty is in default under the terms of the agreement.

The Company also applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

The lifetime expected loss allowance for trade receivables was determined as follows:

	As at February 28, 2021				
	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.287%	0.606%	0.682%	4.203%	
Gross carrying amount	76,407	19,630	9,672	17,653	123,362
Loss allowance	**219**	**119**	**66**	**742**	**1,146**

	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 28, 2021 $	As at February 29, 2020 $
Current	76,407	83,711
Past due 0 to 30 days	19,630	16,619
Past due 31 to 90 days	9,672	7,445
Past due more than 90 days	17,653	21,989
	123,362	129,764
Less: Loss allowance	1,146	2,002
Trade accounts receivable	122,216	127,762
Other receivables	13,157	7,480
Total accounts receivable	135,373	135,242

The table below summarizes the movements in the loss allowance:

	As at February 28, 2021 $	As at February 29, 2020 $
Balance – Beginning of year	2,002	1,662
Loss allowance expense (reversal)	(142)	1,045
Recoveries of trade accounts receivable	(313)	(95)
Write-off of trade accounts receivable	(497)	(552)
Foreign exchange	96	(58)
Balance – End of year	1,146	2,002

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. 1,696 claims were outstanding at the end of the reporting period (February 29, 2020 – 1,561). During the current fiscal year, the Company resolved 388 claims (February 29, 2020 – 436) and was the subject of 523 new claims (February 29, 2020 – 648). Settlement costs and legal fees related to these asbestos claims amounted to $2,897 for the quarter (February 29, 2020 - $2,677) and $11,011 for the year (February 29, 2020 - $9,621).

OFF-BALANCE SHEET ARRANGEMENTS

The Company has entered into certain off-balance sheet arrangements. They are fully described in notes 10, 13, 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. 28, 2021	Feb. 29, 2020	Feb. 28, 2021	Feb. 29, 2020
Purchases of material components	$108	$325	$508	$708

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 28, 2021 and have concluded that such disclosure controls and procedures were designed and operating effectively.

Internal control over financial reporting

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

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the *"Internal Control-Integrated Framework (2013)"* issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO").* This evaluation was performed by the CEO and the CFO of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the CEO and the CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively as at February 28, 2021.

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 ended February 28, 2021 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).

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 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
Since December 2019, the COVID-19 global pandemic has caused temporary disruptions in the Company's production and supply chain which have materially adversely affected its business and financial results. The economic slowdown triggered by the global pandemic, mainly in the oil and gas sector at the beginning of the fiscal year, has also translated in lower non-project valve sales for the Company. Nevertheless, the Company's net order bookings have shown a positive trend for the fiscal year ended February 28, 2021. The Company has implemented proactive measures to protect its global workforce and mitigate the numerous effects of the pandemic, but given the ongoing dynamic nature of circumstances surrounding COVID-19, it is not possible to reliably estimate the length, severity and long term impact the global pandemic may have on the Company's results, conditions and cash-flows. The COVID-19 global pandemic should be considered a new risk factor.

In reaction to the COVID-19 pandemic, the Company applied for the Canada Emergency Wage Subsidy which allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic.

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.

NEW ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

(i) In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

(ii) In August 2020, the International Accounting Standards Board ("IASB") issued *Interest Rate Benchmark Reform (Phase 2)*, which amends *IFRS 9 Financial instruments*, *IAS 39 Financial instruments: Recognition and measurement*, *IFRS 7 Financial instruments: Disclosures* and *IFRS 16 Leases*. The Phase 2 amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. These amendments complement those issued in 2019 and focus on issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

Debt restrictions
The Company's operations are substantially restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Company's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, under certain conditions, the Company's ability to:

- incur debt;
- pay dividends on stock, repurchase stock or redeem subordinated debt;
- make investments;
- sell assets, including capital stock in subsidiaries;
- guarantee other indebtedness;
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates;
- create or assume liens securing debt;
- sell or transfer and leaseback transactions;
- engage in mergers or consolidations; and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Company's ability to plan for or react to market conditions or to meet its capital needs. The Company's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Company's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance. The restrictive covenants contained in the Company's senior note indenture, along with the Company's credit facility, do not apply to its joint ventures, minority investments and unrestricted subsidiaries.

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. Election of protectionist governments or implementation of protectionist trade policies could negatively impact the movement of goods, services, and people across borders, including within North America. Uncertainty created by rapidly changing political circumstances may impact the Company's ability to plan effectively over the short- and medium-terms, until such time as policy changes or new laws, if any, are implemented.

The Company's business and operating results could also be adversely impacted by changes in tax laws, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

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

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

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

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

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

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

Control of the Company
Velan Holding Co. Ltd. (the "Controlling Shareholder") owns 15,566,567 Multiple Voting Shares representing, in the aggregate, approximately 92.8% of the voting interests in the Company. Voting control enables the Controlling Shareholder to determine all matters requiring shareholder approval. The Controlling Shareholder has advised the Company that the disposition of the shares requires the consent of certain Velan family members and controlled entities.

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

Income and other tax risks

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

Compliance with international laws

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

Non-controlling interest

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

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. The failure to prevent, detect, or respond to a breach in the Company’s information technology networks could have a material adverse impact on the Company’s business, financial condition, result of operations and cash flows.

RECONCILIATIONS OF NON-IFRS MEASURES

In this MD&A and other sections of the 2021 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 (income) and Adjusted net earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA")

For the fiscal year ended:	Feb. 28, 2021	Feb. 29, 2020	Feb. 28, 2019	Feb. 28, 2018	Feb. 28, 2017
Operating profit (loss)	2,241	(6,669)	(7,000)	(18,315)	13,068
Adjustments for:					
Restructuring and transformation costs	5,622	9,566	-	-	-
Gain on disposal of Montreal plant	(9,552)	-	-	-	-
Operating profit (loss) before restructuring and transformation costs (income)	**(1,689)**	**2,897**	**(7,000)**	**(18,315)**	**13,068**
Net income (loss)[1]	2,867	(16,390)	(4,882)	(17,811)	7,737
Adjustments for:					
Depreciation of property, plant and equipment	10,148	10,803	11,566	11,035	11,943
Amortization of intangible assets and financing costs	2,514	2,177	2,009	1,842	1,767
Finance costs – net	866	1,389	695	197	74
Income taxes	(822)	8,543	(2,301)	361	4,680
EBITDA	**15,573**	**6,522**	**7,087**	**(4,376)**	**26,201**
Adjustments for:					
Restructuring and transformation costs	5,622	9,566	-	-	-
Gain on disposal of Montreal plant	(9,552)	-	-	-	-
Adjusted EBITDA	**11,643**	**16,088**	**7,087**	**(4,376)**	**26,201**

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

For the quarter ended:	Feb. 28, 2021	Feb. 29, 2020
Operating loss	(2,000)	(908)
Adjustment for:		
Restructuring and transformation costs	1,290	7,086
Operating profit (loss) before restructuring and transformation costs	**(710)**	**6,178**
Net income (loss)[1]	338	(11,116)
Adjustments for:		
Depreciation of property, plant and equipment	2,632	2,758
Amortization of intangible assets and financing costs	646	679
Finance costs – net	343	550
Income taxes	(2,311)	9,911
EBITDA	**1,648**	**2,782**
Adjustment for:		
Restructuring and transformation costs	1,290	7,086
Adjusted EBITDA	**2,938**	**9,868**

The term "operating profit or loss before restructuring and transformation costs or income" is defined as operating profit or loss plus restructuring and transformation costs less the gain on the disposal of a Montreal plant. 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, less the gain on the disposal of a Montreal plant, plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. 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 28, 2021 and February 29, 2020

Independent auditor's report

To the Shareholders of Velan Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Velan Inc. and its subsidiaries (together, the Company) as at February 28, 2021 and February 29, 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

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

- the consolidated statements of financial position as at February 28, 2021 and February 29, 2020;
- the consolidated statements of income (loss) for the years then ended;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended February 28, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Realizability of deferred income tax assets *Refer to note 2 – Summary of significant accounting policies and note 21 – Income taxes to the consolidated financial statements.* The Company recognized deferred income tax assets for an amount of $33.1 million as at February 28, 2021. 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. 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 profits. We considered this a key audit matter due to the significant judgment applied by management to estimate future taxable profits that support the recognition of deferred income tax assets. This in turn resulted in subjectivity and increased audit effort in performing procedures to test the underlying estimates of future taxable profits. Professionals with specialized skill and knowledge in the fields of foreign and Canadian taxation laws also assisted us in our procedures.	Our approach to addressing the matter involved the following procedures, among others: • Tested management's assessment of the realizability of deferred income tax assets on a jurisdictional basis including the assessment of whether it is probable that sufficient future taxable profits will be generated over the future period. • Evaluated whether the future taxable profits used by management were reasonable considering current and past performance by jurisdiction, plans approved by the Board of Directors, and whether those future taxable profits were consistent with evidence obtained in other areas of the audit. • Tested the underlying data used in management's estimation of future taxable profits and performed sensitivity analysis on the underlying data to evaluate the potential impact on management's estimate of future taxable profits. • Evaluated whether management appropriately adjusted for differences between accounting and taxable profits. • With the assistance of professionals with specialized skill and knowledge of foreign and Canadian taxation laws, evaluated the application of jurisdictional tax laws and regulations used in the Company's future taxable profits.

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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Jean-François Lecours.

/s/PricewaterhouseCoopers LLP[1]

Montréal, Quebec
May 19, 2021

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

Velan Inc.

Consolidated Statements of Financial Position

As at February 28, 2021 and February 29, 2020
(in thousands of U.S. dollars)

	February 28, 2021 $	February 29, 2020 $
Assets		
Current assets		
Cash and cash equivalents	74,688	75,327
Short-term investments	285	627
Accounts receivable (note 4)	135,373	135,242
Income taxes recoverable	3,798	3,463
Inventories (note 5)	204,161	170,265
Deposits and prepaid expenses	8,670	5,191
Derivative assets	196	555
	427,171	390,670
Non-current assets		
Property, plant and equipment (notes 7 and 8)	96,327	98,179
Intangible assets and goodwill (note 9)	17,319	17,148
Income taxes recoverable	5,927	5,284
Deferred income taxes (note 21)	33,140	26,702
Other assets	949	513
	153,662	147,826
Total assets	580,833	538,496
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	11,735	44,317
Short-term bank loans	-	1,379
Accounts payable and accrued liabilities (note 11)	90,840	73,271
Income taxes payable	1,609	1,493
Customer deposits	62,083	47,208
Provisions (note 12)	29,515	37,090
Derivative liabilities	303	1,169
Current portion of long-term lease liabilities (note 8)	1,578	1,621
Current portion of long-term debt (note 13)	9,902	8,311
	207,565	215,859
Non-current liabilities		
Long-term lease liabilities (note 8)	12,649	13,722
Long-term debt (note 13)	48,189	10,986
Income taxes payable	1,410	1,576
Deferred income taxes (note 21)	2,545	2,869
Other liabilities	8,254	8,623
	73,047	37,776
Total liabilities	280,612	253,635
Total equity	300,221	284,861
Total liabilities and equity	580,833	538,496

Commitments and contingencies (note 23)

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

Approved by the Board of Directors

James A. Mannebach, Director **Yves Leduc, Director**

Velan Inc.

Consolidated Statements of Income (Loss)

For the years ended February 28, 2021 and February 29, 2020
(in thousands of U.S. dollars, excluding per share amounts)

	2021 $	2020 $
Sales (note 25)	302,063	371,625
Cost of sales (notes 5 and 16)	221,524	283,491
Gross profit	80,539	88,134
Administration costs (note 17)	80,091	85,189
Restructuring and transformation costs (income) (note 20)	(3,930)	9,566
Other expense	2,137	48
Operating profit (loss)	2,241	(6,669)
Finance income	1,037	1,220
Finance costs	(1,903)	(2,609)
Finance costs – net	(866)	(1,389)
Income (loss) before income taxes	1,375	(8,058)
Income tax expense (recovery) (note 21)	(822)	8,543
Net income (loss) for the year	2,197	(16,601)
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**2,867**	**(16,390)**
Non-controlling interests	(670)	(211)
	2,197	(16,601)
Earnings (loss) per share (note 22)		
Basic and diluted	0.13	(0.76)
Dividends declared per Subordinate and Multiple Voting Share	-	0.09 (CA$0.12)

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

Velan Inc.

Consolidated Statements of Comprehensive Income (Loss)

For the years ended February 28, 2021 and February 29, 2020

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

	2021 $	2020 $
Comprehensive income (loss)		
Net income (loss) for the year	2,197	(16,601)
Other comprehensive income (loss)		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	13,163	(5,215)
Comprehensive income (loss)	15,360	(21,816)
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	15,907	(21,447)
Non-controlling interests	(547)	(369)
	15,360	(21,816)

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of income (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 28, 2021 and February 29, 2020
(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, 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
Net income for the year	-	-	-	2,867	2,867	(670)	2,197
Other comprehensive income	-	-	13,040	-	13,040	123	13,163
Balance – February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221

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

Velan Inc.

Consolidated Statements of Cash Flows

For the years ended February 28, 2021 and February 29, 2020
(in thousands of U.S. dollars, excluding per share amounts)

	2021 $	2020 $
Cash flows from		
Operating activities		
Net income (loss) for the year	2,197	(16,601)
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities (note 28)	(4,080)	12,125
Changes in non-cash working capital items (note 29)	(7,212)	14,119
Cash provided (used) by operating activities	(9,095)	9,643
Investing activities		
Short-term investments	342	31
Additions to property, plant and equipment	(9,810)	(10,303)
Additions to intangible assets	(1,095)	(1,781)
Proceeds on disposal of property, plant and equipment, and intangible assets	13,738	272
Net change in other assets	(274)	102
Cash provided (used) by investing activities	2,901	(11,679)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(482)	(1,963)
Repurchase of shares (note 14 (c))	-	(200)
Short-term bank loans	(1,379)	(793)
Net change in revolving credit facility	22,132	-
Increase in long-term debt	18,195	1,122
Repayment of long-term debt	(3,643)	(2,896)
Repayment of long-term lease liabilities	(1,724)	(1,575)
Cash provided (used) by financing activities	33,099	(6,305)
Effect of exchange rate differences on cash	5,038	(1,515)
Net change in cash during the year	31,943	(9,856)
Net cash – Beginning of the year	31,010	40,866
Net cash – End of the year	62,953	31,010
Net cash is composed of:		
Cash and cash equivalents	74,688	75,327
Bank indebtedness	(11,735)	(44,317)
	62,953	31,010
Supplementary information		
Interest received (paid)	(967)	(904)
Income taxes received (paid)	(6,757)	3,006

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 19, 2021.

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 income (loss) for the year.

Translation of accounts of foreign subsidiaries

The financial statements of the Company's foreign subsidiaries whose functional currency is not the U.S. dollar are translated into U.S. dollars for reporting purposes. All assets and liabilities are translated at year-end rates, and revenue and expenses at the average rate for the period. Resulting gains and losses are included in other comprehensive 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 have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation underlying the liability has been discharged, cancelled or has expired.

Financial instruments classified at fair value through profit and loss

Derivative financial instruments are classified at fair value through profit and loss at each statement of financial position date with the changes in fair value recorded in the consolidated statement of income (loss) in the 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 income (loss) over the expected life of the instrument.

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

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

Embedded derivatives

Derivatives may be embedded in other financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives if their economic characteristics and risks are not closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not measured at fair value with changes in fair value recognized in profit and loss, nor 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 provisions 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.

Provision for performance guarantees are provisions that arise for possible late delivery and other contractual non-compliance penalties or liquidated damages. It is recognized as a reduction of sales 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.

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 write-down may be reversed if the circumstances which caused it no longer exist.

Property, plant and equipment

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

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

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

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

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

Goodwill

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

Intangible assets

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

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

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

Government assistance

Government assistance, in the form of wage subsidies and investment tax credits ("ITCs"), is 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. The details of the wage subsidies received by the Company are disclosed in notes 16 to 19.

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 income (loss), except to the extent that it relates to items recognized in other comprehensive income (loss) or directly in equity, in which case the taxes are recognized in other comprehensive income (loss) or equity, respectively.

Current income taxes

The current income taxes charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company generates taxable profits. 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 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

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

Share-based compensation plans

Grants under the Company's share-based compensation plans are accounted for in accordance with the fair value-based method of accounting. The Company operates a share-based compensation plan under which it receives services from employees as consideration for share options, performance share units ("PSUs") and deferred share units ("DSUs").

Share options

The fair value of the employee services received in exchange for the grant of the options is amortized over the vesting period as compensation expense, with a corresponding increase to contributed surplus. The total amount to be expensed is determined by multiplying the number of options expected to vest with the fair value of one option as of the grant date as determined by the Black-Scholes option pricing model. Remaining an employee of the Company for a specified period of time is the only condition for vesting. Vesting typically occurs one-quarter per year over four years from the grant date. This non-market performance condition is factored into the estimate of the number of options expected to vest. If the number of options expected to vest differs from that originally expected, the expense is adjusted accordingly. When options are exercised, the Company issues new shares. The proceeds received, together with the amount recorded in contributed surplus, net of any directly attributable transaction costs, are recorded in share capital.

PSUs and DSUs

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

Critical accounting estimates and assumptions

The Company's significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed.

Inventories

Inventories must be valued at the lower of cost and net realizable value. A write-down 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 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 profits 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

Novel coronavirus (“COVID-19”) global pandemic

Since December 2019, the COVID-19 global pandemic has caused temporary disruptions in the Company’s production and supply chain which have materially adversely affected its business and financial results. The economic slowdown triggered by the global pandemic, mainly in the oil and gas sector at the beginning of the fiscal year, has also translated in lower non-project valve sales for the Company. Nevertheless, the Company’s net order bookings have shown a positive trend for the fiscal year ended February 28, 2021. The Company has implemented proactive measures to protect its global workforce and mitigate the numerous effects of the pandemic, but given the ongoing dynamic nature of circumstances surrounding COVID-19, it is not possible to reliably estimate the length, severity and long term impact the global pandemic may have on the Company's results, conditions and cash-flows. The COVID-19 global pandemic should be considered a new risk factor.

In reaction to the COVID-19 pandemic, the Company applied for the Canada Emergency Wage Subsidy which allowed the Company to avoid lay-offs that otherwise would have been necessary to blunt the financial impact of the pandemic. The details of the wage subsidies received by the Company are disclosed in notes 16 to 19.

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 issued but not yet adopted

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statement of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

In August 2020, the International Accounting Standards Board ("IASB") issued *Interest Rate Benchmark Reform (Phase 2)*, which amends *IFRS 9 Financial instruments*, *IAS 39 Financial instruments: Recognition and measurement*, *IFRS 7 Financial instruments: Disclosures* and *IFRS 16 Leases*. The Phase 2 amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. These amendments complement those issued in 2019 and focus on issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments are effective for annual periods beginning on or after January 1, 2021, with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

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

4 Accounts receivable

	As at February 28, 2021 $	As at February 29, 2020 $
Trade accounts receivable	123,362	129,764
Loss allowance	(1,146)	(2,002)
Other receivables	13,157	7,480
Total accounts receivable	135,373	135,242

The table below summarizes the movements in the loss allowance:

	As at February 28, 2021 $	As at February 29, 2020 $
Balance – Beginning of year	2,002	1,662
Loss allowance expense (reversal)	(142)	1,045
Recoveries of trade accounts receivable	(313)	(95)
Write-off of trade accounts receivable	(497)	(552)
Foreign exchange	96	(58)
Balance – End of year	1,146	2,002

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

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

5 Inventories

	As at February 28, 2021 $	As at February 29, 2020 $
Raw materials	40,404	35,920
Work in process and finished parts	118,553	95,123
Finished goods	45,204	39,222
	204,161	170,265

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of $3,843 (2020 – $3,971), including reversals of $6,601 (2020 – $3,905).

The net book value of inventories pledged as security under the Company's long-term debt amounted to $103,235 (2020 – nil).

(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 as at February 28, 2021. 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 2021	% of ownership interest held by the Company 2020	% of ownership interest held by the non-controlling interests 2021	% of ownership interest held by the non-controlling interests 2020	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 7% (2020 – 8%) 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 28, 2021 was $4,781 (2020 – $5,741).

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(g)). 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 28, 2021	**As at February 29, 2020**	**As at February 28, 2021**	**As at February 29, 2020**
	$	**$**	**$**	**$**
Current assets	5,475	5,621	4,823	4,839
Current liabilities	10,977	8,316	1,002	1,246
Current net assets (liabilities)	(5,502)	(2,695)	3,821	3,593
Non-current assets	14,756	13,924	1,906	1,924
Non-current liabilities	6,450	6,867	-	19
Non-current net assets	8,306	7,057	1,906	1,905
Net assets	2,804	4,362	5,727	5,498
Accumulated non-controlling interest	2,456	3,032	681	652

Summarized statements of comprehensive income (loss)	**Juwon Special Steel Co. Ltd.**		**Velan Valvac Manufacturing Co. Ltd.**	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Sales	12,130	16,202	5,283	7,450
Net income (loss) for the year	(1,801)	(9)	229	55
Other comprehensive income (loss)	244	(315)	-	-
Total comprehensive income (loss) for the year	(1,557)	(324)	229	55
Net income (loss) allocated to non-controlling interest	(698)	(207)	29	(4)

Summarized statements of cash flows	**Juwon Special Steel Co. Ltd.**		**Velan Valvac Manufacturing Co. Ltd.**	
	2021	**2020**	**2021**	**2020**
	$	**$**	**$**	**$**
Cash flows from operating activities	(188)	1,309	(575)	694
Cash flows from investing activities	(324)	(2,786)	(19)	(86)
Cash flows from financing activities	(711)	(312)	-	-
Net increase (decrease) in cash and cash equivalents	(1,223)	(1,789)	(594)	608

(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, 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
Year ended February 28, 2021									
Beginning balance	25,298	26,156	28,289	920	935	367	1,060	15,154	98,179
Additions	703	4,280	3,905	200	587	64	71	631	10,441
Modifications to lease terms	-	-	-	-	-	-	-	(1,088)	(1,088)
Disposals	(576)	(2,484)	(1,423)	(3)	-	(5)	-	(183)	(4,674)
Depreciation	-	(1,643)	(5,464)	(303)	(579)	(143)	(223)	(1,793)	(10,148)
Exchange differences	1,076	461	706	36	27	13	103	1,195	3,617
	26,501	26,770	26,013	850	970	296	1,011	13,916	96,327
At February 28, 2021									
Cost	26,501	56,184	141,940	8,797	7,876	2,583	3,117	17,221	264,219
Accumulated depreciation	-	(29,414)	(115,927)	(7,947)	(6,906)	(2,287)	(2,106)	(3,305)	(167,892)
	26,501	26,770	26,013	850	970	296	1,011	13,916	96,327

Depreciation expense of $10,148 (2020 – $10,803) is included in the consolidated statement of income (loss): $8,222 (2020 – $8,792) in “cost of sales” and $1,926 (2020 – $2,011) 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	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
Year ended February 28, 2021							
Beginning balance	6,648	6,559	359	33	138	1,417	15,154
Additions	-	86	-	-	100	445	631
Modifications to lease terms	-	(973)	-	-	-	(115)	(1,088)
Disposals	-	(95)	-	-	-	(88)	(183)
Depreciation	(118)	(838)	(116)	(13)	(76)	(632)	(1,793)
Exchange differences	689	438	15	2	3	48	1,195
	7,219	5,177	258	22	165	1,075	13,916
At February 28, 2021							
Cost	7,460	6,831	479	50	257	2,144	17,221
Accumulated depreciation	(241)	(1,654)	(221)	(28)	(92)	(1,069)	(3,305)
	7,219	5,177	258	22	165	1,075	13,916

b) Long-term lease liabilities

	As at February 28, 2021	**As at February 29, 2020**
	$	**$**
Current portion of long-term lease liabilities	1,578	1,621
Long-term lease liabilities	12,649	13,722
	14,227	15,343

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

Amounts recognized in the consolidated statement of income (loss):

	2021 $	2020 $
Expenses relating to short-term leases (included in "cost of sales" and "administration costs")	272	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")	125	153
Expenses related to variable lease payments (included in "cost of sales" and "administration costs")	127	128
Interest expenses (included in "finance costs")	356	389

9 Intangible assets and goodwill

	Goodwill $	Computer software $	Patents, products & designs $	Customer lists $	Other $	Total $
At February 28, 2019						
Cost	8,943	8,139	14,889	6,165	699	38,835
Accumulated depreciation	-	(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
Year ended February 28, 2021						
Beginning Balance	8,599	546	7,315	686	2	17,148
Additions	-	219	876	-	-	1,095
Amortization	-	(290)	(1,421)	(626)	-	(2,337)
Exchange differences	896	39	435	43	-	1,413
	9,495	514	7,205	103	2	17,319
At February 28, 2021						
Cost	9,495	8,683	17,949	6,545	15	42,687
Accumulated amortization	-	(8,169)	(10,744)	(6,442)	(13)	(25.368)
	9,495	514	7,205	103	2	17,319

Amortization expense of $2,337 (2020 – $2,177) is included in the consolidated statement of income (loss): $1,394 (2020 – $1,349) in "cost of sales" and $943 (2020 – $828) in "administration costs".

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

As at February 28, 2021, the Company capitalized $876 (2020 – $1,444) of development costs, net of government assistance of $262 (2020 – $605), 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 2021, the Company has not identified material changes in the composition of the CGU, its estimated recoverable amount or its results of operations, amongst others. In accordance with IFRS, the Company has not tested this CGU for impairment.

10 Credit facilities

a) The Company and its U.S. subsidiary company, Velan Valve Corp., had $63,338 (CA$85,000) of unsecured credit facilities available as at February 29, 2020. The credit facilities were subject to a prime to prime + 0.75% borrowing rate. As at February 29, 2020, an amount of $33,341 was drawn against these unsecured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $9,183 was drawn against these unsecured credit facilities in the form of letters of credit and letters of guarantee. These credit facilities were reimbursed and not renewed during the fiscal year.

The Company has a facility with Export Development Canada of $28,100 (2020 – $30,000) for letters of credit and letters of guarantee. As at February 28, 2021, $19,039 (2020 – $6,404) was drawn against this facility. The credit facility expires on August 31, 2021 and is renewed annually.

b) Foreign subsidiaries and structured entities have the following credit facilities available as at February 28, 2021:

Secured by corporate guarantees

Credit facilities available	**Borrowing rates**
Foreign subsidiaries $78,740 (€59,439; KW4,046,800; INR190,000; NTD 15,000) (2020 – $66,677 (€53,662; KW4,281,800; INR270,000; NTD 15,000)) (note 27)	0.18% to 9.70%
Foreign structured entities $7,806 (KW8,800,000) (2020 – $5,720 (KW6,900,000)) (note 27)	2.48% to 3.08%

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 EURIBOR, KORIBOR, EONIA or prime rate. The borrowing rates listed above are the rates in effect as at February 28, 2021. The terms of the above facilities range from annual renewal to an indefinite term. The aggregate net book value of the assets pledged under the above credit facilities amounted to $6,797 (2020 – $7,016).

As at February 28, 2021, an amount of $11,735 (2020 – $10,976) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $15,037 (2020 – $8,069) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

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

11 Accounts payable and accrued liabilities

	As at February 28, 2021 $	As at February 29, 2020 $
Trade accounts payable	37,080	32,091
Dividend payable	-	482
Goods and services taxes payable	1,500	3,985
Commissions payable	1,834	2,486
Accrued liabilities	25,636	13,032
Accrued payroll expenses	21,673	18,285
Other	3,117	2,910
	90,840	73,271

12 Provisions

	Provision for performance guarantees $	Warranty provision $	Severance provision $	Other provision $	Total $
Balance - February 28, 2019	23,014	8,494	-	1,000	32,508
Additions	5,447	5,983	6,760	-	18,190
Usage	(1,266)	(2,641)	(1,274)	-	(5,181)
Reversals	(5,285)	(2,061)	-	-	(7,346)
Exchange differences	(783)	(298)	-	-	(1,081)
Balance – February 29, 2020	21,127	9,477	5,486	1,000	37,090
Additions	2,029	2,464	-	1,000	5,493
Usage	(1,180)	(735)	(2,574)	-	(4,489)
Reversals	(5,079)	(4,710)	(1,353)	-	(11,142)
Exchange differences	1,918	645	-	-	2,563
Balance – February 28, 2021	18,815	7,141	1,559	2,000	29,515

The company's provision for performance guarantees consists 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.

The Company offers various warranties to its customers. 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

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

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.
During the year ended February 29, 2020, the Company recorded a $6,760 severance provision on its consolidated statement of financial position. The provision was primarily relating to the Company's restructuring and transformation initiative (note 20).

The Company is often being audited for compliance by regulatory agencies. Management estimates the related provision based on historical information as well as a forward-looking risk assessment.

13 Long-term debt

	As at February 28, 2021 $	As at February 29, 2020 $
Revolving credit facility (note 13(a))	22,132	-
Canadian subsidiary		
Secured bank loan ($CAD 15,000; February 29, 2020 – nil) (note 13(b))	11,581	-
French subsidiaries		
Unsecured bank loans (€5,547; February 29, 2020 – (€4,570) (note 13(c))	6,723	5,017
Italian subsidiary		
Unsecured bank loan (€3,000; February 29, 2020 – €330) (note 13(d))	3,636	363
Unsecured state bank loan (€920; February 29, 2020 – €1,183) (note 13(e))	1,115	1,299
Korean structured entity		
Secured bank loan (KW7,064,200; February 29, 2020 – KW7,757,040) (note 13(f))	6,266	6,431
Other (note 13(g))	6,638	6,187
	58,091	19,297
Less: Current portion	9,902	8,311
	48,189	10,986

a) On July 3, 2020, the Company and its U.S. subsidiary company, Velan Valve Corp. secured new financing in the form of a $65,000 multi-currency revolving credit facility subject to a borrowing base calculation and renewable every three years. This revolving credit facility can be drawn in US dollars or Canadian dollars. Drawings bear interest at either the US Base rate, US Prime rate, Canadian prime rate, CDOR or LIBOR, plus a margin based on the Company's excess availability. Under the terms of the credit facility, the Company is required to satisfy a restrictive covenant based on a financial ratio. As at February 28, 2021, the Company had drawn down $22,132 on the revolving credit facility and had $5,436 in the form of outstanding letters of credit and letters of guarantee on a total $55,518 borrowing availability. Furthermore, the Company was in compliance with its covenant.

b) The secured mortgage bank loan of $11,581 ($CAD 15,000) bears interest at 3.80% with monthly principal repayments of $94 beginning in October 2021 and repayable over 15 years.

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

c) The unsecured bank loans total $6,723 (€5,547) and bear interest at a range of [0.20% - 0.81%]. Repayments include monthly payments of $10 and $20, and quarterly payments of $61. These loans expire between 2021 and 2026.

d) The unsecured bank loans total $3,636 (€3,000) bears interest at a range of [1.00% - 1.25%]. Repayments include monthly payments of $20 with principal repayments beginning in July 2021 and quarterly payments of $199 with principal repayments beginning in October 2022. These loans expire in 2025 and 2026.

e) The unsecured bank loan of $1,115 (€920) bears interest at 3.00% and is repayable in semi-annual payments of $139, expires in 2024.

f) The secured bank loan of $6,266 (KW7,064,200) bears interest at 1.40% and expires in 2025. In fiscal 2021, payments against the loan amounted to $830, while beginning in fiscal 2022 quarterly payments of $313 will begin until expiration.

g) Included in Other is an amount of $5,380 (€4,438) (February 29, 2020 – $5,042 (€4,593)) related to an unconditional put option held by a minority shareholder in one of the Company's subsidiary companies. This is recognized as a liability instead of non-controlling interest. The liability is initially recognized as the non-controlling interest's share of the net identifiable assets of the subsidiary or structured entity. Subsequently, the liability is carried at the amount of the present value of estimated future cash flows discounted at the original effective rate. Adjustments to the carrying value are recorded as interest expense in the consolidated statement of income (loss).

The aggregate net book value of the assets pledged as collateral under the revolving credit facility amounted to $290,288 (2020 – nil) and under long-term debt agreements amounted to $28,832 (2020 – $8,763).

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

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 28, 2021 $	As at February 29, 2020 $
6,019,068 Subordinate Voting Shares	65,569	65,569
15,566,567 Multiple Voting Shares	7,126	7,126
	72,695	72,695

c) Pursuant to its Normal Course Issuer Bid, the Company was 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. The Company elected not to renew its Normal Course Issuer Bid. No shares were repurchased for cancellation during the year ended February 28, 2021. During the year ended February 29, 2020, 36,300 Subordinate Voting Shares were purchased for a cash consideration of $200 and cancelled.

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

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 remaining outstanding options expired during the year ended February 28, 2021.

The table below summarizes the status of the Share Option Plan for the year ended on February 29, 2020.

	Number of shares	**Weighted average exercise price**	**Weighted average contractual life in months**
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 28, 2021, the Company had no PSUs outstanding since they all expired at the end of the prior fiscal year.

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.

Additionally, a grant made to an independent director will be deemed immediately vested.

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

Movements in outstanding DSUs and related expense were as follow:

	2021	2020
In number of DSUs		
Opening balance	45,268	27,748
Issued	37,681	24,347
Settled	(2,072)	-
Forfeited	(3,952)	(6,827)
Closing balance of outstanding DSUs	76,925	45,268
DSU expense for the years	$134	$29
Fair value of vested outstanding DSUs, end of years	$261	$127

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 during the fiscal year are included in sales, cost of sales, and other expense (income) and amounted to:

	2021 $	2020 $
Sales	(856)	109
Cost of sales	(4,311)	(372)
Other expense	(1,205)	(2)

16 Cost of sales

	2021 $	2020 $
Change in inventories of finished goods and work in progress	(15,041)	(7,292)
Raw materials and consumables used	137,913	170,334
Employee expenses, excluding scientific research investment tax credits	58,266	74,150
Depreciation and amortization	9,616	10,141
Movement in inventory provision – net	3,843	3,971
Foreign exchange loss	4,311	372
Other production overhead costs	22,616	31,815
	221,524	283,491

During the fiscal year ended February 28, 2021, the Company applied for the Canada Emergency Wage Subsidy of which $7,024 was recorded in “Cost of sales”.

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

17 Administration cost

	2021 $	2020 $
Employee expenses, excluding scientific research investment tax credits	40,148	44,367
Scientific research investment tax credits	(1,614)	(2,280)
Commissions	3,720	4,029
Freight to customers	4,039	4,279
Professional and related fees	16,344	14,804
Movement in loss allowance	(455)	953
Depreciation and amortization	2,869	2,839
Other	15,040	16,198
	80,091	85,189

During the fiscal year ended February 28, 2021, the Company applied for the Canada Emergency Wage Subsidy of which $5,659 was recorded in “Administration costs”.

18 Employee expense

	2021 $	2020 $
Wages and salaries	66,622	85,318
Social security costs	26,536	27,520
Scientific research investment tax credits	(1,614)	(2,280)
Share-based compensation	134	(15)
Costs relating to workforce reduction	(1,208)	6,760
Other	4,977	5,175
	95,447	122,478

During the fiscal year ended February 28, 2021, the Company applied for the Canada Emergency Wage Subsidy of which $12,684 was included in “Employee expenses”.

19 Research and development expenses

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

	2021 $	2020 $
Research and development expenditures	5,661	8,263
Less: Scientific research and development investment tax credits	(1,614)	(2,280)
	4,047	5,983

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

During the fiscal year ended February 28, 2021, the Company applied for the Canada Emergency Wage Subsidy of which $1,757 was included in "Research and development expenditures". The scientific research and development investment tax credits were recorded net of this government assistance.

20 Restructuring and transformation costs (income)

	2021 $	2020 $
Restructuring and transformation costs	5,622	9,566
Gain on disposal of Montreal plant	(9,552)	-
	(3,930)	9,566

Restructuring and transformation costs consist primarily of project resources as well as the moving costs related to dismantling and transportation of machinery and equipment to reflect the optimized manufacturing footprint plan. The prior year restructuring and transformation costs also included a severance provision expense (note 12)) of $6,241.

On November 2, 2020, the Company sold one of its Montreal manufacturing plants. The sale was a vital part of the North American manufacturing footprint optimization plan which was planned in the scope of the Company's restructuring and transformation plan. The Company's production has gradually been reorganized from four North American plants to three more specialized plants. The production of certain non-project valves produced in North America, as well as less complex project valves has also been transferred to India. The net proceeds for the disposition of the building and the land were $12,389, while the net book value of the assets was $2,837 which resulted in a gain of $9,552.

21 Income taxes

	2021 $	2020 $
Current taxes:		
Current tax on profits for the year	5,476	7,822
Adjustments in respect of prior years	-	2,485
	5,476	10,307
Deferred income taxes:		
Origination and reversal of temporary differences	(5,776)	(1,923)
Adjustments in respect of prior years	(522)	159
	(6,298)	(1,764)
Income tax expense (recovery)	(822)	8,543

(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:

	2021 $	2020 $
Income tax at statutory rate of 26.50% (2020 – 26.60%)	364	(2,143)
Tax effects of:		
Difference in statutory tax rates in foreign jurisdictions	469	1,469
Taxable foreign exchange gain	(274)	378
De-recognition of unused tax losses	-	8,256
Non-taxable portion of taxable capital gain	(798)	-
Losses not tax effected (losses utilized not previously tax effected)	478	(1,227)
Global Intangible Low-Taxed Income ("GILTI")	(211)	2,636
Prior period adjustments and assessments	(522)	(536)
Benefit attributable to a financing structure	(300)	(253)
Other	(28)	(37)
Income tax expense (recovery)	(822)	8,543

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

	2021 $	2020 $
Deferred income tax assets:		
To be realized after more than 12 months	24,816	18,447
To be realized within 12 months	8,324	8,255
Deferred income tax liabilities:		
To be realized after more than 12 months	(2,248)	(1,300)
To be realized within 12 months	(297)	(1,569)
Net deferred income tax asset	30,595	23,833

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

	2021 $	2020 $
Balance – Beginning of year	23,833	22,209
Recovery of income taxes in the consolidated statement of income (loss)	6,298	1,764
Exchange differences	464	(140)
Balance – End of year	30,595	23,833

(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:

	2021 **$**	**2020** **$**
Property, plant and equipment	(3,246)	(2,980)
Intangible assets	(1,196)	(1,764)
Non-deductible provisions and reserves	12,785	13,705
Investment tax credits	(1,571)	(1,432)
Inventories	3,715	3,574
Non-capital loss carryforwards	17,127	10,462
Other	2,981	2,268
	30,595	23,833

The Company did not recognize deferred income tax assets of $10,115 (2020 – $10,312) in respect of non-capital losses amounting to $40,735 (2020 – $40,611) that can be carried forward to reduce taxable profits in future years. These losses expire between 2031 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 profits 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 $383 (2020 – $368) in respect of capital losses amounting to $2,892 (2020 – $2,745) that can be carried forward indefinitely against future taxable capital gains. Deferred income tax liabilities of $5,025 (2020 – $5,391) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are not expected to reverse in the foreseeable future. Unremitted earnings as at February 28, 2021 totalled $266,857 (2020 – $266,930).

22 Earnings (loss) per share

a) Basic and diluted

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

	2021	**2020**
Net income (loss) attributable to Subordinate and Multiple Voting shareholders	$2,867	$(16,390)
Weighted average number of Subordinate and Multiple Voting Shares outstanding	21,585,635	21,614,875
Basic earnings (loss) per share	$0.13	$(0.76)

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

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 had one category of dilutive potential Subordinate and Multiple Voting Shares: stock options. The remaining outstanding options expired during the year ended February 28, 2021. As at February 29, 2020, 30,000 stock options had an antidilutive effect.

23 Commitments and contingencies

a) In the normal course of business, the Company issues performance bond guarantees related to product warranty and on-time delivery as well as advance payment guarantees and bid bonds. As at February 28, 2021, the aggregate maximum value of these guarantees, if exercised, amounted to $64,737 (2020 – $55,992). The guarantees expire as follows:

	$
February 28, 2022	22,634
February 28, 2023	13,031
February 29, 2024	14,462
February 28, 2025	4,179
February 28, 2026	1,769
Subsequent years	8,662
	64,737

b) The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3,590 (2020 – $3,550), which are covered by letters of credit.

c) Future minimum payments under low value / short term leases are as follows:

	$
February 28, 2022	316
February 28, 2023	177
February 29, 2024	75
February 28, 2025	22
	590

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. During the year ended February 28, 2021, legal and related costs for these matters amounted to $11,011 (2020 – $9,621). These costs are expensed as incurred.

e) Lawsuits and proceedings or claims arising from the normal course of operations were pending or threatened against the Company. 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").

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

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 had recorded a final net settlement of $850 in regard to the claim.

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:

	2021 **$**	**2020** **$**
Affiliated company owned by certain relatives of controlling shareholder		
Purchases – Material components	508	708
Accounts payable and accrued liabilities		
Affiliated companies	81	91
Key management[1] compensation		
Salaries and other short-term benefits	3,865	4,532
Share-based compensation – Options	-	(9)
Share-based compensation – PSUs & DSUs	134	(42)

[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)

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 28, 2021
	Canada	United States	France	Italy	Other	Consolidated Adjustment	Consolidated
	$	$	$	$	$	$	$
Sales							
Customers -							
Domestic	15,264	81,902	41,285	1,470	13,137	-	153,058
Export	33,900	-	43,997	54,219	16,889	-	149,005
Intercompany (export)	24,142	10,381	99	8	57,245	(91,875)	-
Total	73,306	92,283	85,381	55,697	87,271	(91,875)	302,063
Property, plant and equipment	30,873	5,586	19,651	6,522	33,695	-	96,327
Intangible assets and goodwill	3,053	-	9,775	4,463	28	-	17,319
Other identifiable assets	192,350	75,764	176,611	59,574	134,968	(172,080)	467,187
Total identifiable assets	226,276	81,350	206,037	70,559	168,691	(172,080)	580,833

							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

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 28, 2021 and February 29, 2020 are as follows:

	Range of exchange rates		**Fair value** (In thousands of U.S. dollars)		**Notional amount** (In thousands of indicated currency)	
	February 28, 2021	**February 29, 2020**	**February 28, 2021 $**	**February 29, 2020 $**	**February 28, 2021**	**February 29, 2020**
Foreign exchange forward contracts						
Sell US$ for CA$ – 0 to 12 months	1.30	1.33-1.34	(135)	(923)	US$22,000	US$68,000
Buy US$ for CA$ – 0 to 12 months	1.22	1.31-1.33	48	357	US$22,000	US$68,000
Buy US$ for € – 0 to 12 months	-	1.10-1.11	-	(3)	-	US$1,205
Sell € for US$ – 0 to 12 months	1.22-1.24	1.11-1.14	(168)	(174)	€18,363	€16,790
Buy € for US$ – 0 to 12 months	1.16-1.20	1.10-1.11	148	198	€18,363	€16,790
Sell US$ for KW – 0 to 12 months	-	1,139-1,171	-	(70)	-	US$1,647

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 (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 28, 2021 and February 29, 2020:

	Net income (loss)	
	2021 **$**	**2020** **$**
Canadian dollar strengthening against the U.S. dollar	(1,429)	(1,463)
Euro strengthening against the U.S. dollar	593	411

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 28, 2021, five (2020 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.6% (2020 – 15.0%) and the Company's ten largest customers accounted for 63.5% (2020 – 61.2%) of trade accounts receivable. In addition, one customer accounted for 13.7% of the Company's sales (2020 – 13.4%).

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. 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 applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers.

The lifetime expected loss allowance for trade receivables was determined as follows:

					As at February 28, 2021
	Current	**Past due more than 30 days**	**Past due 31 to 90 days**	**Past due more than 90 days**	**Total**
Expected loss rate	0.287%	0.606%	0.682%	4.203%	
Gross carrying amount	76,407	19,630	9,672	17,653	123,362
Loss allowance	**219**	**119**	**66**	**742**	**1,146**

					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.

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

Liquidity risk

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

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

	As at February 28, 2021					
	Carrying value $	**Less than 1 year $**	**1 to 3 Years $**	**4 to 5 Years $**	**After 5 years $**	**Total $**
Long-term debt	58,091	10,436	32,620	8,319	10,212	61,587
Long-term lease liabilities	14,227	1,852	2,554	1,535	13,327	19,268
Accounts payable and accrued liabilities	90,840	90,840	-	-	-	90,840
Customer deposits	62,083	62,083	-	-	-	62,083
Bank indebtedness and short-term bank loans	11,735	11,735	-	-	-	11,735
Derivative liabilities	303	303	-	-	-	303

	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

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

Fair value of financial instruments

The fair value hierarchy has the following levels:

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

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

	As at February 28, 2021			
Financial position classification and nature	**Total $**	**Level 1 $**	**Level 2 $**	**Level 3 $**
Assets				
Derivative assets	196	-	196	-
Liabilities				
Derivative liabilities	303	-	303	-

	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	-

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.

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

27 Capital management

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

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

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

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

	As at February 28, 2021 $	**As at February 29, 2020 $**
Bank indebtedness	11,735	44,317
Short-term bank loans	-	1,379
Current portion of long-term lease liabilities	1,578	1,621
Current portion of long-term debt	9,902	8,311
Long-term lease liabilities	12,649	13,722
Long-term debt	48,189	10,986
Total debt	84,053	80,336
Equity	300,221	284,861
Total debt-to-equity ratio	28.0%	28.2%

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.

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

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

	2021 $	2020 $
Depreciation of property, plant and equipment	10,148	10,803
Amortization of intangible assets	2,337	2,177
Amortization of financing costs	177	-
Deferred income taxes	(6,298)	(1,764)
Share-based compensation expense (recovery)	-	(9)
Gain on disposal of property, plant and equipment	(9,248)	(117)
Net change in derivative assets and liabilities	(507)	720
Net change in other liabilities	(689)	315
	(4,080)	12,125

29 Changes in non-cash working capital items

	2021 $	2020 $
Accounts receivable	8,441	(1,251)
Inventories	(26,130)	(7,360)
Income taxes recoverable	(922)	8,022
Deposits and prepaid expenses	(3,031)	(711)
Accounts payable and accrued liabilities	13,638	581
Income tax payable	(108)	848
Customer deposits	11,009	8,345
Provisions	(10,109)	5,645
	(7,212)	14,119

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

30 Debt from financing activities reconciliation

	Short-term bank loans	Long-term lease liabilities	Long-term debt	Total
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**
Cash flows	(1,379)	(1,711)	36,684	33,594
Foreign exchange adjustments	-	1,206	2,529	3,735
Other non-cash movements	-	(611)	(419)	(1,030)
Debt as at February 28, 2021	**-**	**14,227**	**58,091**	**72,318**

Directors and officers

Corporate directors

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

Corporate officers

Y. Leduc	Chief Executive Officer
B. Carbonaro	President and Acting Executive Vice-President, General Manager, Project
J. Ball	Interim Chief Financial Officer and Executive Vice-President of Global Finance
P. Poirier	Executive Vice-President of Global Supply Chain and Industrial Operations
S. Bruckert	Executive Vice-President, Human Resources and General Counsel, Corporate Secretary
D. Tran	Executive Vice-President, General Manager, Severe Service
R. Velan	Executive Vice-President, General Manager, MRO and Aftermarket
V. Apostolescu	Vice-President, Quality Assurance
J. Calabrese	Vice-President, Technical Sales, Multi-Turn Products
R. Chouinard	Vice-President, Global Supply Chain
J. Del Buey	Vice-President, Severe Service Applications
P. Dion	Senior Vice-President, Sales, Process Industries
Y. Lauzé	Vice-President, Engineering
G. Perez	Vice-President, Product Technology and Strategic Initiatives
P. Sabbagh	Vice-President, Project Management
D. Velan	Vice-President, Marketing
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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7007 Côte-de-Liesse, Montreal, Quebec, Canada H4T 1G2
Tel.: +1 438-817-7708
Fax: +1 514-748-8635

Auditors

PricewaterhouseCoopers LLP

Transfer agent

AST Trust Company

Shares outstanding as at February 28, 2021

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

Listing

Symbol: VLN

Price range

High CA $9.20
Low CA $3.51

Closing on February 28, 2021: CA $7.80

Annual meeting

The Annual Meeting of Shareholders will be held July 14, 2021,
at 3:00 p.m. in a virtual only format, via online live webcast.

Velan worldwide

Head Office

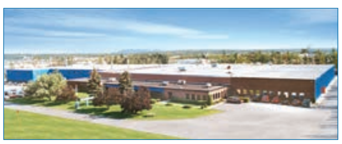
Montreal, QC, Canada
Velan Inc.

An extensive global network

- 12 production facilities
  - 3 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

Montreal, QC, Canada
Velan Inc.



Granby, QC, Canada
Velan Inc.

Manufacturing - U.S.A.

Williston, VT, USA
Velan Valve Corp.

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