VELAN

Annual report 2022

2022 Velan highlights

48 Cryogenic angle and straight regulating globe valves installed in a liquid hydrogen production plant located on the west coast of the United States and manufactured by Velan S.A.S., in France.

The operational team in Granby, Canada in front of two 20" Class 2500 metal-seated ball valves, part of a major order for an ebullated bed project. Weighing approximately 15 tons each, the valves are the largest and heaviest Securaseal® ball valves in terms of size and pressure class ever designed, assembled, and tested in North America.

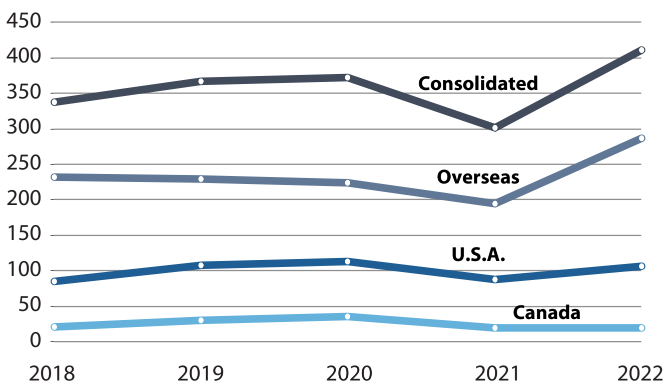
Velan Valves India's cell manufacturing layout improves operational efficiency by reduced use of operational space, optimized time usage, and overall equipment effectiveness.

Cover photo: *20" Class 2500 three-piece forged bolted body high pressure compact ball valve installed in a floating production storage and offloading (FPSO) unit in offshore service. Velan ABV has shipped over 7,000 valves in the last year.*

2022 Financial highlights
Fiscal year ended February 28, 2022

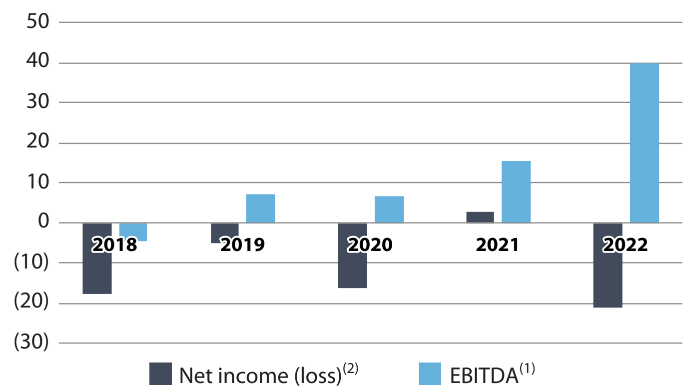
Sales

(in millions of U.S. dollars)



Net income (loss)(2) and EBITDA(1)

(in millions of U.S. dollars)



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

Years Ended	Feb 2022	Feb 2021	Feb 2020	Feb 2019	Feb 2018
Income statement data					
Sales	$411,242	$302,063	$371,625	$366,865	$337,963
Gross profit	134,969	80,539	88,134	85,595	70,861
Gross profit %	32.8%	26.7%	23.7%	23.3%	21.0%
Administration costs	113,039	80,091	85,189	93,336	87,713
Income (loss) before income taxes	36,176	1,375	(8,058)	(7,695)	(18,512)
EBITDA(1)	39,599	15,573	6,522	7,087	(4,376)
EBITDA(1) %	9.6%	5.2%	1.8%	1.9%	-1.3%
EBITDA(1) per share	1.83	0.72	0.30	0.33	(0.20)
Net income (loss)(2)	(21,141)	2,867	(16,390)	(4,882)	(17,811)
Net income (loss)(2) %	-5.1%	0.9%	-4.4%	-1.3%	-5.3%
Net income (loss)(2) per share(3)	(0.98)	0.13	(0.76)	(0.23)	(0.82)
Statement of financial position data					
Net cash	$53,465	$62,953	$31,010	$40,866	$64,543
Working capital	257,480	249,686	174,811	207,777	215,639
Property, plant and equipment	73,906	96,327	98,179	83,537	89,864
Total assets	508,428	580,833	538,496	524,357	540,193
Total long-term debt	31,038	58,091	19,297	21,851	22,129
Equity	265,510	300,221	284,861	308,833	321,617
Number of employees					
Canada	581	546	619	716	732
United States	105	109	123	140	146
Europe	573	557	546	522	489
Asia	399	469	491	481	463
Total	1,658	1,681	1,779	1,859	1,830

(1) Non-IFRS and/or supplementary financial measures – more information at page 84 of this annual report.

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

(3) See note 20 in the Notes to the Consolidated Financial Statements.

Message from the Chair of the Board
Fiscal year ended February 28, 2022

James A. Mannebach
Chair of the Board

Dear Shareholders,

My second year as chair of the board of Velan saw the company produce truly impressive results, delivered in very demanding market conditions. Not only were profits from operations outstanding but the company's improved cash flow enabled a sizable paydown of debt. Our focus for this next year is on continuing our good momentum.

A company that can respond in such a way during the second year of a pandemic should inspire confidence in its future and deserves recognition. I'd like to begin then by recognizing the immense efforts of my colleagues around the world. They achieved these remarkable results in an unprecedented global upheaval that had economic and social consequences unseen in generations: remember that we are located in areas that were not spared the full force of the covid pandemic – Italy, France, India, to name a few. I'm proud of our health and safety record during this time. While doing this extraordinary work, we took care of one another. That says something important about our culture across our global sites.

Within this challenging context, our execution on our V20 transformation commitment improved sales, profitability and cash flow, and set the base for future improvements in the three pillars of this program: strategic business units, manufacturing footprint, and modernizing systems and process.

Our 5 customer-facing strategic business units, established in 2019, are ready to take a next step in growth beyond their objectives as autonomous entities, towards a more collaborative global approach to customer needs. This year, the combination of a resurgence of our core markets and our improved focus in our project businesses (among others, navy and nuclear) exploited both our significant installed base and our highest quality products. In the coming years, the combined strength of these business units will benefit from our extraordinary positioning in international markets, including China. Continued integration and focus in select, strategic regions is critical for us to keep our momentum.

This momentum also relies on the two other pillars of V20. We will continue to optimize global supply chain, which has been tested by the pandemic, and our global manufacturing footprint. This is critical to maintain competitive costing and compete in all strategic markets. As our business systems evolve and modernize, our speed and effectiveness of decision making in the quotation process, pricing and quotations systems, and our project management, planning and delivery systems, will complement the momentum generated by our business units.

This year also saw a leadership transition at Velan. Bruno Carbonaro, who had been President, assumed the title of CEO on December 1, 2021, succeeding Yves Leduc, who had been the first non-family member to lead the company. I would like to thank Yves for his transformational leadership over the seven years he was with the company. Our success this year was enabled by his guidance of the company through some of its most challenging times, specifically in our North American operations, helping us to emerge stronger and ready for the future.

Bruno is imminently qualified to take us to our next phase of development as a company, and he has my full support. At the start of the fiscal year, he introduced an evolution of the global leadership team by adding senior roles that would allow him to assume a truly global, strategic role. These roles include both regional leaders and a new position in international operations, which will be held by Rob Velan, who will facilitate the essential relationship between our international operations entities across Asia and Europe, and our five strategic business units.

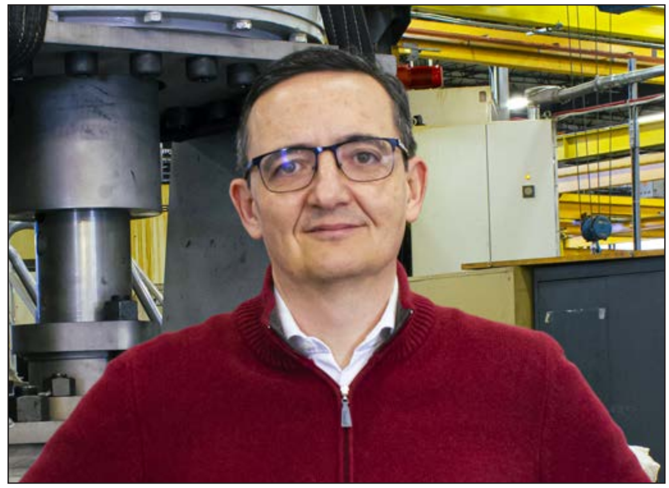
In closing, I would again like to thank our colleagues around the world for your dedication, commitment and care in these challenging times. Your passion for our shared work will set an example for us as we endeavor to maintain this hard-fought momentum. I also thank two board members who will be stepping down from their responsibilities: Robert Raich made a positive impact in his short time with us, and his contributions are much appreciated; William Sheffield has been a board member at Velan since 2004 – acting as a trusted advisor to the Velan family while occupying different Director roles, including Lead director when Tom Velan was Chair – whose impact over nearly twenty years of service has been significant. On behalf of everyone at Velan, Bill, thank you. Finally, to our shareholders, we are grateful for your continued support. These results speak to the benefits of the transformational effort you saw us through. The momentum we have generated reinforces our confidence as we anticipate and welcome Velan's next step.

James A. Mannebach
Chair of the Board

Important facts and numbers

- **$411 million in sales, best since FY16**
- **Gross profit of 32.8%**
- **EBITDA(1) 39.6M**
- **Backlog(1) over 500M**

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



Bruno Carbonaro
Chief Executive Officer and President

The results Velan achieved this year are both strong and promising, as they clearly point Velan in a positive direction. We are entering a new phase in the company's evolution. These are exciting times.

Coming from a long line of engineers and entrepreneurs, I both respect and understand what it means to live and succeed in an entrepreneurial environment and family. Before we discuss this past year, allow me to say how truly honoured I am to be appointed by the Board of Directors and the Velan Family to succeed Yves Leduc as the company's second non-family member Chief Executive Officer. Being from outside of North America, my appointment also sends the positive message that the next phase in our company's journey will be about embracing a global mindset, and championing a culture in which leaders, business units, manufacturing entities and individuals can contribute from all over the world.

Two 24" Class 2500 gate valves in Velan Valves (Suzhou) plant to be installed in a refining and petrochemicals complex in China. The project was a team effort with collaboration between our plants in China, Korea, Italy, and Canada.

I take the helm of a company whose sales levels returned this year to our 2016 performance levels, which spurred a significant improvement in our gross profit (32.8%) and our EBITDA, which more than doubled to 39.6M. Our backlog reduced but remains healthy at 501M$. The company also reduced its debt load by more than half. Several factors external to the company's operating health contributed to an overall loss, which is discussed in this report in greater detail. This, however, should not overshadow the message that Velan has emerged stronger from the pandemic. We managed short term setbacks while consolidating our strengths, corrected structural issues and built a strong leadership team, which is prepared to take our next step.

This next step will involve stabilizing our business performance, shifting our approach from a transformational mindset to one of steady improvements, learning to coordinate even more effectively between our business units, and continuing to turn our minds to strategic growth opportunities to be found in new regions, new technological innovations, or new partnerships.

(1) Non-IFRS and/or supplementary financial measures – more information at page 84 of this annual report.

This past fall, Velan's plant in Lisbon Portugal welcomed former Velan CEO Yves Leduc and current Velan CEO, Bruno Carbonaro at their facilities.

The future can already be seen in two actions Velan undertook this year, for which all employees should be proud (sidebar).

- **Global cooperation:** Velan delivered a large, complex project order in China, which showed our capacity to mobilize and coordinate several different business units and manufacturing entities around a shared objective
- **Technical innovation:** Velan again showed its world class innovative capabilities through our leading-edge product solutions, with the expansion of our ebullated bed product range and the development of a very complex 34-inch gate valve from our Severe service business unit

The adjustments we have recently made to our leadership structure follow in the same line as these two achievements. The creation of three senior leadership roles, one in North America, one in Europe, one for International Operations, all reporting directly to the CEO, and partnered with the CFO and Executive Vice-President, Human Resources and General Counsel, Corporate Secretary, make a senior leadership team that will collaborate with a global mindset first. All business units, operations and corporate functions will report into one member of the senior team or the CEO.

This organizational structure is also agile and scalable, built to respond to future challenges, including the consolidation of the valve industry and the significant adaptations that will be called for in the energy sector in the coming years. In short, while we are intent on stabilizing our performance in FY23, we are poised to move, adapt and grow.

We are at this place in no small part due to the leadership Yves Leduc, who stepped away from his role as CEO December 1, 2021, after seven years as the first non-family member to lead Velan. While facing a rapid evolution of our markets, Yves led the company through a major transformation that succeeded in addressing structural issues, revamping our business approach into five distinct and successful business units, and creating a solid global manufacturing footprint. On behalf of the company, I thank him for his significant contribution to our current and future success.

In conclusion, these are exciting times indeed at Velan. Our performance in a year filled with significant challenges should provide us confidence as we move ahead. I look forward to working with all my colleagues around the world as we take our next step together.

Bruno Carbonaro
Chief Executive Officer and President

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended February 28, 2022

FISCAL 2022 HIGHLIGHTS[1] AND OUTLOOK ON 2023

	For the reporting periods ended on		
(thousands)	February 28, 2022	February 28, 2021	February 29, 2020
Operating data			
Sales	411,242	302,063	371,625
Gross Profit	134,969	80,539	88,134
Net income (loss)[2]	(21,141)	2,867	(16,390)
Adjusted net income (loss)[3]	11,462	2,867	(16,390)
EBITDA[3]	39,599	15,573	6,522
Net income (loss) per share – Basic and Diluted	(0.98)	0.13	(0.76)
Adjusted net income (loss) per share – Basic and Diluted	0.53	0.13	(0.76)
Balance sheet data			
Total assets	508,428	580,833	538,496
Total Long-Term Financial Liabilities	28,658	56,443	19,609
Shareholder Data			
Cash dividends per share			
- Multiple voting shares	-	-	0.09
- Subordinate voting shares	-	-	0.09
Outstanding Shares at reporting date			
- Multiple voting shares	15,566,567	15,566,567	15,566,567
- Subordinate voting shares	6,019,068	6,019,068	6,019,068

- Sales for the year amounted to $411.2 million, an increase of 109.2 million or 36.1% compared to the previous fiscal year. The sales volume for the fiscal year represents the highest level achieved since fiscal 2016.
- Gross profit for the year of $135.0 million, or 32.8%, an increase of $54.4 million or 67.6% from the previous year. The gross profit percentage for the year increased by 610 basis points from 26.7% to 32.8%. The gross profit increase is first and foremost driven by the significantly increased sales volume. The improvement in gross profit is also attributable to a more profitable product mix, margin improvement activities undertaken over the past fiscal years in the scope of the V20 restructuring and transformation plan and a significant adjustment made to sales (see *Results of operations* section).
- The Company declared an eligible quarterly dividend of CA$0.03 per share based on its strong cash position at the end of the quarter.
- EBITDA[3] of $39.6 million for the fiscal year. Adjusted net income[3] and EBITDA[3] more than doubled compared to last year. The improved results were achieved despite receiving $11.1 million less Canada Emergency Wage Subsidies («CEWS»).
- Net loss[2] of $21.1 million for the year compared to a net income[2] of $2.9 million last year. Adjusted net income[3] of $11.5 million.

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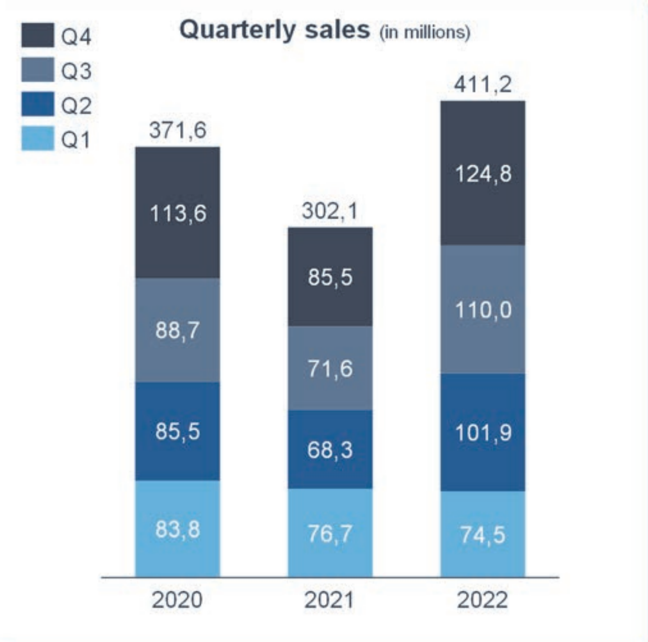
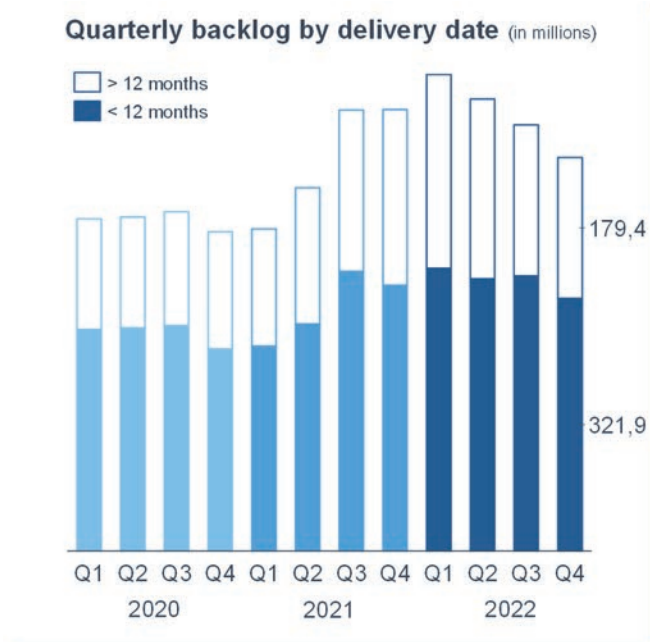
[1] *All dollar amounts are denominated in U.S. dollars.*
[2] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[3] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

- Order backlog[1] of $501.2 million at the end of the fiscal year, of which 64.2% of orders are deliverable within the next 12 months. Prior year order backlog totaled $562.5 million and included 60.2% of orders deliverable in the next 12 months.
- Net new orders ("bookings")[1] of $363.5 million for the year, a decrease of $63.1 million or 14.8% compared to the previous fiscal year. Fiscal 2021 was a stellar year in terms of bookings[3] as the Company recorded significant nuclear and oil and gas orders. Fiscal 2022 bookings[1] are nonetheless higher than the $340.4 million achieved in fiscal 2020.
- During the fiscal year, the Company used its net cash to reduce its debt load[1], consisting of bank indebtedness and long-term debt, by more than half from $69.8 million to $31.6 million. The Company's net cash amounted to $53.5 million at the end of the quarter, a decrease of $9.5 million or 15.1% compared to the previous fiscal year.





1 *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

Outlook

Fiscal 2022 symbolized a new beginning for the Company with the naming of a new President and CEO, Bruno Carbonaro, who quickly highlighted that the focus should remain on corporate strategy development and growth. The Company also announced the completion of its ambitious V20 plan that yielded much improved results in the current fiscal year. The plan, which represents the most important change in the Company's history, was successfully executed by a cross-functional team of experts and impacted mostly the Company's North American and Indian operations. The Company was able to deliver a solid performance in fiscal 2022 amid a pandemic context that came with many challenges. Otherwise, at the mid point of the year, MRO sales started to pick-up as predicted at the beginning of the fiscal year when signs of recovery for this segment had been identified. The demand in the Company's MRO and aftermarket segments are currently at pre-coronavirus ("COVID-19") levels. The Company now turns its attention to fiscal 2023 where a similar backlog, especially the portion shippable in the next year, needs to be produced and delivered. The Company aims at building on the momentum achieved this year while working on ways to mitigate the current supply chain constraints. Finally, the Company will continue to closely manage its working capital, most importantly its accounts receivable and inventories.

Management continues to closely monitor the global situation surrounding the war in Ukraine, which has delayed certain significant projects, and the COVID-19 pandemic, 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, as Management believes that the strength of its financial position would allow the Company to counter certain risks, there can be no assurance that external 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. See *Certain Risks That Could Affect Our Business* section for more details.

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the fiscal year ended February 28, 2022. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2022 and 2021. 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. This MD&A was approved by the Board of Directors of the Company on May 18, 2022. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at **www.sedar.com**.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

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. The Company has also presented supplementary financial measures which are defined 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.

ABOUT VELAN

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, chemicals, 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 1,658 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 distinct 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 sales operation in Germany.

RESULTS OF OPERATIONS

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

	Three-month periods ended			Fiscal year ended		
(thousands)	February 28, 2022	February 28, 2021	*Variance*	February 28, 2022	February 28, 2021	*Variance*
Sales	$124,849	$85,510	*39,339*	$411,242	$302,063	*109,179*
Gross profit	47,723	23,072	*24,651*	134,969	80,539	*54,430*
Administration costs	38,848	24,180	*14,668*	113,039	80,091	*32,948*
Restructuring and transformation costs (income)	-	1,290	*(1,290)*	-	(3,930)	*3,930*
Income taxes	38,303	(2,311)	*40,614*	46,431	(822)	*47,253*
Net income (loss)[1]	(25,590)	338	*(25,928)*	(21,141)	2,867	*(24,008)*
Adjusted net income[2]	7,013	338	*6,675*	11,462	2,867	*8,595*
EBITDA[2]	16,592	1,648	*14,944*	39,599	15,573	*24,026*
Bookings[2]	77,097	80,932	*(3,835)*	363,451	426,595	*(63,144)*
Period ending backlog[2] of orders				501,224	562,493	*(61,269)*
(as a percentage of sales)						
Gross profit	38.2%	27.0%	*1,120 bpts*	32.8%	26.7%	*610 bpts*
(in dollars per share)						
Net income (loss)[1] per share – basic and diluted	(1.19)	0.02	*(1.21)*	(0.98)	0.13	*(1.11)*
Adjusted net income[2] per share – basic and diluted	0.32	0.02	*0.30*	0.53	0.13	*0.40*
EBITDA[2] per share – basic and diluted	0.77	0.08	*0.69*	1.83	0.72	*1.11*

Backlog[2]

			As at
(thousands)	February 28, 2022	February 28, 2021	February 29, 2020
Backlog[2]	501,224	562,493	406,811
For delivery within the next twelve months	321,860	338,458	257,524
For delivery beyond the next twelve months	179,364	224,035	149,287
Percentage – beyond the next twelve months	35.8%	39.8%	36.7%

As a result of sales outpacing bookings[2] in the fiscal year, the Company's book-to-bill ratio[2] was 0.88 for the year. Furthermore, the total backlog[2] decreased by $61.3 million or 10.9% since the beginning of the fiscal year, amounting to $501.2 million as at February 28, 2022. The reduction of the backlog[2] is primarily due to a book-to-bill ratio[2] below

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report*

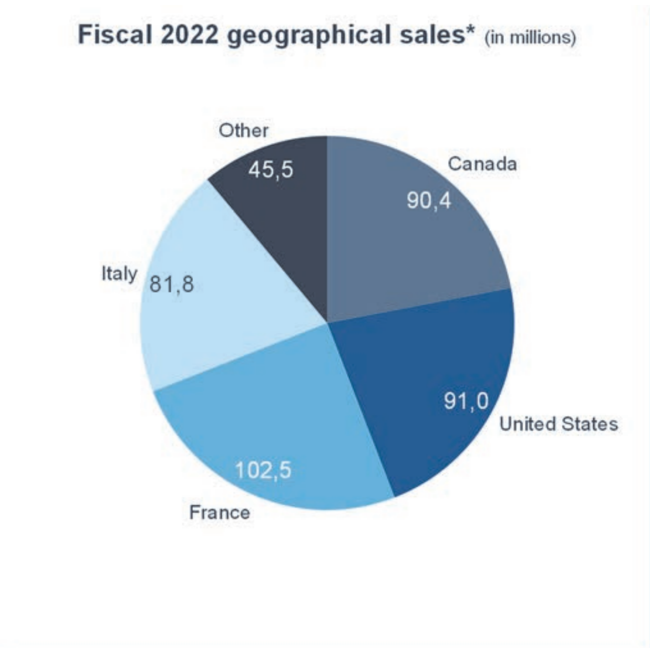
1.00 combined with the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year. Alternatively, the Company's backlog[1] deliverable within a year is at a similar level than last year.

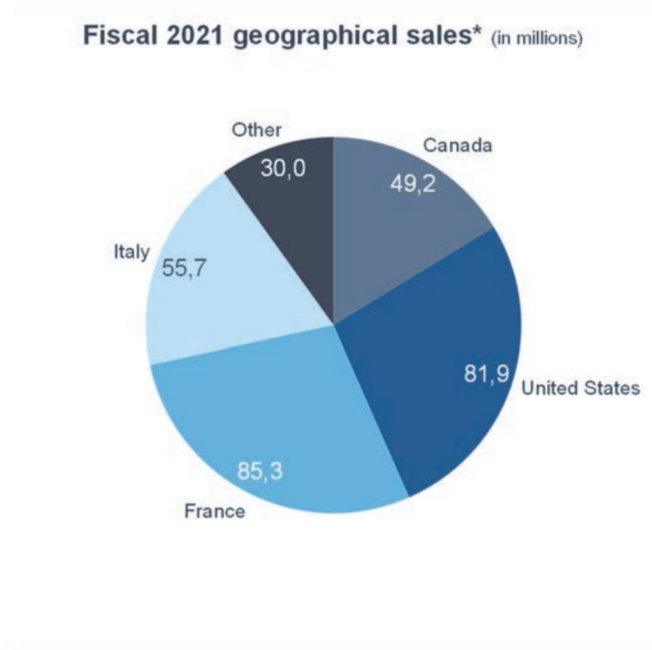
Bookings[1]

Bookings[1] for the quarter amounted to $77.1 million, a decrease of $3.8 million or 4.7%. Bookings[1] for the fiscal year amounted to $363.5 million, a decrease of $63.1 million or 14.8%. This decrease for the quarter is primarily attributable to lower bookings[1] in the Company's European subsidiaries, primarily in the nuclear market, partially offset by a strong booking performance in the Company's North American operations, notably in terms of MRO orders. The decrease for the fiscal year is primarily attributable to lower bookings[1] in the Company's French and Italian operations, which both recorded significant nuclear and downstream oil and gas orders in the previous year. This decrease was partially offset by a significantly higher amount of MRO orders recorded by the Company's North American operations in the current fiscal year. The Company is encouraged by the recovery of its MRO order bookings[1], which were severely impacted by the global pandemic at the end of the prior fiscal year, and ultimately adversely affected the sales of the latter part of the previous fiscal year and the first half of the current fiscal year.

Sales

Sales for the quarter amounted to $124.8 million, an increase of $39.3 million or 46.0%. Sales for the fiscal year amounted to 411.2 million, an increase of $109.2 million or 36.1%. Sales for both periods were positively impacted by increased shipments by the Company's North American, French and Italian operations of large orders recorded in the previous fiscal year, primarily destined for the petrochemical, nuclear and oil and gas markets respectively. The Company's sales were also positively impacted by a revaluation of its provision for performance guarantees of $8.8 million for the quarter and $13.2 million for the fiscal year. Additionally, the positive trend in terms of quarterly MRO sales continued this quarter due to the higher bookings[1] of such orders in the first half of the current fiscal year. This positive trend has allowed the Company's quarterly sales to build momentum as the year progressed.





**Geographical third-party sales are defined as the country where the sale was recorded.*

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Gross profit

Gross profit for the quarter amounted to $47.7 million, an increase of $24.7 million or 106.8%. Gross profit for the fiscal year amounted to $135.0 million, an increase of $54.4 million or 67.6%. The gross profit percentage for the quarter of 38.2% is an increase of 1,120 basis points compared to the same period last year, while the gross profit percentage for the fiscal year of 32.8% represents an increase of 610 basis points compared to last year. The improvement in gross profit for both periods is primarily attributable to the higher sales volume, which helped to cover the Company's fixed production overhead costs more efficiently. The Company's improved margins are also stemming from the delivery of a product mix with a greater proportion of higher margin product sales as well as margin improvement activities implemented over the course of the past fiscal years within the scope of the V20 restructuring and transformation plan. The gross profit also benefited from a positive revaluation of the Company's provision for performance guarantees of $8.8 million for the quarter and $13.2 million for the fiscal year. Additionally, the Company's gross profit for the fiscal year benefited from $6.1 million of favorable foreign exchange movements which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and the Canadian dollar when compared to similar movements from the previous year. Finally, the increase in gross profit percentage was such that it could more than offset the impact of a lower amount of CEWS of $1.3 million for the quarter and $5.9 million for the fiscal year compared to last year. The subsidies are allocated between cost of sales and administration costs.

Administration costs

Administration costs for the quarter amounted to $38.8 million, an increase of $14.7 million or 60.7%. Administration costs for the fiscal year amounted to 113.0 million, an increase of $32.9 million or 41.1%. The increase in administration costs for both periods is primarily attributable to a non-recurring $13.1 million increase in the costs related to the Company's ongoing asbestos litigation in order to revise, based on new estimates, the assessment of the provision that would account for all outstanding litigations rather than only settled amounts. The increase in administration costs is also attributable to a general increase in administration expenses, such as travel expenses, marketing and office maintenance costs that significantly decreased when the global pandemic broke out in 2020 and an increase in sales commissions for both periods due to the higher sales volume. Finally, the increase in administration costs is also attributable to a decrease of $1.0 million for the quarter and $4.7 million for the fiscal year of CEWS compared to last year. The subsidies are allocated between cost of sales and administration costs.

EBITDA[1]

EBITDA[1] for the quarter amounted to $16.6 million or $0.77 per share compared to $1.6 million or $0.08 per share last year. EBITDA[1] for the fiscal year amounted to $39.6 million or $1.83 per share compared to $15.6 million or $0.72 per share last year. The favorable movements in EBITDA[1] for both periods are primarily attributable to:

- An increase in gross profit of $24.7 million, from 27.0% to 38.2.% for the quarter and $54.4 million, from 26.7% to 32.8% for the fiscal year, primarily due to a higher sales volume and the delivery of a favorable product mix, while reflecting the improved margins resulting from the Company's targeted efforts under V20, described earlier. The Company's gross profit for both periods also benefited from favorable reevaluations of its provision for performance guarantees as explained in the previous section as well as favorable movements in unrealized foreign exchange translation in the fiscal year when compared to last year.
- A $4.6 million non-recurring net gain, after minority interests, on the disposal of the Company's investment in Juwon Special Steel Co. Ltd. in the fourth quarter of the current fiscal year (see *Cash flows* section for more details on the transactions), and;
- A reduction in other expenses of $2.7 million for the fiscal year primarily due to land clean-up costs of a former factory incurred in the second quarter of the prior fiscal year.

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

The favorable movements mentioned previously, were partially offset by an increase in administration costs of $14.7 million for the quarter and $32.9 million for the fiscal year for the reasons mentioned in the previous section.

EBITDA[1] for the quarter was positively impacted by the absence of restructuring and transformation costs which totaled $1.3 million in the final quarter of the previous year. EBITDA[1] for the fiscal year was negatively impacted by the absence of restructuring and transformation income which totaled $3.9 million in the previous year. The restructuring and transformation income in the prior fiscal year resulted primarily from a $9.6 million gain recognized on the disposal of one of the Company's Montreal plants, an integral part of the North American manufacturing footprint optimization plan which was planned in the scope of V20.

Income taxes

(thousands, excluding percentages)	Three-month periods ended February 28, 2022 $	%	February 28, 2021 $	%
Income tax at statutory rate	6,429	26.5	(621)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	(421)	(1.7)	69	(2.9)
Non-deductible (taxable) foreign exchange losses (gains)	(764)	(3.2)	90	(3.9)
Non-taxable portion of taxable capital gain	-	-	(798)	34.0
Losses (utilized) not (previously) tax effected	775	3.2	(295)	12.6
Derecognition of deferred tax assets	32,603	134.4	-	-
Other differences	(319)	(1.3)	(756)	32.3
Income tax expense (recovery)	**38,303**	**157.9**	**(2,311)**	**98.6**

The unfavorable movement in the Company's income tax expense in the current quarter and fiscal year is primarily attributable to the derecognition of deferred tax assets approach in the fourth quarter of the current fiscal year. The current year conservative write-off brings the total unrecognized deferred income tax assets to $44.5 million in respect of non-capital losses amounting to $173.6 million that can be carried forward to reduce taxable profits in future years. These losses expire between 2038 and indefinitely.

(thousands, excluding percentages)	Fiscal years ended February 28, 2022 $	%	February 28, 2021 $	%
Income tax at statutory rate	9,587	26.5	364	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	130	0.4	469	34.1
Non-deductible (taxable) foreign exchange losses (gains)	(613)	(1.7)	(274)	(19.9)
Non-taxable portion of taxable capital gain	-	-	(798)	(58.0)
Losses not tax effected	4,941	13.7	478	34.7
Derecognition of deferred tax assets	32,603	90.1	-	-
Other differences	(217)	(0.6)	(1,061)	(77.2)
Income tax expense (recovery)	**46,431**	**128.3**	**(822)**	**(59.8)**

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Net loss[1] and Adjusted net income[2]

Net loss[1] for the quarter amounted to $25.6 million or $1.19 per share compared to a net income[1] of $0.3 million or $0.02 per share last year. Net loss[1] for the fiscal year amounted to $21.1 million or $0.98 per share compared to a net income[1] of $2.9 million or $0.13 per share last year. The net losses[1] for the quarter and the fiscal year were significantly impacted by a $32.6 million non-cash tax adjustment to derecognize a portion of the Company's deferred tax asset. Excluding this non-cash tax adjustment, the Company's adjusted net income[2] for the quarter amounted to $7.0 million or $0.32 per share compared to a net income[1] of $0.3 million or $0.02 per share last year. The Company's adjusted net income[2] for the fiscal year amounted to $11.5 million or $0.53 per share compared to a net income[1] of $2.9 million or $0.13 per share last year. The movements in the Company's adjusted results were primarily attributable to the same factors as explained in the EBITDA[2] section, coupled with unfavorable movements in income taxes.

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

								QUARTERS ENDED
	February 2022	**November 2021**	**August 2021**	**May 2021**	**February 2021**	**November 2020**	**August 2020**	**May 2020**
Sales	$124,849	$109,971	$101,893	$74,529	$85,510	$71,560	$68,340	$76,653
Net income (loss)[1]	(25,590)	4,507	5,015	(5,073)	338	9,527	(5,112)	(1,886)
Net income (loss)[1] per share								
- Basic and diluted	(1.19)	0.21	0.23	(0.24)	0.02	0.44	(0.24)	(0.09)
Adjusted net income (loss)[2]	7,013	4,507	5,015	(5,073)	338	9,527	(5,112)	(1,886)
Adjusted net income (loss)[2] per share								
- Basic and diluted	0.32	0.21	0.23	(0.24)	0.02	0.44	(0.24)	(0.09)

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information 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.

						As at February 28, 2022
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	31,038	8,818	6,694	4,026	17,937	37,475
Long-term lease liabilities	12,433	1,589	2,128	1,372	11,760	16,849
Accounts payable and accrued liabilities	80,503	80,503	-	-	-	80,503
Customer deposits	71,483	41,344	24,655	1,659	3,825	71,483
Bank indebtedness and short-term bank loans	550	550	-	-	-	550
Derivative liabilities	560	560	-	-	-	560

At the end of the current fiscal year, the Company did not have any outstanding purchase commitments with foreign suppliers due within one year which were covered by letters of credit. At the end of the previous fiscal year, the Company had outstanding purchase commitments with foreign suppliers, due within one year, amounting to $3.6 million, which were covered by letters of credit.

On February 28, 2022, the Company's order backlog[1] was 501.2 million and its net cash, subject to certain local exchange control restrictions, plus unused credit facilities amounted to $156.1 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. The Company also believes that its unused credit facilities are sufficient to overcome the remaining lingering effects of the COVID-19 pandemic 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. As at February 28, 2022, 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 suppliers.

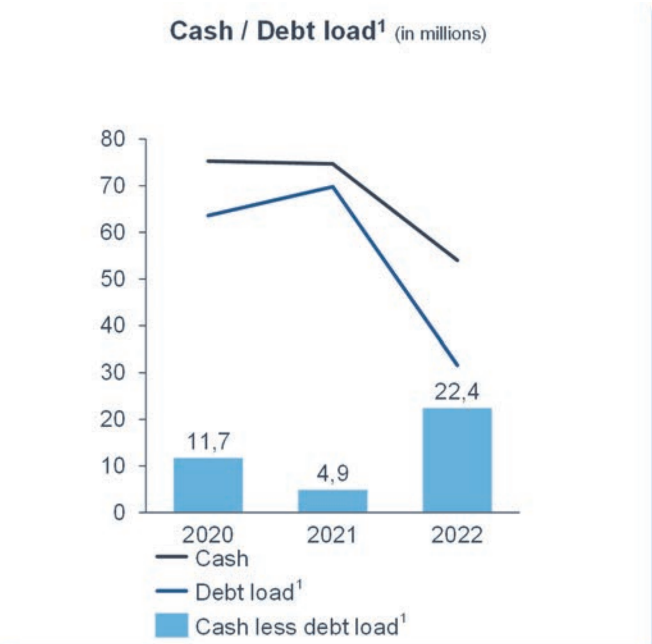
[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

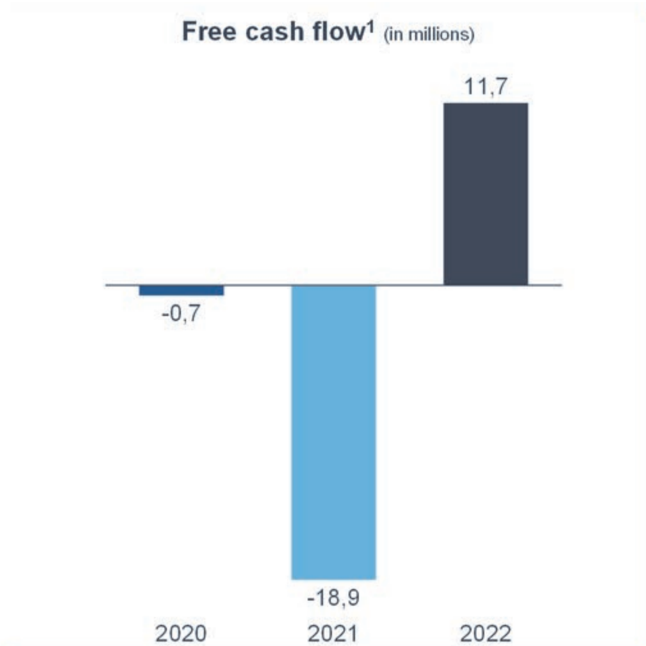
Cash flows - quarter and fiscal year ended February 28, 2022

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

The Company's changes in net cash were as follows:

	Three-month periods ended		Fiscal years ended	
(thousands)	**February 28, 2022**	**February 28, 2021**	**February 28, 2022**	**February 28, 2021**
Net Cash – Beginning of period	65,837	73,020	62,953	31,010
Change in net cash – held for sale	2,144	-	-	-
Cash provided (used) by operating activities	7,876	(16,845)	17,868	(9,095)
Cash provided (used) by investing activities	(5,766)	(1,681)	(26)	2,901
Cash provided (used) by financing activities	(16,467)	8,157	(23,519)	33,099
Effect of exchange rate differences on cash	(159)	302	(3,811)	5,038
Net Cash – End of period	**53,465**	**62,953**	**53,465**	**62,953**





On December 15, 2021, the Company disposed of its investment in Juwon Special Steel Co. Ltd. ("Juwon"), a 50%-owned Korean foundry. Prior to the disposal of Juwon, the subsidiary sold a land and a plant located in Busan, South Korea, to secure the necessary transaction funding resulting in a net gain after minority interests of $4.6 million for the Company.

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Operating activities

The favorable movement in cash provided by operating activities for the quarter and the fiscal year is primarily attributable to an improved EBITDA[1] combined with a non-cash increase in long-term provisions (see *Results from operations* section), partially offset by the gain on the disposal of Juwon Special Steel Co. Ltd to reconcile net loss to cash provided by operating activities. Changes in non-cash working capital items were favorable for the quarter and unfavorable for the fiscal year when compared to the same periods from the prior year.

The changes in non-cash working capital items were as follow:

	Three-month periods ended		Fiscal years ended	
(thousands)	**February 28, 2022**	**February 28, 2021**	**February 28, 2022**	**February 28, 2021**
Accounts receivable	(7,785)	(14,076)	11,080	8,441
Inventories	5,787	(11,026)	(28,020)	(26,130)
Income tax recoverable	297	68	803	(922)
Deposits and prepaid expenses	1,806	(410)	1,031	(3,031)
Accounts payable and accrued liabilities	(8,197)	11,423	(3,119)	10,928
Income tax payable	1,571	975	2,166	(108)
Customer deposits	1,457	4,208	11,602	11,009
Provisions	(7,194)	(4,732)	(12,572)	(7,399)
Net Cash – End of period	**(12,258)**	**(13,570)**	**(17,029)**	**(7,212)**

For the quarter ended February 28, 2022, the negative non-cash working capital movements were principally due to:

- An increase in accounts receivable due to the higher sales output for the quarter which occurred predominantly at the end of the quarter,
- A decrease in accounts payable and accrued liabilities due to the timing of payments, especially related to the higher inventory purchases made in the first half of the year, and;
- A decrease in provision for performance guarantees primarily due to a significant adjustment recorded in the current quarter (see *Results from operations* section).

These negative movements were partially offset by a decrease in inventories in reaction to the reduction of the backlog[1] in the quarter.

For the fiscal year ended February 28, 2022, the negative non-cash working capital movements were mainly due to:

- An increase in inventories necessary to deliver the improved backlog[1] at the beginning of the year, and;
- A reduction in provision for performance guarantees primarily due to a significant adjustment recorded in the current quarter (see *Results from operations* section).

These negative movements were partially offset by:

- A decrease in accounts receivable mainly due to increased collections of prior quarter accounts, and;
- A higher amount of customer deposits collected on certain large orders by the Company's French and Italian operations.

[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Investing activities

Cash provided by investing activities for the quarter and the fiscal year was primarily due to proceeds on disposals of property, plant and equipment, partially offset by the net cash disposal resulting from the sale of Juwon Special Steel Co. Ltd., additions in property, plant and equipment and an increase in short-term investments. Proceeds on disposals of property, plant and equipment for the quarter and fiscal year were primarily related to the final payment received regarding the $27.0 million net sale of a land and foundry in South Korea as explained at the beginning of the section. Cash provided by investing activities for the fiscal year was also due to the reception of a deposit related to the aforementioned sale in the third quarter of the current fiscal year as well as proceeds on disposal of property, plant and equipment related to the sale of a vacant land that used to host a production plant of the Company's North American operations. The plant's operations had already been transferred in fiscal 2017 to other plants, and the building was demolished.

In the previous year's third quarter, the Company sold one of its Montreal manufacturing plants. The sale was an integral part of the North American manufacturing footprint optimization plan which was planned in the scope of its restructuring and transformation plan. The net proceeds for the disposition of the building and the land were $12.4 million, while the net book value of the assets was $2.8 million which resulted in a gain of $9.6 million.

The fluctuations in additions to property, plant and equipment for any period when compared to the prior year is due to the timing of the receipts of certain equipment. Otherwise, additions to property, plant and equipment were higher in the previous year's quarter and fiscal year due to the investments required to complete the V20 project.

Financing activities

During the current quarter, the company paid back the remaining $16.5 million drawn on its revolving credit facility, bringing the net paid-down amount for the fiscal year to $22.1 million. The Company's revolving credit facility has been fully reimbursed at the end of the fiscal year.

During the quarter, while the Company continued to pay down its outstanding long-term debt, its French operations borrowed $1.6 million in the form of an unsecured bank loan bearing monthly interest payments at a yearly interest rate of 0.25%, expiring in 2027. During the course of the fiscal year, its North American operations borrowed $5.9 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 20 years.

During the previous 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 during the pandemic. 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.

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).

Market risk

Currency risk

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

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

The amounts outstanding as at February 28, 2022 and 2021 are as follows:

	Range of exchange rates		**Gain (loss)** (in thousands of U.S. dollars)		**Notional amount** (in thousands of indicated currency)	
	February 28, 2022	**February 28, 2021**	**February 28, 2022 $**	**February 28, 2021 $**	**February 28, 2022**	**February 28, 2021**
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 15 months	1.27-1.28	1.30	(470)	(135)	US$50,000	US$22,000
Buy US$ for CA$ - 0 to 15 months	1.25	1.22	301	48	US$50,000	US$22,000
Sell € for US$ - 0 to 12 months	1.15	1.22-1.24	(90)	(168)	€15,000	€18,363
Buy € for US$ - 0 to 12 months	1.13	1.16-1.20	252	148	€15,000	€18,363

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, 2022 and 2021:

	Net income (loss)	
(thousands)	February 28, 2022 $	February 28, 2021 $
Canadian dollar strengthening against the U.S. dollar	(1,284)	(1,429)
Euro strengthening against the U.S dollar	53	593

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.

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, 2022, three (February 28, 2021 – five) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.8% (February 28, 2021 – 15.6%), and the Company's ten largest customers accounted for 55.7% (February 28, 2021 – 63.5%) of trade accounts receivable. In addition, there was one (February 28, 2021 – one) customer that accounted for more than 10% of the Company's sales.

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit standing 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 macro-economic factors affecting the Company's customers.

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

					As at February 28, 2022
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.059%	0.074%	0.088%	2.762%	
Gross carrying amount	64,689	17,995	9,248	16,285	108,217
Loss allowance	**38**	**13**	**8**	**450**	**509**

					As at February 28, 2021
(thousands)	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**

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 the trade accounts receivable:

		As at
(thousands)	February 28, 2022 $	February 28, 2021 $
Current	64,689	76,407
Past due 0 to 30 days	17,995	19,630
Past due 31 to 90 days	9,248	9,672
Past due more than 90 days	16,285	17,653
	108,217	123,362
Less: Loss allowance	(509)	(1,146)
	107,708	122,216
Other receivables	8,126	13,157
Total accounts receivable	**115,834**	**135,373**

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

	Fiscal years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Balance – Beginning of the year	1,146	2,002
Loss allowance expense (reversal)	321	(142)
Recoveries of trade accounts receivables	(683)	(313)
Write-off of trade accounts receivable	(241)	(497)
Foreign exchange	(34)	96
Balance – End of the period	**509**	**1,146**

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

INTERNAL 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, 2022 and have concluded that such disclosure controls and procedures were designed and operating effectively.

INTERNAL CONTROLS 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, 2022.

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, 2022 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 sales on the consolidated statement of income (loss).

Legal settlements provision estimates the liability related to all outstanding open cases in relations with the Company's ongoing asbestos ligations. The Company's estimate of cost per claim takes into consideration a weighted average of managements historical experience in settling those claims, a historical average in settling claims adjusted to remove the years with the highest and lowest costs per claim, and average of cost per claim in the last three years. This weighted average is applied to the number of claim outstanding at the end of the year to arrive at the estimate. Any change in the assumptions used could impact the value of the legal provision on the consolidated statement of financial position with a corresponding impact made to administration costs 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 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 previous fiscal year, also translated in lower non-project valve sales for the Company. Nevertheless, the Company’s net order bookings had shown a positive trend for the fiscal year ended February 28, 2021. As for fiscal year ended February 28, 2022, following a softer first half of the year, MRO sales stated to pick-up at the mid point of the year and reached pre-covid levels by year-end. The MRO segment had suffered the most from the economic slowdown caused by the COVID-19 pandemic in the previous year, thereby causing its bookings to sharply fall. 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. Therefore, the COVID-19 global pandemic should still be considered a 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

On December 15, 2021, the Company disposed of its investment in Juwon Special Steel Co. Ltd. (see *Cash flows* section)

Until disposition, the Company consolidated the accounts of Juwon Special Steel Co. Ltd. in these consolidated financial statements. It was determined that the Company had substantive rights over this structured entity that were currently exercisable and for which there was no barrier, despite the fact that its percentage of ownership in this entity was only 50%. These substantive rights were obtained through the shareholders' agreement signed between the Company and the non-controlling interest which gave the Company the ultimate decision right on any decision taken for which both parties in the joint arrangement were not in agreement. As per the shareholders' agreement, the Board of Directors, representing the interests of shareholders, had 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, had substantive rights that gave it the ability to direct the relevant activities of Juwon Special Steel Co. Ltd. while being exposed to variable returns. As such, it was determined that this entity should be consolidated.

ACCOUNTING STANDARDS AND AMENDMENTS ADOPTED IN THE PERIOD

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. This amendment was adopted effective March 1, 2021 and resulted in no material adjustments.

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.

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

Debt restrictions

The Company's operations are 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 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.

In 2020 and 2021, global oil prices weakened materially as a result of the global outbreak of the coronavirus ("COVID-19"), compounded by OPEC+, led by Saudi Arabia and Russia, failing to reach an agreement on constraining output. Recently, global oil prices have increased, namely as a result of the military conflict in Ukraine and the related international economic sanctions imposed to Russia. 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. The Company is exposed to the risk of inflation fluctuation.

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. Since such time, several vaccines have been developed and approved for use by governmental health authorities, each having demonstrated a certain level of effectiveness in reducing rates of COVID-19 infection and spread and in reducing the severity of symptoms. Recently, however, the emergence of new COVID-19 variants, including the Delta and Omicron variants, has renewed public health concerns and uncertainty regarding the future trajectory of the pandemic. COVID-19 has resulted in, and renewed outbreaks of COVID-19 and its variants 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 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 negatively 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, particularly in the context of the global supply chain disruptions related to the Ukraine conflict.

Labour relations

A substantial portion of the Company's workforce is covered by union agreements. The collective agreement for the Montreal plant of the Company expires in 2022. 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 costs and 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. Recently, there are uncertainties with regard to the outcome of the Ukraine conflict and the continued global impact throughout the duration of the conflict. 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.

Ukraine Conflict

In February 2022, a military conflict began between Russia and Ukraine. Since the conflict has started, there have been significant tensions between Russia and a number of countries including Canada, its NATO allies and other European countries. These countries have been and will likely continue imposing a number of international economic sanctions to Russia and its allies. The conflict has resulted in international instability with significant economical and political impacts. Further deterioration of the conflict could have economic and geopolitical impacts on the Company, its customers and its suppliers, and particularly on the Company’s numerous cross-border transactions. The Company fully supports the current sanctions imposed on Russia and has strictly complied with them by stopping the orders that were impacted by these sanctions. If the conflict persists, this will likely result in an increase in global market volatility, global supply chain disruptions and inflation, which may have material adverse impact on the Company’s business.

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 which were placed in accordance with customer’s specifications. 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.

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.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, 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. The Company has also presented supplementary financial measures, reconciliations and definitions can be found below.

Adjusted net income, Earnings before interest, taxes, depreciation and amortization ("EBITDA"), Debt Load and Free cash flow

	Three-month periods ended		Fiscal year ended	
(thousands, except amount per shares)	February 28, 2022 $	February 28, 2021 $	February 28, 2022 $	February 28, 2021 $
Net income (loss)[1]	(25,590)	338	(21,141)	2,867
Adjustment for:				
Derecognition of deferred tax assets	32,603	-	32,603	-
Adjusted net income	**7,013**	**338**	**11,462**	**2,867**
Adjusted net income per share				
- Basic and diluted	0.32	0.02	0.53	0.13
Adjustments for:				
Depreciation of property, plant and equipment	2,401	2,632	9,591	10,148
Amortization of intangible assets	753	646	2,318	2,514
Finance costs – net	725	343	2,400	866
Income taxes (excluding Derecognition of deferred tax asset)	5,700	(2,311)	13,828	(822)
EBITDA	**16,592**	**1,648**	**39,599**	**15,573**
EBITDA per share				
- Basic and diluted	0.77	0.08	1.83	0.72
Bank Indebtedness	500	11,735	500	11,735
Current portion of long-term debt	8,111	9,902	8,111	9,902
Long-term debt	22,927	48,189	22,927	48,189
Debt Load	**31,538**	**69,826**	**31,538**	**69,826**
Cash provided (used) by operating activities	7,876	(16,845)	17,868	(9,095)
Additions to property, plant and equipment	(1,196)	(2,299)	(6,144)	(9,810)
Free cash flow	**6,680**	**(19,144)**	**11,724**	**(18,905)**

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

The term "Adjusted net income" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus de-recognition of deferred tax assets. The terms "Adjusted net income per share" is obtained by dividing Adjusted net income by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

The term "debt load" is defined as bank indebtedness, plus current portion of long-term debt, plus long-term debt. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

The term "Free cash flow" is defined as cash provided (used) by operating activities less additions to property, plant and equipment. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill ratio" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021;
- 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, 2022. 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
Measurement of the legal provision *Refer to note 2 – Summary of significant accounting policies and note 12 – Provisions to the consolidated financial statements.* The Company's legal provision for asbestos-containing products amounted to $17.5 million as at February 28, 2022. Two of the Company's US subsidiaries have been named as one of the defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to the asbestos-containing products manufactured and sold in the past. Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. To reliably measure the legal provision, management made a judgment in assessing the legal provision, including assumptions related to management's historical experience in settling claims and the weighted average cost per claim.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the legal provision, which included the following: – Tested the appropriateness of the method used by management and the mathematical accuracy of the calculation. – Tested the underlying data used in the calculation which included obtaining legal confirmation in order to confirm the number of claims outstanding at the end of the year. – Evaluated the reasonableness of the assumptions related to management's historical experience in settling claims and the weighted average cost per claim by considering the Company's past experience in dealing with these types of claims.

Key audit matter	How our audit addressed the key audit matter
We considered this a key audit matter due to the judgment made by management to assess the measurement of the provision. This in turn resulted in subjectivity and a high degree of audit effort in performing procedures and evaluating audit evidence relating to management's historical experience in settling claims and the weighted average cost per claim.	

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 18, 2022

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

VELAN

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	February 28, 2022 $	February 28, 2021 $
Assets		
Current assets		
Cash and cash equivalents	54,015	74,688
Short-term investments	8,726	285
Accounts receivable (note 4)	115,834	135,373
Income taxes recoverable	2,955	3,798
Inventories (note 5)	223,198	204,161
Deposits and prepaid expenses	6,877	8,670
Derivative assets (note 23)	553	196
	412,158	427,171
Non-current assets		
Property, plant and equipment (note 7 and 8)	73,906	96,327
Intangible assets and goodwill (note 9)	16,693	17,319
Deferred income taxes (note 19)	4,774	39,067
Other assets	897	949
	96,270	153,662
Total assets	508,428	580,833
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	550	11,735
Accounts payable and accrued liabilities (note 11)	80,503	88,130
Income taxes payable	3,806	1,609
Customer deposits	41,344	32,003
Provisions (note 12)	18,444	32,225
Derivative liabilities (note 23)	560	303
Current portion of long-term lease liabilities (note 8)	1,360	1,578
Current portion of long-term debt (note 13)	8,111	9,902
	154,678	177,485
Non-current liabilities		
Long-term lease liabilities (note 8)	11,073	12,649
Long-term debt (note 13)	22,927	48,189
Income taxes payable	1,244	1,410
Deferred income taxes (note 19)	4,025	2,545
Customer deposits	30,139	30,080
Provisions (note 12)	13,101	-
Other liabilities	5,731	8,254
	88,240	103,127
Total liabilities	242,918	280,612
Total equity	265,510	300,221
Total liabilities and equity	508,428	580,833

Commitments and contingencies (note 21)

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

Approved by the Board of Directors

James A. Mannebach, Director | **Bruno Carbonaro, Director**

VELAN

Consolidated Statements of Income (loss)

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

	Fiscal years ended	
	February 28, 2022 $	February 28, 2021 $
Sales (note 12 and 22)	411,242	302,063
Cost of sales (notes 5 and 15)	276,273	221,524
Gross profit	134,969	80,539
Administration costs (note 16)	113,039	80,091
Gain on disposal of Juwon Special Steel Co. Ltd. (note 6)	(16,108)	-
Restructuring and transformation	-	(3,930)
Other expense (income)	(538)	2,137
Operating profit	38,576	2,241
Finance income	392	1,037
Finance costs	(2,792)	(1,903)
Finance costs – net	(2,400)	(866)
Income before income taxes	36,176	1,375
Income tax expense (recovery) (note 19)	46,431	(822)
Net income (loss) for the year	(10,255)	2,197
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(21,141)**	**2,867**
Non-controlling interest	10,886	(670)
Net income (loss) for the year	(10,255)	2,197
Net income (loss) per Subordinate and Multiple Voting Share (note 20)		
Basic and diluted	(0.98)	0.13

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

VELAN

Consolidated Statements of Comprehensive Income (Loss)

(in thousands of U.S. dollars)

	Fiscal years ended	
	February 28, 2022 $	**February 28, 2021 $**
Comprehensive income (loss)		
Net income (loss) for the year	(10,255)	2,197
Other comprehensive income (loss)		
Foreign currency translation	(11,159)	13,163
Comprehensive income (loss)	(21,414)	15,360
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(32,260)	15,907
Non-controlling interest	10,846	(547)
Comprehensive income (loss)	(21,414)	15,360

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

Consolidated Statements of Changes in Equity

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

	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 29, 2020	72,695	6,260	(34,047)	236,269	281,177	3,684	284,861
Net income (loss) for the year				2,867	2,867	(670)	2,197
Other comprehensive income	-	-	13,040	-	13,040	123	13,163
Comprehensive income (loss)	-	-	13,040	2,867	15,907	(547)	15,360
Balance - Ferbuary 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income (loss) for the year				(21,141)	(21,141)	10,886	(10,255)
Other comprehensive loss	-	-	(11,119)	-	(11,119)	(40)	(11,159)
Comprehensive loss	-	-	(11,119)	(21,141)	(32,260)	10,846	(21,414)
Disposal of non-controlling interests (note 6)	-	-	-	-	-	(12,454)	(12,454)
Dividends							
Non-controlling interest (note 6)	-	-	-	-	-	(843)	(843)
Balance - February 28, 2022	72,695	6,260	(32,126)	217,995	264,824	686	265,510

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

VELAN

Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Fiscal years ended	
	February 28, 2022 $	February 28, 2021 $
Cash flows from		
Operating activities		
Net income (loss) for the year	(10,255)	2,197
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities (note 25)	45,152	(4,080)
Changes in non-cash working capital items (note 26)	(17,029)	(7,212)
Cash provided (used) by operating activities	17,868	(9,095)
Investing activities		
Short-term investments	(8,708)	342
Additions to property, plant and equipment	(6,144)	(9,810)
Additions to intangible assets	(2,477)	(1,095)
Proceeds on disposal of property, plant and equipment	30,183	13,738
Proceeds on disposal of Juwon Steel Co. Ltd. net of cash disposal	(12,684)	-
Net change in other assets	(196)	(274)
Cash provided (used) by investing activities	(26)	2,901
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	-	(482)
Dividends paid to non-controlling interest	(843)	-
Short-term bank loans	-	(1,379)
Net change in revolving credit facility	(22,132)	22,132
Increase in long-term debt	7,874	18,195
Repayment of long-term debt	(6,722)	(3,643)
Repayment of long-term lease liabilities	(1,696)	(1,724)
Cash provided (used) by financing activities	(23,519)	33,099
Effect of exchange rate differences on cash	(3,811)	5,038
Net change in cash during the year	(9,488)	31,943
Net cash – Beginning of the year	62,953	31,010
Net cash – End of the year	53,465	62,953
Net cash is composed of:		
Cash and cash equivalents	54,015	74,688
Bank indebtedness	(550)	(11,735)
Net cash – End of the year	53,465	62,953
Supplementary information		
Interest paid	(1,509)	(967)
Income taxes paid	(4,293)	(6,757)

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 18, 2022.

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 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/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	Rate/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).

Legal provision

Legal settlements provision estimates the liability related to all outstanding open cases in relations with the Company's ongoing asbestos ligations. The Company's estimate of cost per claim takes into consideration a weighted average of managements historical experience in settling those claims, a historical average in settling claims adjusted to remove the years with the highest and lowest costs per claim, and average of cost per claim in the last three years. This weighted average is applied to the number of claim outstanding at the end of the year to arrive at the estimate. Any change in the assumptions used could impact the value of the legal provision on the consolidated statement of financial position with a corresponding impact made to administration costs 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 previous fiscal year, also translated in lower non-project valve sales for the Company. Nevertheless, the Company’s net order bookings had shown a positive trend for the fiscal year ended February 28, 2021. As for fiscal year ended February 28, 2022, following a softer first half of the year, MRO sales stated to pick-up at the midpoint of the year and reached pre-covid levels by year-end. The MRO segment had suffered the most from the economic slowdown caused by the COVID-19 pandemic in the previous year, thereby causing its bookings to sharply fall. 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. Therefore, the COVID-19 global pandemic should still be considered a 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

On December 15, 2021, the Company disposed of its participation in Juwon Special Steel Co. Ltd. Refer to note 6 c) for more information on the transactions and financial information at disposal date.

Until disposition, the Company consolidated the accounts of Juwon Special Steel Co. Ltd. in these consolidated financial statements. It was determined that the Company had substantive rights over this structured entity that were currently exercisable and for which there was no barrier, despite the fact that its percentage ownership in this entity was only 50%. These substantive rights were obtained through the shareholders’ agreement signed between the Company and the non-controlling interest which gave the Company the ultimate decision right on any decision taken for which both parties in the joint arrangement were not in agreement. As per the shareholders’ agreement, the Board of Directors, representing the interests of shareholders, had 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, had substantive rights that gave 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

Accounting standards and amendments issued adopted in the year

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. This amendment was adopted effective March 1, 2021 and resulted in no material adjustments.

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 statements 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.

4 Accounts receivable

		As at
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Trade accounts receivable	108,217	123,362
Loss allowance	(509)	(1,146)
Other accounts receivables	8,126	13,157
	115,834	**135,373**

The table below summarizes the movements in the loss allowance:

		As at
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Balance – Beginning of year	1,146	2,002
Loss allowance expense (reversal)	321	(142)
Recoveries of trade accounts receivable	(683)	(313)
Write-off of trade accounts receivable	(241)	(497)
Foreign exchange	(34)	96
Balance – End of year	**509**	**1,146**

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
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Raw materials	48,381	40,404
Work in process and finished parts	136,221	118,553
Finished goods	38,596	45,204
	223,198	**204,161**

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of $3,479 (2021 – $3,843), including reversals of $4,911 (2021 – $6,601).

The net book value of inventories pledged as security under the Company's long-term debt amounted to $98,306 (2021 – $103,235).

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, 2022. 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 held by the Company		% of ownership held by the non-controlling interests		Principal activities
			2022	2021	2022	2021	
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	0	50	100	50	Foundry
Velan Valvulas Industriais 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 16% (2021 – 7%) 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, 2022 was $8,825 (2021 – $4,781).

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(f)). The amounts disclosed for each subsidiary are before intercompany eliminations.

On December 15, 2021, the Company disposed of its investment in Juwon Special Steel Co. Ltd. ("Juwon"), a 50%-owned Korean foundry. Prior to the disposal of Juwon, the subsidiary sold a land and a plant located in Busan, South Korea, for net proceeds of $27,011 which resulted in a gain on disposal of $22,986. With these proceeds, Juwon purchased the Company's investment for $3,387 which resulted in a loss on disposal of $6,878. The net gain of $16,108 realized on the two transactions was presented on a net basis since both transactions were essentially interrelated as one could not have occurred without the other. The net gain after minority interests amounted to $4,615. The below financial statements are presented as at disposal date of December 15, 2021.

VELAN

Summarized statements of financial position

(thousands)	Juwon Special Steel Co. Ltd. As at December 15, 2021 $	As at February 28, 2021 $
Current assets	19,452	5,475
Current liabilities	1,137	10,977
Current net assets (liabilities)	18,315	(5,502)
Non-current assets	9,792	14,756
Non-current liabilities	6,162	6,450
Non-current net assets	3,630	8,306
Net assets	21,945	2,804
Accumulated non-controlling interest	12,454	2,456

Summarized statements of comprehensive income (loss)

(thousands)	Juwon Special Steel Co. Ltd. For the period ended December 15, 2021 $	For the period ended February 28, 2021 $
Sales	8,721	12,130
Net income (loss) for the year	21,763	(1,801)
Other comprehensive income (loss)	(933)	244
Total comprehensive income (loss) for the year	20,830	(1,557)
Net income (loss) allocated to non-controlling interests	10,881	(698)
Dividends paid to non-controlling interests	843	-

Summarized statements of cash flows

(thousands)	Juwon Special Steel Co. Ltd. For the period ended December 15, 2021 $	For the period ended February 28, 2021 $
Cash flows from operating activities	(2,374)	156
Cash flows from investing activities	26,965	(324)
Cash flows from financing activities	(2,685)	(711)
Effect of exchange rate differences on cash	(461)	(344)
Net increase (decrease) in cash and cash equivalents	**21,445**	**(1,223)**

7 Property, plant and equipment

(thousands)	Land $	Buildings $	Machinery & equipment $	Furnitures & fixtures $	Data processing equipment $	Rolling stock $	Leasehold improve-ments $	Right-of-use assets (note 8) $	Total $
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	1,606	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**
Year ended February 28, 2022									
Beginning balance	26,501	26,770	26,013	850	970	269	1,011	13,916	96,327
Additions	-	988	4,216	112	276	135	417	1,012	7,156
Modifications to lease terms	-	-	-	-	-	-	-	30	30
Disposals	(6,843)	(76)	(275)	-	(1)	(2)	-	(168)	(7,365)
Disposal of Juwon Special Steel Co. Ltd.	(9,537)	(82)	(371)	(2)	-	(46)	-	(46)	(10,084)
Depreciation	-	(1,701)	(5,062)	(261)	(478)	(126)	(241)	(1,722)	(9,591)
Exchange differences	(551)	(392)	(580)	(28)	(24)	(9)	(83)	(900)	(2,567)
	9,570	25,507	23,941	671	743	248	1,104	12,122	73,906
At February 28, 2022									
Cost	9,570	54,341	134,591	8,490	7,992	2,033	3,297	16,336	236,650
Accumulated depreciation	-	(28,834)	(110,650)	(7,819)	(7,249)	(1,785)	(2,193)	(4,214)	(162,744)
	9,570	**25,507**	**23,941**	**671**	**743**	**248**	**1,104**	**12,122**	**73,906**

Depreciation expense of $9,591 (2021 – $10,148) is included in the consolidated statement of income (loss): $7,751 (2021 – $8,222) in “cost of sales” and $1,840 (2021 – $1,926) in “administration costs”.

8 Leases

a) Right-of-use assets

Carrying value by asset class *(thousands)*	As at February 28, 2022 $	February 28, 2021 $
Land	6,565	7,219
Buildings	4,233	5,177
Furniture & Fixtures	9	22
Machinery & Equipment	192	258
Data Processing Equipment	104	165
Rolling Stock	1,019	1,075
	12,122	**13,916**

Depreciation by asset class *(thousands)*	As at February 28, 2022 $	February 28, 2021 $
Land	119	118
Buildings	805	838
Furniture & Fixtures	13	13
Machinery & Equipment	100	116
Data Processing Equipment	55	76
Rolling Stock	630	632
	1,722	**1,793**

b) Long-term lease liabilities

(thousands)	As at February 28, 2022 $	February 28, 2021 $
Current portion of long-term lease liabilities	1,360	1,578
Long-term lease liabilities	11,073	12,649
	12,433	**14,227**

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

(thousands)	For the years ended February 28, 2022 $	February 28, 2021 $
Expenses relating to short-term leases (including in "cost of sales" and "administration costs"	296	272
Expenses relating to leases of low-value assets, excluding short-term leases of low value (included in "cost of sales" and "administration costs")	131	125
Expenses related to variable lease payments (included in "cost of sales" and "administration costs")	179	127
Interest expenses (included in "finance costs")	278	356

9 Intangible assets and goodwill

(thousands)	Goodwill $	Computer software $	Patent, products & designs $	Customer lists $	Data processing equipment $	Total $
At February 29, 2020						
Cost	8,599	8,176	15,872	5,928	673	39,248
Accumulated depreciation	-	(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
Depreciation	-	(209)	(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 depreciation	-	(8,169)	(10,744)	(6,442)	(13)	(25,368)
	9,495	**514**	**7,205**	**103**	**2**	**17,319**
Year ended February 28, 2022						
Beginning balance	9,495	514	7,205	103	2	17,319
Additions	-	944	1,533	-	-	2,477
Depreciation	-	(415)	(1,540)	(100)	-	(2,055)
Exchange differences	(707)	(59)	(279)	(3)	-	(1,048)
	8,788	984	6,919	-	2	16,693
At February 28, 2022						
Cost	8,788	9,243	18,535	6,058	15	42,639
Accumulated depreciation	-	(8,259)	(11,616)	(6,058)	(13)	(25,946)
	8,788	**984**	**6,919**	**-**	**2**	**16,693**

Amortization expense of $2,055 (2021 – $2,337) is included in the consolidated statement of income (loss): $970 (2021 – $1,394) in “cost of sales” and $1,085 (2021 – $943) in “administration costs”.

As at February 28, 2022, the Company capitalized $1,533 (2021 – $876) of development costs, net of government assistance of nil (2021 – $262), as patents, products and designs.

Goodwill impairment test as at February 28, 2022

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

The Company tested for impairment the carrying amount of the goodwill associated with the CGU related to its French subsidiary, Velan S.A.S., and determined that the recoverable amount significantly exceeded the carrying amount of $57,044 by $59,146. Accordingly, no goodwill impairment loss was recorded for this CGU at February 28, 2022.

The recoverable amount was determined based on the fair value less costs of disposal approach using a discounted cash flow model. The significant key assumptions are sales growth, EBITDA margin and discount rate.

10 Credit facilities

a) The Company has a facility with Export Development Canada of $24,000 (2021 – $28,100) for letters of credit and letters of guarantee. As at February 28, 2022, $9,848 (2021 – $19,039) was drawn against this facility. The credit facility expires on November 30, 2022 and is renewed annually.

b) Foreign subsidiaries and structured entities have the following credit facilities available as at February 28, 2022 totalling $67,351 (2021 - $86,546):

Credit facilities available *(thousands)*	**As at February 28, 2022**	**As at February 28, 2021**	**Borrowing Rates**
European subsidiaries	$59,983 (€53,465)	$72,046 (€59,439)	0.02% to 6.58%
Korean subsidiaries	$3,524 (KW4,235,400)	$3,590 (KW4,046,800)	2.45% to 3.52%
Indian subsidiary	$2,516 (INR 190,000)	$2,570 (INR 190,000)	8.50%
Taiwanese subsidiary	$535 (NTD 15,000)	$534 (NTD 15,000)	1.30%
Chinese subsidiary	$793 (CNY 5,000)	Nil	3.85%
Structured entity	Nil	$7,806 (KW8,800,000)	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. They are secured by corporate guarantees. 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, 2022. The terms of the above facilities range from annual renewal to an indefinite term. The aggregate net book value of the assets pledged under the above credit facilities amounted to $2,576 (2021 – $6,797).

As at February 28, 2022, an amount of $550 (2021 – $11,735) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional $9,566 (2021 – $15,037) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

VELAN

11 Account payable and accrued liabilities

	As at	
(thousands)	February 28, 2022 $	February 28, 2021 $
Trade accounts payable	34,306	37,080
Goods and services taxes payable	3,753	1,500
Commissions payable	2,209	1,834
Accrued liabilities	14,373	22,926
Accrued payroll expenses	24,190	21,673
Other	1,672	3,117
	80,503	**88,130**

12 Provisions

(thousands)	Provision for performance guarantees (note a) $	Warranty provision (note b) $	Succession provision $	Legal Provision (note c) $	Other provision $	Total $
Balance – February 29, 2020	**21,127**	**9,477**	**5,486**	**2,012**	**1,000**	**39,102**
Additions	2,029	2,464	-	5,390	1,000	10,883
Usage	(1,180)	(735)	(2,574)	(4,692)	-	(9,181)
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**	**2,710**	**2,000**	**32,225**
Additions	2,168	3,072	998	19,924	1,300	27,462
Usage	(1,033)	(356)	(217)	(5,178)	-	(6,784)
Reversals	(16,646)	(2,001)	(1,523)	-	-	(20,170)
Exchange differences	(705)	(483)	-	-	-	(1,188)
Balance – February 28, 2022	**2,599**	**7,373**	**817**	**17,456**	**3,300**	**31,545**
Less: Current provision	2,599	7,373	817	4,355	3,300	18,444
Long-term provision	-	-	-	13,101	-	13,101

a) 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, past experience and a probability of potential cash outflows. For the year ended February 28, 2022, based on past experience, the Company revised the accounting estimates used to assess its provision. Accordingly, an amount of $13,223 was recorded in "sales".

b) 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 cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labour costs.

c) 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. The legal provision estimates the potential liability related to all outstanding open cases taking into consideration, among other factors, past settlement experience and the number of claims outstanding. For the year ended February 28, 2022, the Company revised the assessment of the provision for such claims, resulting in an addition to the provision of $13,101 which was recorded in "administration costs".

13 Long-term debt

		As at
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Revolving credit facility (note a)	-	22,132
Canadian entity		
Secured bank loan ($CAD 22,500; February 28, 2021 - $CAD 15,000) (note b)	17,134	11,581
French subsidiaries		
Unsecured bank loan (€2,943; February 28, 2021 - €5,547) (note c)	3,302	6,723
Italian subsidiary		
Unsecured bank loan (€2,869; February 28, 2021 - €3,000) (note d)	3,219	3,636
Unsecured state bank loan (€690; February 28, 2021 - €920) (note e)	774	1,115
Korean structured entity		
Secured bank loan (nil; February 28, 2021 – KW 7,064,400)	-	6,266
Other (note f)	6,609	6,638
	31,038	**58,091**
Less: current portion	8,111	9,902
	22,927	48,189

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 SOFR, 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, 2022, the Company had drawn down nil (2021 - $22,132) on the revolving credit facility and had $3,980 (2021 - $5,436) in the form of outstanding letters of credit and letters of guarantee on a total $49,365 (2021 - 55,518) borrowing availability. Furthermore, the Company was in compliance with its covenant.

b) The secured mortgage bank loan of $17,134 ($CAD 22,500) bears interest at 3.80% with monthly principal repayments of $75 and repayable over 20 years.

c) The unsecured bank loans total $3,302 (€2,943) and bear interest at a range of [0.25% - 0.53%]. Repayments include monthly payments totalling $111. These loans expire between 2023 and 2027.

d) The unsecured bank loans total $3,219 (€2,869) and bear interest at a range of [1.00% - 1.25%]. Repayments include monthly payments of $18 and quarterly payments of $184. These loans expire in 2025 and 2026.

e) The unsecured bank loan of $774 (€690) bears interest at 3.00% and is repayable in semi-annual payments of $129, expires in 2024.

f) Included in Other is an amount of $5,072 (€4,521) (February 28, 2021 – $5,380 (€4,438)) 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 $130,277 (2021 – $133,678) and under long-term debt agreements amounted to $17,134 (2021 – $28,832).

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
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
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) 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.

d) 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 fiscal year 2020.

e) 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.

Movements in outstanding DSUs and related expense were as follow:

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
In numbers of DSUs		
Opening balance	76,925	45,268
Issued	32,813	37,681
Settled	-	(2,072)
Forfeited	(26,581)	(3,952)
Closing balance	83,157	76,925
DSU expense for the years	$151	$134
Fair value of vested outstanding DSUs, end of years	$412	$261

15 Cost of sales

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Change in inventories of finished goods and work in progress	(31,977)	(15,041)
Raw materials and consumables used	200,111	137,913
Employee expenses, excluding scientific research investments tax credits	70,550	58,266
Depreciation and amortization	8,722	9,616
Movement in inventory provisions – net	3,479	3,843
Foreign exchange loss	1,395	4,311
Other production overheads costs	23,993	22,616
	276,273	**221,524**

During the fiscal year, the Company applied for the Canada Emergency Wage Subsidy of which $1,142 (2021 - $7,024) was recorded in “Cost of sales”.

16 Administration costs

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Employee expenses, excluding scientific research investments tax credits expenses	52,052	40,148
Scientific research investment tax credits	(1,594)	(1,614)
Commissions	7,387	3,720
Freight to customers	4,984	4,039
Professional fees	11,423	10,954
Legal settlement costs (note 12)	19,924	5,390
Movement in loss allowance	(362)	(455)
Depreciation and amortization	2,926	2,869
Other	16,299	15,040
	113,039	**80,091**

During the fiscal year, the Company applied for the Canada Emergency Wage Subsidy of which $905 (2021 - $5,659) was recorded in "Administration costs".

17 Employee expense

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Wages and salaries	87,674	66,622
Social security costs	29,413	26,536
Scientific research investment tax credits	(1,594)	(1,614)
Share-based compensation	154	134
Costs relating to workforce reduction	(430)	(1,208)
Other	5,791	4,977
	121,008	**95,447**

During the fiscal year, the Company applied for the Canada Emergency Wage Subsidy of which $2,047 (2021 - $12,684) is included as a reduction of "Employee expenses".

Compensation for executive and non-executive directors and certain members of senior management, including salaries and other short-term benefits and share-based compensation in the form of DSUs amounted to $6,394 (2021 - $3,999) and is included as a reduction of "Employee expenses".

VELAN

18 Research and development expenses

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

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Research and development expenditures	7,014	5,661
Less: Scientific research investment tax credits	(1,594)	(1,614)
	5,420	**4,047**

During the fiscal year, the Company applied for the Canada Emergency Wage Subsidy of which nil (2021 - $1,757) was included in “Research and development expenditures”. The scientific research and development investment tax credits were recorded net of this government assistance.

19 Income taxes

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Current taxes	10,796	5,476
Deferred income taxes	35,635	(6,298)
Income tax expense (recovery)	**46,431**	**(822)**

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:

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Income tax at statutory rate of 26.50%	9,587	364
Tax effects of:		
Difference in statutory tax rates in foreign jurisdiction	130	469
Taxable foreign exchange gain	(613)	(274)
Derecognition of deferred tax assets	32,603	-
Non-taxable portion of taxable capital gain	-	(798)
Losses (utilized) not (previously) tax effected	4,941	478
Other differences	(217)	(1,061)
Income tax expense (recovery)	**46,431**	**(822)**

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

(thousands)	As at February 28, 2022 $	February 28, 2021 $
Deferred income tax assets:		
To be realized after more than 12 months	2,559	30,743
To be realized within 12 months	2,215	8,324
Deferred income taxes liabilities		
To be realized after more than 12 months	(3,643)	(2,248)
To be realized within 12 months	(382)	(297)
Net deferred income tax asset	**749**	**36,522**

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

(thousands)	As at February 28, 2022 $	February 28, 2021 $
Balance – Beginning of the year	36,522	29,117
Recovery (expense) of income taxes in the consolidated statement of income (loss)	(35,635)	6,298
Exchange differences	(138)	1,107
Net deferred income tax asset	**749**	**36,522**

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

(thousands)	As at February 28, 2022 $	February 28, 2021 $
Property, plant and equipment	(460)	(3,246)
Intangible assets	(868)	(1,196)
Non-deductible provisions and reserves	849	12,785
Investment tax credits	-	4,356
Inventories	1,304	3,715
Non-capital loss carryforwards	-	17,127
Other	(76)	2,981
Net deferred income tax asset	**749**	**36,522**

The Company did not recognize deferred income tax assets of $44,456 (2021 – $10,115) in respect of non-capital losses amounting to $173,582 (2021 – $40,735) that can be carried forward to reduce taxable profits in future years. These losses expire between 2038 and indefinitely.

The Company did not recognize deferred income tax assets of $1,282 (2021 – $383) in respect of capital losses amounting to $9,673 (2021 – $2,892) that can be carried forward indefinitely against future taxable capital gains. Deferred income tax liabilities of $5,594 (2021 – $5,025) 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, 2022 totalled $304,354 (2021 – $266,857).

20 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.

	For the years ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Net income (loss) attributable to Subordinate and Multiple voting shareholders	(21,141)	2,867
Weighted average number of Subordinate and Multiple voting shares outstanding.	21,585,635	21,585,635
Basis and diluted earnings (loss) per share	$(0.98)	$0.13

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.

21 Commitments

a) In the normal course of business, the Company issues performance bond guarantees related to product warranty and on-time as well as advance guarantees and bid bonds. As at February 28, 2022, the aggregate maximum value of these guarantees, if exercised, amounted to $58,512 (2021 - $64,737). The guarantees expire as follows:

(thousands)	As at February 28, 2022 $
February 28, 2023	26,571
February 29, 2024	14,714
February 28, 2025	3,027
February 28, 2026	1,885
February 28, 2027	2,734
Subsequent years	9,581
	58,512

b) The Company has outstanding purchase commitments with foreign suppliers, due within one year, amounting to nil (2021 - $3,590 which were covered by letters of credit).

22 Segment reporting

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

	Fiscal year ended February 28, 2022						
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	17,367	86,715	53,742	996	20,783	-	179,603
Export	73,077	4,303	48,735	80,793	24,731	-	231,639
Intercompany (export)	40,044	8,367	114	13,182	44,099	(105,806)	-
	130,488	**99,385**	**102,591**	**94,971**	**89,613**	**(105,806)**	**411,242**
Property, plant and equipment	26,783	4,906	17,697	5,979	18,541	-	73,906
Intangible assets and goodwill	3,944	-	9,520	3,191	38	-	16,693
Other identifiable assets	197,095	23,600	166,561	73,923	137,631	(180,981)	417,829
Total identifiable assets	**227,822**	**28,506**	**193,778**	**83,093**	**156,210**	**(180,981)**	**508,428**

VELAN

(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
							Fiscal year ended February 28, 2021
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)	-
	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**

23 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 next section.

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, 2022 and 2021 are as follows:

	Range of exchange rates		Fair value (In thousands of U.S. dollars)		Notional amount (In thousands indicated currency)	
	February 28, 2022	February 28, 2021	February 28, 2022 $	February 28, 2021 $	February 28, 2022	February 28, 2021
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 12 months	1.27-1.28	1.3	(470)	(135)	US$50,000	US$22,000
Buy US$ for CA$ - 0 to 12 months	1.25	1.22	301	48	US$50,000	US$22,000
Sell € for US$ – 0 to 12 months	1.15	1.22-1.24	(90)	(168)	€15,000	€18,363
Buy € for US$ – 0 to 12 months	1.13	1.16-1.20	252	148	€15,000	€18,363

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, 2022 and 2021:

	Net income (loss)	
(thousands)	February 28, 2022 $	February 28, 2021 $
Canadian dollar strengthening against the U.S. dollar	(1,284)	(1,429)
Euro strengthening against the U.S. dollar	53	593

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, 2022, three (2021 – five) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.8% (2021 – 15.6%) and the Company's ten largest customers accounted for 55.7% (2021 – 63.5%) of trade accounts receivable. In addition, one customer accounted for 10.1% of the Company's sales (2021 – 13.7%).

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, 2022
	Current	**Past due more than 30 days**	**Past due 31 to 90 days**	**Past due more than 90 days**	**Total**
Expected loss rate	0.059%	0.074%	0.088%	2.762%	
Gross carrying amount	64,689	17,995	9,248	16,285	108,217
Loss allowance	**38**	**13**	**8**	**450**	**509**

					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**

The Company is also exposed to credit risk relating to derivative financial instruments, cash and cash equivalents and short-term investments, which it manages by dealing with highly rated financial institutions. The Company's primary credit risk is limited to the carrying value of the trade accounts receivable and gains on derivative assets.

Liquidity risk

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

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

As at February 28, 2022	Carrying value $	Less than 1 Year $	1 to 3 Years $	4 to 5 Years $	After 5 Years $	Total $
Long-term debt	31,038	8,818	6,694	4,026	17,937	37,475
Long-term lease liabilities	12,433	1,589	2,128	1,372	11,760	16,849
Accounts payable and accrued liabilities	80,503	80,503	-	-	-	82,263
Customer Deposits	71,483	41,344	24,655	1,659	3,825	71,483
Bank indebtedness and short-term bank loans	550	550	-	-	-	550
Derivative liabilities	560	560	-	-	-	560

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	36,620	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	88,130	88,130	-	-	-	88,130
Customer Deposits	62,083	32,003	24,845	1,877	3,358	62,083
Bank indebtedness and short-term bank loans	11,375	11,735	-	-	-	11,735
Derivative liabilities	303	303	-	-	-	303

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 on the condensed interim consolidated statements of financial position are as follows:

				As at February 28, 2022
(thousands)	Total $	Level 1 $	Level 2 $	Level 3 $
Financial position classification and nature				
Assets				
Derivative assets	553	-	553	-
Liabilities				
Derivative liabilities	560	-	560	-

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

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.

24 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	
(thousands)	February 28, 2022 $	February 28, 2021 $
Bank indebtedness	550	11,735
Current portion of long-term lease liabilities	1,360	1,578
Current portion of long-term debt	8,111	9,902
Long-term lease liabilities	11,073	12,649
Long-term debt	22,927	48,189
Total debt	**44,021**	**84,053**
Equity	**265,510**	**300,221**
Total debt-to-equity ratio	**16.6%**	**28.0%**

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.

25 Adjustments to reconcile net income to cash provided (used) from operating activities

	Fiscal periods ended	
(thousands)	February 28, 2022 $	February 28, 2021 $
Depreciation of property, plant and equipment	9,591	10,148
Amortization of intangible assets	2,055	2,337
Amortization of financing costs	263	177
Deferred income taxes	35,635	(6,298)
Gain on disposal of property, plant and equipment and Juwon Special Steel Co. Ltd.	(16,108)	(9,248)
Net change in long-term provisions	14,699	-
Net change in derivative assets and liabilities	(100)	(507)
Net change in other liabilities	(883)	(689)
	45,152	**(4,080)**

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26 Changes in non-cash working capital items

	Fiscal periods ended	
(thousands)	**February 28, 2022 $**	**February 28, 2021 $**
Accounts receivable	11,080	8,441
Inventories	(28,020)	(26,130)
Income taxes recoverable	803	(922)
Deposits and prepaid expenses	1,031	(3,031)
Accounts payable and accrued liabilities	(3,119)	10,928
Income taxes payable	2,166	(108)
Customer deposits	11,602	11,009
Provisions	(12,572)	(7,399)
	(17,029)	**(7,212)**

27 Debt from financing activities reconciliation

(thousands)	Short-term bank loans $	Long-term lease liabilities $	Long-term debt $	Total $
Balance - February 29, 2020	**1,379**	**15,343**	**19,297**	**36,019**
Cash inflows	-	-	40,327	40,327
Cash outflows	(1,379)	(1,711)	(3,643)	(6,733)
Foreign exchange adjustments	-	1,206	2,529	3,735
Other non-cash movements	-	(611)	(419)	(1,030)
Balance - February 28, 2021	**-**	**14,227**	**58,091**	**72,318**
Cash inflows	-	-	7,874	7,874
Cash outflows	-	(1,696)	(28,854)	(30,550)
Foreign exchange adjustments	-	(912)	(891)	(1,803)
Disposal of Juwon Special Steel Co. Ltd.	-	(48)	(5,182)	(5,230)
Other non-cash movements	-	862	-	862
Balance - February 28, 2022	**-**	**12,433**	**31,038**	**43,471**

Head office
7007 Côte-de-Liesse
Montreal, Quebec, Canada H4T 1G2

Website
www.velan.com

Investor relations
Benoit Alain
Chief Financial Officer
7007 Côte-de-Liesse, Montreal, Quebec, Canada H4T 1G2
Tel.: (438) 817-9957
Fax: (514) 748-8635

Auditors
PricewaterhouseCoopers LLP

Transfer agent
TSX Trust Company

Shares outstanding as at February 28, 2022
6,019,068 Subordinate Voting Shares
15,566,567 Multiple Voting Shares

Listing
Symbol: VLN

Price range
High	CA $11.25
Low	CA $7.55

Closing on February 28, 2022: CA $9.66

Annual meeting
The Annual Meeting of Shareholders will be held July 7, 2022, at 3:00 p.m. in a virtual only format, via online live webcast.

Velan Directors and Officers

Corporate Directors

James A. Mannebach[(2)]
Chair of the Corporation
St. Louis, Missouri, United States
Director since: 2018

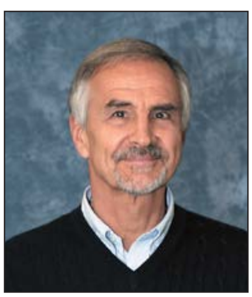
Dahra Granovsky[(2)(3)]
Director & President of the Corporation Governance and Human Resources Committee
Toronto, Ontario, Canada
Director since: 2019

Rob Velan
Vice-Chairman
Montréal, Québec, Canada
Director since: 2013

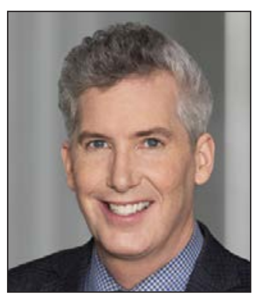
Suzanne Blanchet[(3)]
Director & President of the Audit Committee
La Prairie, Québec, Canada
Director since: 2021

Tom Velan[(1)]
Director
Montréal, Québec, Canada
Director since: 1976

Robert Raich[(3)]
Director
Montréal, Québec, Canada
Director since: 2021



Ivan Velan
Director
Montréal, Québec, Canada
Director since: 1970



Edward Kernaghan[(2)]
Director
Toronto, Ontario, Canada
Director since: 2021

William Sheffield[(2)(3)]
Director
Toronto, Ontario, Canada
Director since: 2004

Bruno Carbonaro
Director
Paris, France
President since: 2019

(1) Holds the same respective offices with Velan Valve Corp. as with Velan.
(2) Member of the Corporation Governance and Human Resources Committee.
(3) Member of the Audit Committee.

Corporate Officers

B. Carbonaro	President and Chief Executive Officer
B. Alain	Chief Financial Officer
P. Poirier	Chief Operations Officer, North America
R. Velan	Executive Vice-President, International Operations
S. Bruckert	Executive Vice-President, Human Resources and General Counsel, Corporate Secretary
D. Tran	Executive Vice-President, General Manager, Severe Service
L. Pefferkorn	Executive Vice-President, General Manager, Projects
B. Holt	Executive Vice-President, General Manager, MRO
S. Velan	Chief Information Officer
V. Apostolescu	Vice-President, Quality Assurance
J. Calabrese	Vice-President, Technical Sales, Multi-Turn Products
H. Houde	Vice-President, Strategic Supply Chain
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
R. Sossoyan	Vice-President, Treasury
E. Nataf	Vice-President, Finance

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NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this 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. The Company has also presented supplementary financial measures, reconciliations and definitions can be found below.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

					Fiscal years ended
(thousands, except amount per shares)	**February 28, 2022 $**	**February 28, 2021 $**	**February 29, 2020 $**	**February 28, 2019 $**	**February 28, 2018 $**
Net income (loss)[1]	(21,141)	2,867	(16,390)	(4,882)	(17,811)
Adjustments for:					
Depreciation of property, plant and equipment	9,591	10,148	10,803	11,566	11,035
Amortization of intangible assets	2,318	2,514	2,177	2,009	1,842
Finance costs – net	2,400	866	1,389	695	197
Income taxes	46,431	(822)	8,543	(2,301)	361
EBITDA	**39,599**	**15,573**	**6,522**	**7,087**	**(4,376)**
EBITDA per share					
- Basic and diluted	1.83	0.72	0.30	0.33	(0.20)

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill ratio" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this annual report are expressly qualified by this cautionary statement.

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

2022 Velan global network

Head Office

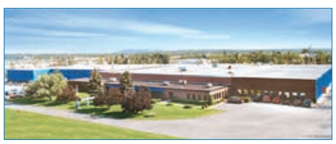
Montreal, QC, Canada
Velan Inc.

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 - North America

Montreal, QC, Canada
Velan Inc.



Granby, QC, Canada
Velan Inc.

Williston, VT, USA
Velan Valve Corp.

Manufacturing - Europe

Lyon, France
Velan S.A.S.

Mennecy, France
Segault S.A.S.

Lisbon, Portugal
Velan Valvulas Industriais, Lda.

Lucca, Italy
Velan ABV S.r.l.

Manufacturing - Asia

Plant 1: Ansan City, South Korea
Velan Ltd.

Plant 2: Ansan City, South Korea
Velan Ltd.

Taichung, Taiwan
Velan-Valvac

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

Coimbatore, India
Velan Valves India Private Ltd.

Distribution centers

Willich, Germany
Velan GmbH

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

A world leader in industrial valve design and manufacturing supplying to:

- **Fossil, nuclear, and cogeneration power**
- **Oil and gas**
- **Refining and petrochemicals**
- **Chemicals**
- **Pulp and paper**
- **Subsea**
- **LNG and cryogenics**
- **Marine**
- **Mining**

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

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