

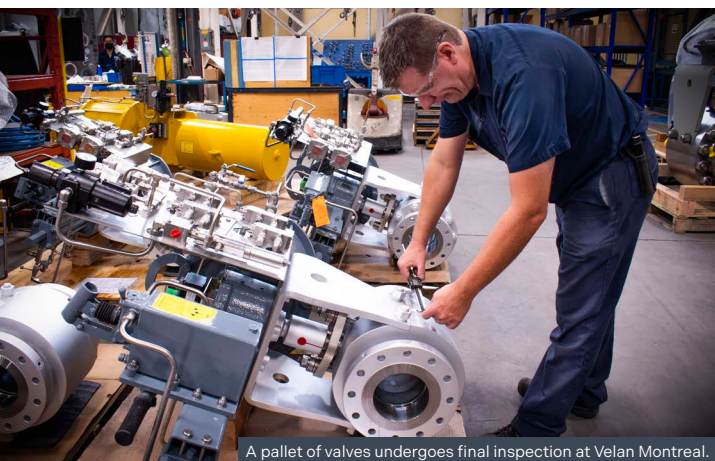
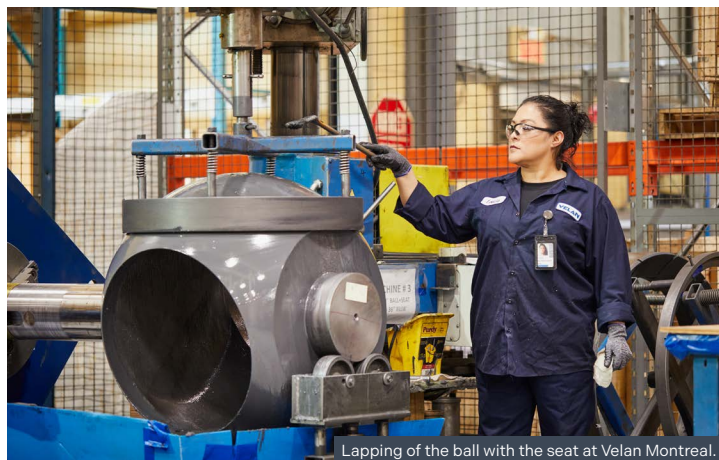
VELAN

SNE oil field, located 100 kms off the coast of Dakar, is the first oil discovery offshore Senegal and one of the world's biggest oil discoveries in the last ten years. All the valves on this FPSO were manufactured by Velan ABV.



UNIQUE VALUE PROPOSITION DRIVING MOMENTUM

2024 ANNUAL REPORT



Velan designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in critical applications. Velan provides solutions to many industrial sectors including power generation, nuclear, oil and gas, chemicals, LNG and cryogenics, pulp and paper, geothermal processes, shipbuilding, defense, and carbon-neutral technologies.



Torque bolting on a coker valve at Velan Montreal.

The Company's strategic goals include 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.

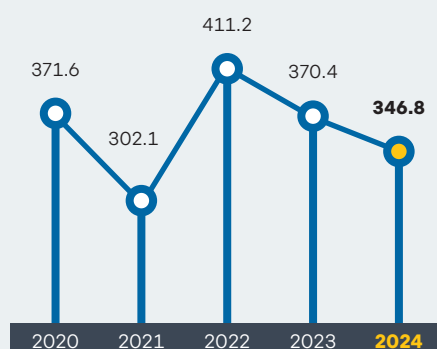


20-inch Class 600 gate valves on the Velan China shop floor destined for a power plant.

FISCAL 2024 HIGHLIGHTS

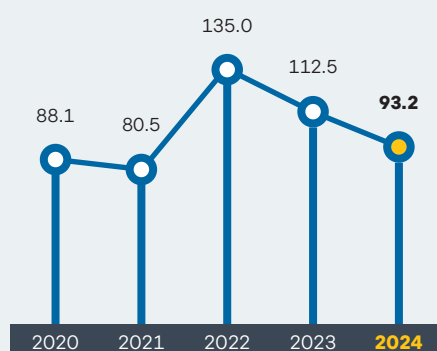
Sales

(in millions of \$)



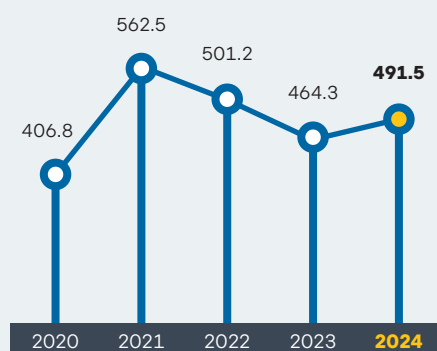
Gross Profit

(in millions of \$)



Backlog at period end

(in millions of \$)



Velan concluded fiscal 2024 with strong fourth quarter results, marked by heightened sales volume and healthy profit margins on improved quality of execution. As a supplier of critical equipment to essential industries, Velan is well positioned to capture growth opportunities driven by the ongoing energy transition and expand its reach in the flow control industry based on an agile workforce, global presence and strong brand recognition. Velan is clearly resuming its focus on growth and is confident about its future opportunities worldwide.

OPERATING RESULTS

- Sales of \$346.8 million
- Gross profit of \$93.2 million, or 26.9% of sales
- Net loss⁽¹⁾ of \$19.7 million

BACKLOG⁽²⁾ AND BOOKINGS⁽²⁾

- 5.8% backlog increase to \$491.5 million
- Bookings of \$374.5 million
- Book-to-bill⁽²⁾ ratio of 1.08

SOLID FINANCIAL POSITION

- Cash and cash equivalents of \$36.4 million
- Short-term investments of \$5.3 million
- Long-term debt, including the current portion, of \$28.8 million

FAVORABLE MARKET CONDITIONS AND COMPETITIVE POSITION

- Backlog to be delivered in the next 12 months should produce higher sales in fiscal 2025
- Global presence, diversified customer base, and focus on critical applications are key competitive advantages
- Maintenance and repair activity on a large installed base of equipment should continue to provide a steady revenue stream

⁽¹⁾ Net income or loss refer to net income or loss attributable to subordinate and multiple voting shares.

⁽²⁾ Non-IFRS measures – see reconciliations in the Non-IFRS and supplementary financial measures section of the MD&A.

5-YEAR FINANCIAL HIGHLIGHTS

All amounts expressed in this annual report are in US dollars, except as otherwise specified.

For the years ended	Feb. 2024	Feb. 2023	Feb. 2022	Feb. 2021	Feb. 2020
(In thousands, except per share data)	\$	\$	\$	\$	\$
OPERATING DATA					
Sales	346,816	370,429	411,242	302,063	371,625
Gross profit	93,207	112,465	134,969	80,539	88,134
Net income (loss) ⁽¹⁾	(19,737)	(55,453)	(21,141)	2,867	(16,390)
Per share – basic and diluted	(0.91)	(2.57)	(0.98)	0.13	(0.76)
EBITDA ⁽²⁾	5,306	(34,862)	39,599	15,573	6,522
Adjusted EBITDA ⁽²⁾	17,780	21,092	39,599	11,643	16,088
BALANCE SHEET DATA					
Net cash	36,445	50,253	53,465	62,953	31,010
Total assets	479,393	477,857	508,428	580,833	538,496
Long-term debt, including current portion	28,777	29,896	31,038	58,091	19,297
Equity	183,259	200,835	265,510	300,221	284,861
CASH FLOW DATA					
Cash provided by operating activities	4,301	522	17,868	(9,095)	9,643
Free cash flow ⁽²⁾	(2,538)	(3,848)	11,724	(18,905)	(660)
SHAREHOLDER DATA AND DIVIDEND					
Cash dividends per share (in CA\$)					
Multiple and subordinate voting shares	0.03	0.03	—	—	0.09
Outstanding shares at reporting date					
Multiple voting shares	15,566,567	15,566,567	15,566,567	15,566,567	15,566,567
Subordinate voting shares	6,019,068	6,019,068	6,019,068	6,019,068	6,019,068
BACKLOG AND BOOKINGS					
Backlog at period end	491,525	464,337	501,224	562,493	406,800
Bookings	374,454	353,176	363,451	426,595	340,400
Book-to-bill ratio	1.08	0.95	0.88	1.41	0.92

⁽¹⁾ Net income or loss refer to net income or loss attributable to subordinate and multiple voting shares.

⁽²⁾ Non-IFRS measures – see reconciliations in the Non-IFRS and supplementary financial measures section of the MD&A.



MESSAGE TO SHAREHOLDERS

Fiscal 2024 proved to be a tale of two halves for Velan. The first half was marked by a challenging global macroeconomic environment and the pending agreement of a proposed transaction to acquire the Company. The second half began with a regulatory authority ruling that terminated the proposed transaction, followed by a significant sequential increase in bookings in the third and fourth quarters.

Altogether, gross profit totaled \$93.2 million on sales of \$346.8 million in fiscal 2024, while our year-end order backlog stood at a \$491.5 million driven by the solid bookings momentum. Nearly three-quarters of this backlog is expected to be shipped within a 12-month period. As a result, we fully expect the Company to return to growth mode in fiscal 2025.

Clearly, we navigated through difficult market conditions and management was distracted for part of fiscal 2024 with matters around the proposed transaction. Having put this event behind us, I firmly believe that we have regained momentum. As Chairman of the Board and newly appointed CEO during the year, I embarked on a tour to gauge the perception of employees, customers, and partners towards Velan. I returned emboldened by what I heard. The strength of our brand, the quality of our products, and our positioning in the marketplace remain second to none.

We are a global company with headquarters in Canada, not merely a Canadian company with overseas operations. We have R&D centers in Montreal (Canada), Lyon (France), Lucca (Italy) and Coimbatore (India), each developing innovative technologies to improve the performance and reliability of its industrial valves to the benefit of our customers.

Our R&D approach has historically been customer-centric rather than technology-driven. By this, I mean that nothing is created in a vacuum. Instead of ineffectively searching for revolutionary breakthroughs, we develop true intimacy with our customers. Our engineers take the time to understand each valve, and the ways that it can be engineered, to effectively collaborate with the customer and devise a suitable solution to often very complex challenges.

Our research hubs are supported by 12 manufacturing facilities—three in North America, four in Europe and five in Asia—along with two distribution centers. We view these assets as strong competitive advantages in terms of offering a diverse product portfolio, at scale, and in a cost-efficient manner.

KEY GROWTH MARKETS

Looking ahead to fiscal 2025 and beyond, we plan to increase our reach in high-growth sectors like nuclear, defense, oil and gas, as well as liquefied natural gas (LNG). These niches, in which we have sustained differentiation, are currently being buoyed by energy transition trends.

Delving deeper into environmental matters, many of our customers have stated carbon emission reduction targets, such as reaching net zero global carbon dioxide (CO₂) emissions and are increasingly looking for energy-efficient solutions to reach these objectives. Velan is directly aligned with this secular growth trend as we have dedicated significant resources to environmentally driven solutions.



We are particularly heartened by evolving sentiment around nuclear power as it is critical to reducing greenhouse gas emissions due to its clean properties: zero emissions and fully recyclable. At the COP28 climate change conference in December 2023, more than 20 countries signed a joint declaration to triple nuclear power capacity by 2050. This landmark event was followed by the first-ever Nuclear Energy Summit held in March 2024 in Belgium, where representatives from 32 countries heralded a new era of cooperation to include nuclear energy in the mix of renewables to reach net-zero objectives on time.

At Velan, our valves are the power industry's choice for reliable nuclear service, boasting a significant installed product base in nuclear power reactors worldwide and with over 50 years of uninterrupted experience. Velan is the leading valve supplier for all nuclear reactor technologies.

Our expertise can be leveraged into modular reactors (SMRs), which are increasingly gaining traction due to their reduced footprint, savings on costs and construction time and greater safety. Velan's longstanding experience in defense markets, particularly nuclear marine and aircraft carrier propulsion, provides us with a leg up on the competition. For example, given tight space considerations, marine reactors must be physically smaller and generate higher power per unit of space than land-based reactors. As a result, valves are subject to greater stress and must endure harsher conditions at sea, including salt-water corrosion. In short, our entrenched presence in defense markets, namely meeting stringent requirements, make us the ideal supplier for the growing SMR niche.

As for the oil and gas sector, it has been widely affected by global efforts to mitigate climate change and protect the environment. Accordingly, we intend to leverage our extensive customer base, which includes nearly 90% of North America's oil refineries, as well as a growing presence overseas, by providing engineered valves and steam traps that are the most reliable on the market. We hold all major industry approvals in the oil and gas industry and our extensive global customer list—from production, to distribution, to refining, to petrochemicals—continues to grow.

Moving to LNG, it remains the cleanest of fossil fuels by producing 40% less CO₂ than coal and 30% less than oil. Velan offers the most complete and technically advanced product line for liquefied gases, research labs, and superconductivity for particle accelerators and aerospace. We also provide valves for extreme low temperatures of -271°C, just above absolute zero.

Along with revenue contributions from other market niches, we expect maintenance, repair and overhaul (MRO) activity on our extensive base of installed equipment to provide a recurring revenue stream in upcoming years.



FOCUS ON CASH GENERATION

From an operating standpoint, we have implemented a series of actions to drive cash by leveraging the global scale of our business, maximizing strategic procurement advantages, and optimizing inventory management. We reported \$4.3 million in cash flows from operating activities in fiscal 2024, which clearly understates our real potential. Accordingly, improving cash flow generation represents a key priority to sustain our growth ambitions in upcoming years.

Improving our cash flows will bolster an already solid financial position. We closed fiscal 2024 with a positive net cash position, providing Velan with a distinct advantage in a relatively high interest rate environment. Given this advantage, we are on solid ground to actively seek growth opportunities to further expand our reach into new market niches and consolidate our leadership in existing ones.

ADDITION TO BOARD OF DIRECTORS

Given my dual appointment as Chairman and CEO during the past year, a position on our Board of Directors was left vacant. I am pleased to report that Daniel Desjardins has been appointed to our Board as an independent director. Mr. Desjardins is an accomplished business lawyer and executive with extensive expertise in business law, compliance and risk management as well as decades of experience in financing and complex mergers and acquisitions at Bombardier Inc. His legal and business acumen, along with longstanding knowledge of global markets, nicely complement the skillset of the Board.

WRAP-UP

In closing, I am thankful to lead a high-quality leadership team at Velan. Through the collective contributions of our leaders, along with the tireless work of more than 1,600 employees worldwide, our brand remains revered throughout the industry.

Consequently, I would like to take this opportunity to sincerely thank our employees for their dedication and resilience during what can best be described as an unusual year. I would also like to express my appreciation to customers for their loyalty. Finally, many thanks to our shareholders for supporting our long-term growth strategy.



James A. Mannebach

Chairman of the Board and Chief Executive Officer

WORLDWIDE PRESENCE

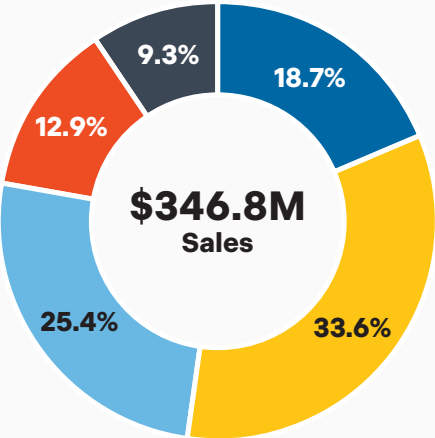
Velan is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with approximately 1,641 employees. The Company’s business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life.

Velan sells its valves worldwide and has been successful in developing markets for its products in approximately 70 countries.

North America

- 1 **Velan Head Office**
Montreal, Canada
- 2 **Velan Inc.**
Granby, Canada
- 3 **Velan Valve Corp.**
Williston, U.S.A.

Fiscal 2024 Geographical Sales*



- Canada
- United States
- France
- Italy
- Others



* Defined as the country where the sale was recorded.

Europe

- 4 Válvulas Industriais, Lda.**
Lisbon, Portugal
- 5 Velan SAS**
Lyon, France
- 6 Segault SAS**
Mennecy, France
- 7 Velan ABV S.r.l.**
Lucca, Italy

Asia

- 8 Velan Valves India Pvt. Ltd.**
Coimbatore, India
- 9 Velan Valve (Suzhou) Co., Ltd.**
Suzhou, China
- 10 11 Velan Ltd.**
Ansan City, South Korea
- 12 Velan-Valvac**
Taichung, Taiwan





Proud employees taking a pause at Velan's facility in Montreal.

THE STRENGTH OF THE BRAND



AK Velan - 1991 Canada Export Award

Velan has become synonymous with quality, reliability and innovation after serving customers for nearly 75 years in the global industrial steel valve industry. Founded in 1950 by A.K. Velan, who had developed an idea for a new steam trap, the company's pioneering and entrepreneurial spirit flourishes today through a portfolio of high-quality valves purpose-built for diverse industrial applications.

Underlying this strong brand name has been a customer-centric approach that prioritizes collaboration and customization. Velan's commitment to delivering top-quality valves designed to customers' specific needs sets it apart from competitors who often rely on lower-cost, standardized solutions. By working closely with customers to understand their particular challenges, Velan develops unique valves that meet the most stringent of requirements. Ultimately, this heightened customer intimacy, combined with longstanding quality, reliability and innovation, have strengthened the Velan brand worldwide.



MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR ENDED FEBRUARY 29, 2024

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 29, 2024. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 29, 2024, and February 28, 2023. 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 16, 2024. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR+ at www.sedarplus.ca.

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 critical applications. Velan provides solutions to many industrial sectors including power generation, nuclear, oil and gas, chemicals, LNG and cryogenics, pulp and paper, geothermal processes, shipbuilding, defense, and carbon-neutral technologies. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with approximately 1,641 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.

THREE-YEAR FINANCIAL SUMMARY

(unless otherwise noted, all amounts are in U.S. dollars)

For the reporting period ended on			
(thousands)	February 29, 2024	February 28, 2023	February 28, 2022
Operating data			
Sales	346,816	370,429	411,242
Gross Profit	93,207	112,465	134,969
Net loss ¹	(19,737)	(55,453)	(21,141)
Adjusted net income (loss) ²	(7,918)	501	11,462
EBITDA ²	5,306	(34,862)	39,599
Adjusted EBITDA ²	17,780	21,092	39,599
Net loss ² per share – basic and diluted	(0.91)	(2.57)	(0.98)
Adjusted net income (loss) per share – basic and diluted	(0.37)	0.02	0.53
Balance sheet data			
Cash and cash equivalents	36,445	50,513	54,015
Total assets	479,393	477,857	508,428
Long-term debt, including current portion	28,777	29,896	31,038
Cash flow data			
Cash provided by operating activities	4,301	522	17,868
Free cash flow ²	(2,538)	(3,848)	11,724
Shareholder data			
Cash dividends per share (in CA\$)			
- Multiple voting shares	0.03	0.03	-
- Subordinate voting shares	0.03	0.03	-
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

Backlog² and Bookings²

As at						
(thousands)	February 29, 2024		February 28, 2023		February 28, 2022	
	\$	%	\$	%	\$	%
Backlog ²	491,525		464,337		501,224	
For delivery within the next 12 months	360,669	73.4%	307,991	66.3%	321,860	64.2%
For delivery between 12 and 24 months	95,483	19.4%	n/a	n/a	n/a	n/a
For delivery between 24 and 36 months	17,064	3.5%	n/a	n/a	n/a	n/a
For delivery beyond 36 months	18,309	3.7%	n/a	n/a	n/a	n/a
Bookings ²	374,454		353,176		363,451	
Book-to-bill ratio ²	1.08		0.95		0.88	

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 – additional specifications at the end of this report

FISCAL 2024 HIGHLIGHTS

- Order backlog¹ of \$491.5 million at the end of fiscal 2024, of which 73.4% is deliverable within the next 12 months, up from \$464.3 million a year earlier. Currency movements had a \$5.6 million positive effect on backlog¹.
- Net new orders ("bookings")¹ of \$374.5 million for the year, up \$21.3 million or 6.0% from last year. The increase reflects strong oil and gas orders recorded by Italian operations, partially offset by lower orders for North American operations in the marine sector and for maintenance, repair and overhaul ("MRO") activity. The strengthening of the euro average rate against the U.S. dollar had a positive effect of \$7.0 million on bookings¹ during the year.
- Sales for fiscal 2024 amounted to \$346.8 million, a decrease of \$23.6 million or 6.4% compared to the previous fiscal year. Following lower year-over-year sales in the first nine months, strong fourth quarter sales were driven by higher shipments by French and Italian operations for the defense and oil and gas markets, respectively. The strengthening of the euro against the U.S. dollar had a positive effect of \$3.8 million on sales during the year.
- Gross profit for the year reached \$93.2 million, versus \$112.5 million last year. The decrease mainly reflects lower business volume which impacted the absorption of fixed production overhead costs and a less favourable product mix due to the execution of certain low margin projects. As a percentage of sales, gross profit was 26.9% in fiscal 2024, compared to 30.4% in fiscal 2023.
- Fiscal 2024 net loss² was \$19.7 million, compared to \$55.5 million last year. Net loss² for fiscal 2024 and 2023 include charges of \$10.0 million and \$56.0 million, respectively, to increase the Company's asbestos provision to reflect the potential settlement value of future claims not yet reported.
- Adjusted EBITDA¹ of \$17.8 million in fiscal 2024 compared to \$21.1 million in fiscal 2023. The decrease is primarily attributable to the reduction in gross profit, partially offset by lower administration costs.
- Cash and cash equivalents reached \$36.4 million at the end of fiscal 2024, compared to \$50.5 million a year earlier.

OUTLOOK

The Company aims to build on the momentum gained in the second half of fiscal 2024, concluding the year on a solid note with a growing order backlog¹ and a book-to-bill¹ ratio of 1.08. As at February 29, 2024, orders totaling \$360.7 million, representing 73.4% of a total backlog¹ of \$491.5 million, are expected to be delivered in the next 12 months. Given these orders, the Company expects to deliver annual sales in fiscal 2025 above the level achieved in fiscal 2024.

The Company is confident in its ability to secure future bookings¹, as business activity in its main markets remains healthy driven by solid prospects for the nuclear industry and sustained demand in the oil and gas industry, while defense activity mirrors military spending around the world. Management will continue to closely monitor the global situation, notably increased geopolitical tensions, and an uncertain macroeconomic environment in a context of higher interest rates and inflation. These factors may delay the award of certain projects.

The Company's financial position remains strong with a net cash position consisting of cash and cash equivalents of \$36.4 million. The Company will continue to manage diligently its working capital and capital investments to foster free cash flow¹ generation.

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.

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

² Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

FOURTH QUARTER RESULTS

- Bookings¹ of \$132.8 million, up significantly from \$87.1 million last year and \$78.3 million in the third quarter;
- Book-to-bill¹ ratio of 1.13, versus 0.76 last year and 0.97 in the third quarter;
- Sales of \$117.9 million, up \$2.8 million or 2.4% from last year and up from \$80.9 million in the third quarter;
- Gross profit of \$38.4 million, or 32.6% of sales, compared to \$39.9 million, or 34.7% of sales, last year;
- Net loss² of \$2.1 million compared to a net loss² of \$47.2 million last year, mainly due to increase the Company's asbestos provision to reflect the potential settlement value of future claims not yet reported.

FISCAL 2024 RESULTS

- Order backlog¹ of \$491.5 million at the end of the year, up \$27.1 million or 5.9% from the end of last year;
- Bookings¹ of \$374.5 million, compared to \$353.2 million in fiscal 2023;
- Book-to-bill¹ ratio of 1.08, up from 0.95 in fiscal 2023;
- Sales of \$346.8 million, down \$23.6 million or 6.4% compared to fiscal 2023;
- Gross profit of \$93.2 million, or 26.9% of sales, compared to \$112.5 million, or 30.4% of sales, last year;
- Net loss² of \$19.7 million compared to a net loss² of \$55.5 million last year;
- Net cash of \$36.4 million at the end of fiscal 2024, versus \$50.3 million a year earlier.

RESULTS OF OPERATIONS

(unless otherwise noted, all amounts are in U.S. dollars)

	Three-month periods ended			Twelve-month periods ended		
	February 29, 2024	February 28, 2023	Variance	February 29, 2024	February 28, 2023	Variance
<i>(thousands)</i>						
Sales	\$117,894	\$115,141	\$2,753	\$346,816	\$370,429	(\$23,613)
Gross profit	38,384	39,945	(1,561)	93,207	112,465	(19,258)
Administration costs	33,121	80,841	(47,720)	98,744	156,759	(58,015)
Income taxes	5,088	4,102	986	7,471	8,045	(574)
Net income (loss) ²	(2,083)	(47,164)	45,081	(19,737)	(55,453)	35,716
Adjusted net income (loss) ¹	8,944	8,790	154	(7,918)	501	(8,419)
EBITDA ¹	8,482	(39,486)	47,968	5,306	(34,864)	40,170
Adjusted EBITDA ¹	19,879	16,468	3,411	17,780	21,092	(3,312)
Bookings ¹	132,825	87,085	45,740	374,454	353,176	21,278
Period end order backlog ¹				491,525	464,337	27,188
<i>(as a percentage of sales)</i>						
Gross profit	32.6%	34.7%	-210 bpts	26.9%	30.4%	-350 bpts
<i>(in dollars per share)</i>						
Net income (loss) ² per share – basic and diluted	(0.10)	(2.18)	2.08	(0.91)	(2.57)	1.66
Adjusted net income (loss) ¹ per share – basic and diluted	0.41	0.41	-	(0.37)	0.02	(0.39)

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

² Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

Backlog¹ and Bookings¹

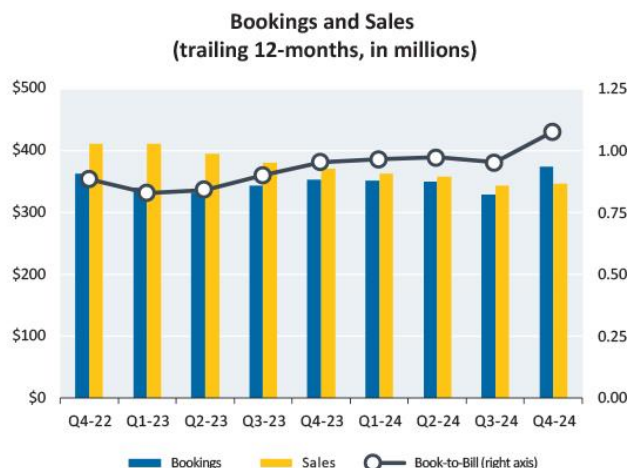
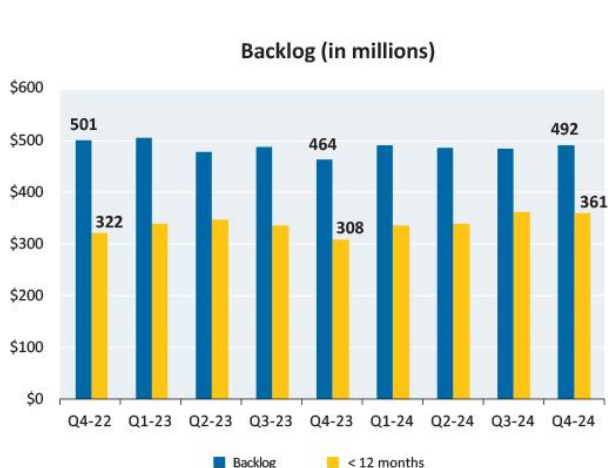
As at February 29, 2024, the backlog¹ stood at \$491.5 million, up \$27.2 million, or 5.9%, from \$464.3 million a year earlier reflecting strong fourth quarter bookings¹. As at February 29, 2024, 73.4% of the backlog¹, representing orders of \$360.7 million, is deliverable in the next 12 months, versus 66.3% of last year's backlog¹. Currency movements had a positive effect of \$5.6 million on the backlog¹ during the year.

Bookings¹ for the fourth quarter of fiscal 2024 amounted to \$132.8 million, up 52.5% over bookings¹ of \$87.1 million in the fourth quarter of fiscal 2023. The increase is mainly attributable to strong oil and gas bookings¹ recorded by the Company's Italian operations and to higher orders recorded by North American operations, partially offset by the timing of orders for the French subsidiary following strong bookings¹ in the prior year. The strengthening of the euro average rate against the U.S. dollar had a positive effect of \$3.8 million on bookings¹ during the quarter.

As a result of bookings¹ outpacing sales, the Company's book-to-bill ratio¹ was 1.13 in the fourth quarter of fiscal 2024, compared to 0.76 in the corresponding period of fiscal 2023.

Fiscal 2024 bookings¹ reached \$374.5 million, an increase of \$21.3 million or 6.0% compared to the previous year. The increase reflects strong oil and gas orders recorded by Italian operations, partially offset by lower orders for North American operations in the marine sector and for MRO activity. Currency movements had a positive effect of \$7.0 million on bookings¹ during the year.

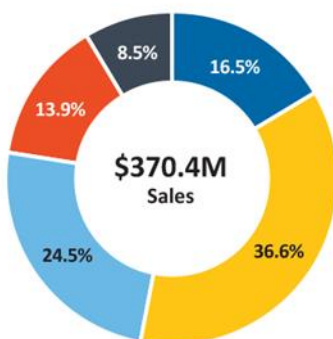
As a result of bookings¹ outpacing sales for the fiscal year, the Company's book-to-bill ratio¹ was 1.08 in fiscal 2024, compared with 0.95 in fiscal 2023.



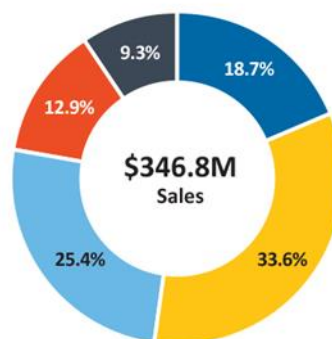
¹ Non-IFRS and supplementary financial measures – additional specifications at the end of this report

Sales

Fiscal 2023 Geographical Sales
(in millions)



Fiscal 2024 Geographical Sales
(in millions)



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

Sales reached \$117.9 million in the fourth quarter, an increase of \$2.8 million or 2.4% compared to the same period last year. The variation is mostly attributable to stronger shipments from the international operations. These factors were partially offset by lower shipments from North American operations and shipping delays due to the situation in the Red Sea. The strengthening of the euro average rate against the U.S. dollar had a \$1.7 million positive effect on sales for the quarter.

Sales for the fiscal year amounted to \$346.8 million, a decrease of \$23.6 million or 6.4% compared to last year. The variation mainly reflects lower sales in North American and Italy, essentially due to the shipment of large orders in the previous fiscal year, and to lower MRO sales in North America. These factors were partially offset by higher sales by German operations. Currency movements had a \$3.8 million positive effect on sales for the year.

Gross profit

For the fourth quarter, gross profit was \$38.4 million, compared with \$39.9 million a year ago. The variation reflects a less favorable product mix this year compared to last due to the execution of certain low margin projects. Last year's gross profit also benefitted from a favorable revaluation of the inventory provision based on new estimates relating to changes in market demand. As a percentage of sales, gross profit was 32.6%, versus 34.7% last year.

For the fiscal year, gross profit reached \$93.2 million, versus \$112.5 million last year. The variation reflects a lower business volume which impacted the absorption of fixed production overhead costs and a less favorable product mix due to the execution of certain low margin projects. As a percentage of sales, gross profit was 26.9%, compared to 30.4% last year.

Administration costs

Administration costs reached \$33.1 million in the fourth quarter of fiscal 2024, compared to \$80.8 million last year. This year's administration costs include a \$10.0 million asbestos provision adjustment and restructuring charges of \$1.3 million mostly consisting of severances. Last year's costs included a \$56.0 million charge to increase the Company's asbestos provision to reflect the potential settlement value of future unknown claims. Excluding these items, administration costs totaled \$21.7 million, or 18.4% of sales, in the fourth quarter of fiscal 2024, versus \$24.9 million, or 21.6% of sales, in the fourth quarter of fiscal 2023. The decrease is mostly due to lower expenses for the North American operations and cost reduction initiatives throughout the Company's operations.

For the fiscal year, administration costs amounted to \$98.7 million, compared to \$156.8 million in fiscal 2023. This year's costs include a \$10.0 million asbestos provision adjustment, restructuring charges of \$1.3 million, and expenses of \$1.2 million related to the proposed transaction. Last year's costs included a \$56.0 million charge to

increase the Company's asbestos provision. Excluding these items, administration costs amounted to \$86.3 million, or 24.9% of sales, in fiscal 2024, versus \$100.8 million, or 27.2% of sales, in fiscal 2023. In addition to the aforementioned elements, the decrease also reflects lower sales commissions and freight costs.

Asbestos related costs

Management periodically estimates the impact of future unknown settlement costs based on current environment and yield rates. The result of this evaluation led to a non-recurring charge of \$56.0 million to increase the Company's provision in the fourth quarter of fiscal 2023. In the fourth quarter of fiscal 2024, a provision adjustment resulted in a charge of \$10.0 million to true-up the provision based on the latest estimate of amounts that may be paid. These charges are included in administration costs, as per the section above.

EBITDA¹ and Adjusted EBITDA¹

EBITDA¹ for the fourth quarter of fiscal 2024 amounted to \$8.5 million compared to negative EBITDA¹ of \$39.5 million for the same period a year ago. Excluding asbestos, restructuring and proposed transaction related costs, adjusted EBITDA¹ was \$19.9 million in the fourth quarter of fiscal 2024, compared to \$16.5 million a year earlier. This increase reflects lower administration costs and a \$1.7 million net reduction in other expenses, mainly related to a provision related to a commodity tax audit last year. These factors were partially offset by a lower gross profit.

For the year, EBITDA¹ amounted to \$5.3 million compared to negative EBITDA¹ of \$34.9 million last year. Excluding asbestos, restructuring and proposed transaction related costs, adjusted EBITDA¹ for fiscal 2024 was \$17.8 million, versus \$21.1 million in fiscal 2023. The decrease is primarily attributable to the previously explained decrease in gross profit, partially offset by lower administration costs and other expenses.

Finance costs (net)

For the fourth quarter of fiscal 2024, net finance costs were \$2.4 million, up from \$0.5 million last year. The variation reflects higher interest rates on the Company's long-term debt compared to the prior year, as well as lower cash and cash equivalents this year compared to last.

Net finance costs for the year amounted to \$6.3 million (\$4.5 million in implicit interest on long-term provision), versus \$1.6 million a year ago. The increase mainly stems from higher interest rates on the Company's long-term debt compared to the prior year.

Income taxes

<i>(thousands, excluding percentages)</i>	Three-month periods ended			
	February 29, 2024		February 28, 2023	
	\$	%	\$	%
Income tax at statutory rate	795	26.5	(11,425)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	111	3.7	436	(1.0)
Non-deductible (taxable) foreign exchange losses (gains)	(216)	(26.2)	40	(0.1)
Losses not tax effected	3,159	105.3	14,290	(33.1)
Other differences	1,239	60.4	761	(1.8)
Income tax expense	5,088	169.7	4,102	(9.5)

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

The 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 previous fiscal year.

	Fiscal years ended			
	February 29, 2024		February 28, 2023	
<i>(thousands, excluding percentages)</i>				
	\$	%	\$	%
Income tax at statutory rate	(3,268)	26.5	(12,565)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	378	(3.1)	486	(1.0)
Non-deductible (taxable) foreign exchange losses (gains)	(455)	3.7	754	(1.6)
Losses not tax effected	9,428	(76.5)	18,996	(40.1)
Other differences	1,388	(11.2)	374	(0.8)
Income tax expense	7,471	(60.6)	8,045	(17.0)

Net income (loss)¹ and Adjusted net income (loss)²

Net loss¹ for the quarter amounted to \$2.1 million, or \$0.10 per share, compared to a net loss¹ of \$47.2 million, or \$2.18 per share last year. Excluding the after-tax effect of asbestos, restructuring and proposed transaction related costs, adjusted net income² stood at \$8.9 million, or \$0.41 per share, compared to \$8.8 million, or \$0.41 per share, last year. The variation is attributable to higher adjusted EBITDA² partially offset by higher net finance costs and income tax expense.

The net loss¹ for the fiscal year amounted to \$19.7 million or \$0.91 per share compared to \$55.5 million or \$2.57 per share last year. Excluding the after-tax effect of asbestos, restructuring and proposed transaction related costs, adjusted net loss² was \$7.9 million, or \$0.37 per share, in fiscal 2024, versus adjusted net income² of \$0.5 million, or \$0.02 per share, in fiscal 2023. The variation is due to lower adjusted EBITDA² and higher net finance costs partially offset by a lower income tax expense.

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 – additional specifications at the end of this report

SUMMARY OF QUARTERLY RESULTS

(unless otherwise noted, all amounts are in U.S. dollars)

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

	Quarters ended							
(in thousands, excluding per share amounts)	February 2024	November 2023	August 2023	May 2023	February 2023	November 2022	August 2022	May 2022
Sales	\$117,894	\$80,945	\$80,318	\$67,659	\$115,141	\$95,229	\$85,054	\$75,005
Net income (loss) ¹	(2,083)	(7,250)	(2,120)	(8,284)	(47,164)	2,739	(3,676)	(7,352)
per share – basic and diluted	(0.10)	(0.34)	(0.10)	(0.38)	(2.18)	0.13	(0.17)	(0.34)
Adjusted net income (loss) ²	8,944	(7,074)	(1,878)	(7,910)	8,790	2,739	(3,676)	(7,352)
per share – basic and diluted	0.41	(0.33)	(0.09)	(0.37)	0.41	0.13	(0.17)	(0.34)
EBITDA ²	8,482	(2,337)	2,958	(3,799)	(39,486)	6,135	1,365	(2,878)
Adjusted EBITDA ²	19,879	(2,098)	3,289	(3,290)	16,468	6,135	1,365	(2,878)

FINANCIAL POSITION

Assets

As at February 29, 2024, total assets stood at \$479.4 million, up slightly from \$477.9 million as at February 28, 2023.

Current assets amounted to \$387.0 million as at February 29, 2024, down slightly from \$388.1 million a year earlier. The variation mainly reflects a \$14.1 million decrease in cash and cash equivalents and a \$1.1 million decrease in accounts receivable. These factors were partially offset by a \$6.1 million increase in inventories, a \$5.2 million increase in short-term investments and a \$2.9 million increase in deposits and prepaid expenses.

Non-current assets totalled \$92.4 million as at February 29, 2024, up from \$89.7 million last year. The variation stems from a \$1.7 million increase in the value of property plant and equipment, a \$0.5 million increase in deferred income taxes and a \$0.4 million increase in the value of intangible assets and goodwill.

Liabilities

As at February 29, 2024, total liabilities amounted to \$296.1 million, up from \$277.0 million as at February 28, 2023.

Current liabilities stood at \$160.4 million, up from \$137.0 million. This variation is mainly attributable to a \$16.2 million increase in the current portion of the long-term debt (see liquidity and capital resources section below), a \$8.8 million increase in accounts payable and accrued liabilities, and a \$2.2 million increase in customer deposits. These factors were partially offset by a \$2.4 million decrease in provisions and a \$1.3 million decrease in income taxes payable.

The value of non-current liabilities decreased by \$4.4 million to \$151.8 million mainly reflecting diminution of long-term debt by \$17.4 million (\$16.1 million of this diminution is a reclass from long-term to short-term) and increases of \$7.1 million and \$3.1 million, respectively, in customer deposits and provisions.

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 – additional specifications at the end of this report

Equity

As at February 29, 2024, total equity was \$183.3 million, versus \$200.8 million as at February 28, 2023. The variation is attributable to a \$20.2 million reduction in retained earnings, essentially mirroring the Company's net loss for fiscal 2024, partially offset by a \$2.5 million reduction in accumulated other comprehensive loss.

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities and cash flows *(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 29, 2024						
(thousands)	Carrying value \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$	Total \$
Long-term debt	28,777	29,601	3,405	1,112	-	34,118
Long-term lease liabilities	12,643	1,929	3,141	2,202	11,310	18,582
Accounts payable and accrued liabilities	88,230	88,230	-	-	-	88,230
Customer deposits	65,478	30,396	16,369	2,145	16,568	65,478
Derivative liabilities	26	26	-	-	-	26

As at February 29, 2024, the Company was in breach of one of its financial covenants ratio. The secured mortgage bank loan is presented in current portion of long-term debt.

Subsequent to year-end, and prior to the release of these financial statements, the lender renounced its right to demand repayment of the loan for the fiscal year ended February 29, 2024 and for the fiscal year ended February 28, 2025 until March 1, 2026, inclusively, provided the breach is solely due to the payment of asbestos claims and related legal fees.

Accordingly, the secured mortgage bank loan will be re-classified as long-term debt on May 31, 2024.

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.

On February 29, 2024, the Company's order backlog¹ was \$491.5 million and its net cash, subject to certain local exchange control restrictions, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition.

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

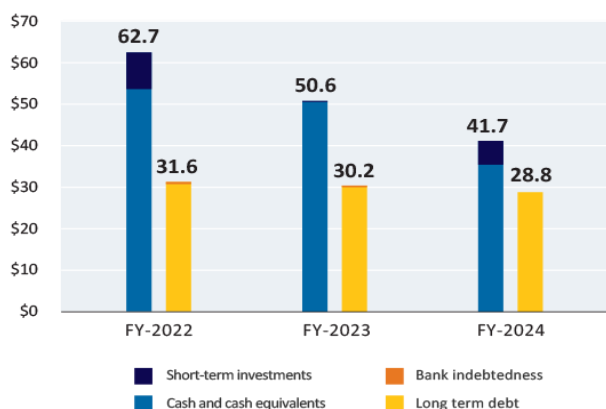
Cash flows - quarter and fiscal year ended February 29, 2024

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

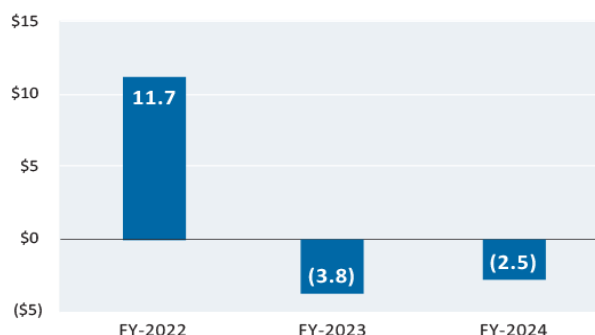
The Company's changes in net cash were as follows:

	Three-month periods ended		Fiscal years ended	
(thousands)	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Net Cash – Beginning of period	26,362	29,311	50,253	53,465
Cash provided by operating activities	19,649	18,489	4,301	522
Cash provided (used) by investing activities	(9,198)	7,103	(14,127)	1,759
Cash used by financing activities	(385)	(4,850)	(4,661)	(2,620)
Effect of exchange rate differences on cash	17	200	679	(2,873)
Net Cash – End of period	36,445	50,253	36,445	50,253

Liquidity and Indebtedness
(in millions)



Free Cash Flow
(in millions)



Operating activities

For the three-month period ended February 29, 2024, cash provided by operating activities reached \$19.6 million, up from \$18.5 million in the corresponding period a year earlier. The favorable movement in cash is attributable to higher EBITDA¹ and positive changes in non-cash working capital movements, partially offset by an unfavourable movement in long-term provisions.

For the fiscal year ended February 29, 2024, cash provided by operating activities amounted to \$4.3 million, compared to \$0.5 million in the previous year. The favorable movement in cash essentially reflects the factors mentioned above.

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

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

(thousands)	Three-month periods ended		Fiscal years ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Accounts receivable	(22,933)	(5,750)	2,596	(9,837)
Inventories	17,806	16,373	(4,254)	14,235
Income tax recoverable	944	1,189	112	(3,254)
Deposits and prepaid expenses	(1,545)	(140)	(2,754)	(916)
Accounts payable and accrued liabilities	13,636	(56)	7,958	1,845
Income tax payable	1,769	879	100	(1,100)
Customer deposits	3,555	(12,997)	8,556	(11,087)
Provisions	(4,163)	1,413	(2,500)	(1,458)
Changes in non-cash working capital items	9,069	911	9,814	(11,572)

For the quarter ended February 29, 2024, positive non-cash working capital movements were principally due to higher fourth quarter sales which led to a decrease in inventories and an increase in accounts payable and accrued liabilities, while higher bookings¹ resulted in an increase in customer deposits. These factors were partially offset by an increase in accounts receivable also attributable to higher fourth quarter sales.

For the fiscal year ended February 29, 2024, positive non-cash working capital movements reflected higher accounts payable and accrued liabilities, as well as customer deposits for the reasons mentioned above. These factors were partially offset by higher deposits and prepaid expenses, accounts receivable and inventories.

Investing activities

Cash used in investing activities for the quarter ended February 29, 2024, reached \$9.2 million reflecting a \$5.3 million increase in short-term investments, additions to property, plant and equipment of \$2.9 million, and additions to intangible assets totalling \$1.2 million. For the quarter ended February 28, 2023, cash provided by investing activities stood at \$7.1 million as a \$9.4 million increase in short-term investments was partially offset by additions to property, plant and equipment of \$1.4 million and additions to intangible assets of \$0.9 million.

For the fiscal year ended February 29, 2024, cash used in investing activities amounted to \$14.1 million as a result of additions to property, plant and equipment of \$6.8 million, an increase of \$5.2 million in short-term investments, as well as additions to intangible assets of \$2.4 million. For the fiscal year ended February 28, 2023, cash provided by investing activities stood at \$1.8 million reflecting a \$8.3 million increase in short-term investments partially offset by additions to property, plant and equipment of \$4.4 million and additions to intangible assets of \$2.2 million.

Financing activities

During the fourth quarter of fiscal 2024, cash used by financing activities was \$0.4 million as repayments of long-term debt and lease liabilities of \$1.1 million and \$0.6 million, respectively, were offset by a \$1.3 million increase in long-term debt. In the fourth quarter of fiscal 2023, cash used by financing activities was \$4.9 million essentially due to a \$5.4 million reduction in the revolving credit facility.

In fiscal 2024, cash used by financing activities was \$4.7 million as repayments of long-term debt and lease liabilities of \$8.8 million and \$1.9 million, respectively, were partially offset by increases in the revolving credit facility and long-term debt of \$5.0 million and \$1.3 million, respectively. The reduction in long-term debt includes the purchase of the 25% minority interest in Segault S.A.S. on September 18, 2023 for \$5.0 million (€4.7 million). The Company now owns 100% of all the outstanding equity of Segault S.A.S. The unconditional put option held by the minority

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

shareholder was previously included in the current portion of long-term debt of the statement of financial position. In fiscal 2023, cash used by financing activities stood at \$2.6 million as repayments of long-term debt and lease liabilities of \$4.4 million and \$1.7 million, respectively, were partially offset by a \$3.7 million increase in long-term debt.

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 29, 2024 and February 28, 2023 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Foreign exchange forward contracts						
Sell US\$ for CA\$ - 0 to 15 months	-	1.32	-	107	-	US\$40,000
Buy US\$ for CA\$ - 0 to 15 months	-	1.28	-	(299)	-	US\$40,000
Sell € for US\$ - 0 to 12 months	-	-	-	-	-	-
Buy € for US\$ - 0 to 12 months	1.08 to 1.10	-	40	-	US\$6,518	-

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

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, provision for performance guarantees and

long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 29, 2024, and February 28, 2023:

	Net income (loss)	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
Canadian dollar strengthening against the U.S. dollar	(868)	(847)
Euro strengthening against the U.S dollar	(772)	(327)
Indian rupee strengthening against the U.S dollar	875	346

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years. For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

Cash flow and fair value interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 29, 2024, two (2023 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 7.6% (2023 – 15.0%) and the Company's ten largest customers accounted for 41.3% (2023 – 60.4%) of trade accounts receivable. In addition, one customer accounted for 8.9% of the Company's sales (2023 – 13.4%).

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

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

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

As at February 29, 2024					
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.056%	0.071%	0.081%	1.814%	
Gross carrying amount	81,030	12,600	7,426	9,041	110,097
Loss allowance	45	9	6	164	224

As at February 28, 2023					
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.130%	0.141%	0.169%	2.399%	
Gross carrying amount	83,118	9,961	5,902	14,458	113,529
Loss allowance	108	14	10	349	481

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 29, 2024 \$	February 28, 2023 \$
Current	81,030	83,118
Past due 0 to 30 days	12,600	9,961
Past due 31 to 90 days	7,426	5,902
Past due more than 90 days	9,041	14,548
	110,097	113,529
Less: Loss allowance	(224)	(481)
	109,873	113,048
Other receivables	10,041	8,005
Total accounts receivable	119,914	121,053

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

Fiscal years ended		
(thousands)	February 29, 2024 \$	February 28, 2023 \$
Balance – Beginning of the year	481	509
Loss allowance expense	68	46
Recoveries of trade accounts receivables	(228)	(47)
Write-off of trade accounts receivable	(98)	-
Foreign exchange	1	(27)
Balance – End of the period	224	481

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 29, 2024 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 29, 2024.

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 29, 2024 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.

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 write-down of inventory will occur when its estimated net realisable value (which is the estimated selling price minus costs necessary to make the sell) is below its carrying amount. This involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

Provisions

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

Asbestos provision estimates the liability related to all settlement costs on outstanding open and future cases in relations with the Company's ongoing litigations. With the assistance of an actuary, the Company calculated the provision using the closed with indemnity (CWI) claim decay method and a 6.0% discount rate with the following significant assumptions:

- Expected number of future claims. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$1,100 to \$1,400.
- Projected average CWI severity. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$1,100 to \$1,400.
- Decay rate represents the rate at which the number of claims will decrease. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$7,800 to \$14,300.
- The inflation rate. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$7,300 to \$12,900.

The Company's estimate of the provision takes into consideration historical experience in settling those claims and projects them in the future using three different methods of valuation. 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 administration costs on the consolidated statement of loss.

Impairment of non-financial assets

Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization ("EBITDA") margin, revenue growth or the recoverable amount of each individual assets. Any change in the assumptions used could impact the carrying amount of the CGU.

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

Critical judgements in applying the Company's material policies

Deferred tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. The Company estimates that future taxable profits will be sufficient to realize this asset.

Going concern

The assessment of the Company's ability to execute its future working capital requirements involves judgment. Estimate and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting standards and amendments issued but not yet adopted

IAS 1 Presentation of financial statements requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In January 2020, the Board issued the amendments *Classification of liabilities as current or non-current to IAS 1* (2020 amendments). The 2020 amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 amendments, an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

- a) the carrying amount of the liability;
- b) information about the covenants;
- c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period

The *amendments to IAS 1* are effective for annual reporting periods beginning on or after January 1, 2024 with earlier adoption permitted and should be applied retrospectively. The Company continues its analysis but does not expect the amendment to have a significant impact on its consolidated financial statements.

Accounting standards and amendments issued and adopted

An IASB amendments has resulted in modifications to some paragraphs of the standard IAS 1, Presentation of financial statements. These changes include the requirement for the entities to provide disclosures about their material accounting policies rather than their significant accounting policies. The amendments to the standard have been adopted by the Company as of March 1, 2023.

CERTAIN RISKS THAT COULD AFFECT THE COMPANY'S BUSINESS

Cyclical nature of end user markets, commodity price volatility and other macroeconomic factors

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 also 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 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 on 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 Middle east tensions and war have contributed to increased economic uncertainty and diminished expectations for the global economy. Rapid variations 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.

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 the Company is defending these allegations vigorously, there can be no assurance that it 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.

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.

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.

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. Some collective agreements of the Company expires in 2024 and 2025. 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 sale of valves, the Company may enter into contracts that provide for the production of valves at specified prices and in accordance with certain time schedules. These contracts may involve greater risks as a result of unforeseen increases in costs due to more stringent terms and conditions. Although contract terms may vary from customer to customer, production delays and other performance issues may call for liquidated damages or other penalties in case of non-performance or warranty issues due to the more stringent terms and conditions of such contracts.

Political and economic risks associated with international sales and operations

Since the Company sells and manufactures its products worldwide, the business is subject to risks associated with doing business internationally, including changed in the political and regulatory environment in the markets in which the Company operates, which, among other things, result from changing priorities of governments and supranational agencies. For example, the adoption of and/or continued support for protectionist trade policies could negatively impact the movement of goods, services, and people across borders, including within North America and consequently, the sales and profitability of the Company.

The Company's business and operating results could also be adversely impacted by changes in tax laws from time to time, 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 imposing and will likely continue to impose a number of international economic sanctions on 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 affected by such 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.

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 Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing, maintaining, and evaluating the effectiveness of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer 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 Subordinate Voting Shares (as such term is defined herein). 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 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 the Company 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, Adjusted net income per share, Earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA

	Three-month periods ended		Fiscal years ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
(thousands, except amount per shares)	\$	\$	\$	\$
Reconciliation of net income (loss) ¹ to adjusted net income (loss) & adjusted net income (loss) per share				
Net income (loss) ¹	(2,083)	(47,164)	(19,737)	(55,453)
Adjustment for:				
Proposed transaction related costs	108	-	900	-
Restructuring costs	919	-	919	-
Adjustment to asbestos provision	10,000	55,954	10,000	55,954
Adjusted net income (loss)	8,944	8,790	(7,918)	501
per share - basic and diluted	0.41	0.41	(0.37)	0.02
Reconciliation of net income (loss) ¹ to Adjusted EBITDA				
Net income (loss) ¹	(2,083)	(47,164)	(19,737)	(55,453)
Adjustments for:				
Depreciation of property, plant and equipment	2,472	2,452	8,930	8,722
Amortization of intangible assets and financing costs	650	608	2,296	2,272
Finance costs – net	2,355	516	6,346	1,552
Income taxes	5,088	4,102	7,471	8,045
EBITDA	8,482	(39,486)	5,306	(34,862)
Adjustments for:				
Proposed transaction related costs	147	-	1,224	-
Restructuring costs	1,250	-	1,250	-
Adjustment to asbestos provision	10,000	55,954	10,000	55,954
Adjusted EBITDA	19,879	16,468	17,780	21,092

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

Free cash flow

	Three-month periods ended		Fiscal years ended	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
<i>(thousands, except amount per shares)</i>	\$	\$	\$	\$
Cash provided by operating activities	19,649	18,489	4,301	522
Additions to property, plant and equipment	(2,935)	(1,385)	(6,839)	(4,370)
Free cash flow	16,714	17,104	(2,538)	(3,848)

The term "Adjusted net income (loss)" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus adjustment, net of income taxes, for costs related to the proposed transaction, restructuring, and asbestos provision. The terms "Adjusted net income (loss) per share" is obtained by dividing Adjusted net income (loss) 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 adjusted net income plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs, plus income tax provision. The term "Adjusted EBITDA" is defined as EBITDA plus adjustment for costs related to the proposed transaction, restructuring, and asbestos provision. 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 by operating activities less additions to property, plant and equipment. Free cash flow reflects the amount available to pay dividends to shareholders and debt service, including the lease liabilities. 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 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 29, 2024 AND FEBRUARY 28, 2023



Independent auditor's report

To the Shareholders of Velan Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Velan Inc. and its subsidiaries (together, the Company) as at February 29, 2024 and February 28, 2023, 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 Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at February 29, 2024 and February 28, 2023;
- the consolidated statements of loss for the years ended February 29, 2024 and February 28, 2023;
- the consolidated statements of comprehensive loss for the years ended February 29, 2024 and February 28, 2023;
- the consolidated statements of changes in equity for the years ended February 29, 2024 and February 28, 2023;
- the consolidated statements of cash flow for the years ended February 29, 2024 and February 28, 2023; and
- the notes to the consolidated financial statements, comprising material accounting policy information 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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 29, 2024. 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
Asbestos provision <i>Refer to note 2 – Summary of material accounting policies and note 12 – Provisions to the consolidated financial statements.</i> The Company's asbestos provision amounted to \$78.2 million as at February 29, 2024. Two of the Company's US 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 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 a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Management used an actuary (management's expert) to reliably measure the asbestos provision which is based on the closed with indemnity (CWI) claim decay method. Management used judgment in measuring the asbestos provision, including significant assumptions such as the expected number of future claims, the projected average CWI severity, the decay rate, the inflation rate and the discount rate.	Our approach to addressing the matter included the following procedures, among others: • Tested how management determined the asbestos provision, which included the following: – The work of management's experts was used in performing the procedures to evaluate the reasonableness of the asbestos provision. As a basis for using this work, the competence, capabilities and objectivity of management's experts was evaluated, the work performed was understood and the appropriateness of the work as audit evidence was evaluated. The procedures performed also included evaluation of the methods and assumptions used by management's experts, tests of the data used by management's experts and an evaluation of their findings. – Professionals with specialized skill and knowledge in the field of valuation assisted in evaluating the reasonableness of the expected number of future claims, the projected average CWI severity and the decay rate. – Evaluated the reasonableness of the inflation rate by considering the historical increase in cost per claims settled and discount rate by considering evidence obtained in other areas of the audit.



Key audit matter

How our audit addressed the key audit matter

We considered this a key audit matter due to judgment used by management to measure the asbestos provision. This in turn resulted in subjectivity and a high degree of audit effort in performing procedures to test the asbestos provision. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation.

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 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 Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



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 LLP¹

Montréal, Quebec
May 16, 2024

¹ CPA auditor, public accountancy permit No. A126402



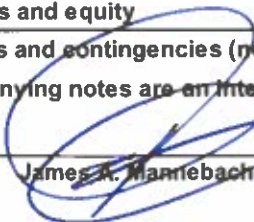
Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	February 29, 2024	February 28, 2023
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	36,445	50,513
Short-term investments	5,271	37
Accounts receivable (note 4)	119,914	121,053
Income taxes recoverable	6,132	6,195
Inventories (note 5)	208,702	202,649
Deposits and prepaid expenses	10,421	7,559
Derivative assets (note 23)	125	107
	387,010	388,113
Non-current assets		
Property, plant and equipment (note 7 and 8)	69,918	68,205
Intangible assets and goodwill (note 9)	16,543	16,153
Deferred income taxes (note 19)	5,193	4,663
Other assets	729	723
	92,383	89,744
Total assets	479,393	477,857
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	-	260
Accounts payable and accrued liabilities (note 11)	88,230	79,408
Income taxes payable	1,568	2,832
Customer deposits	30,396	28,201
Provisions (note 12)	14,129	16,485
Derivative liabilities (note 23)	26	299
Current portion of long-term lease liabilities (note 8)	1,607	1,298
Current portion of long-term debt (note 13)	24,431	8,177
	160,387	136,960
Non-current liabilities		
Long-term lease liabilities (note 8)	11,036	9,458
Long-term debt (note 13)	4,346	21,719
Income taxes payable	2,325	933
Deferred income taxes (note 19)	3,462	3,966
Customer deposits	35,082	27,937
Provisions (note 12)	74,058	70,924
Other liabilities	5,438	5,125
	135,747	140,062
Total liabilities	296,134	277,022
Total equity	183,259	200,835
Total liabilities and equity	479,393	477,857

Commitments and contingencies (note 21)

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


James A. Mannebach, Director


Suzanne Blanchet, Director



Consolidated Statements of Loss

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

	Fiscal years ended	
	February 29, 2024 \$	February 28, 2023 \$
Sales (note 12 and 22)	346,816	370,429
Cost of sales (notes 5 and 15)	253,609	257,964
Gross profit	93,207	112,465
Administration costs (note 16)	98,744	156,759
Other expense (income)	448	1,568
Operating loss	(5,985)	(45,862)
Finance income	459	467
Finance costs	(6,805)	(2,019)
Finance costs – net	(6,346)	(1,552)
Loss before income taxes	(12,331)	(47,414)
Income tax expense (note 19)	7,471	8,045
Net loss for the year	(19,802)	(55,459)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(19,737)	(55,453)
Non-controlling interest	(65)	(6)
Net loss for the year	(19,802)	(55,459)
Net loss per Subordinate and Multiple Voting Share (note 20)		
Basic and diluted	(0.91)	(2.57)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA\$0.03)	0.02 (CA\$0.03)

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



Consolidated Statements of Comprehensive Loss

(in thousands of U.S. dollars)

	Fiscal years ended	
	February 29, 2024 \$	February 28, 2023 \$
Comprehensive loss		
Net loss for the year	(19,802)	(55,459)
Other comprehensive income (loss)		
Foreign currency translation	2,516	(8,985)
Comprehensive loss	(17,286)	(64,444)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(17,221)	(64,438)
Non-controlling interest	(65)	(6)
Comprehensive loss	(17,286)	(64,444)

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

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



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 28, 2022	72,695	6,260	(32,126)	217,995	264,824	686	265,510
Net loss for the year	-	-	-	(55,453)	(55,453)	(6)	(55,459)
Other comprehensive loss	-	-	(8,985)	-	(8,985)	-	(8,985)
Comprehensive loss	-	-	(8,985)	(55,453)	(64,438)	(6)	(64,444)
Acquisition of non-controlling interests	-	-	-	-	-	266	266
Other	-	-	(97)	97	-	-	-
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
Balance - February 28, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the year	-	-	-	(19,737)	(19,737)	(65)	(19,802)
Other comprehensive income	-	-	2,516	-	2,516	-	2,516
Comprehensive income (loss)	-	-	2,516	(19,737)	(17,221)	(65)	(17,286)
Acquisition of non-controlling interests	-	-	-	-	-	201	201
Dividends							
Multiple Voting Shares	-	-	-	(354)	(354)	-	(354)
Subordinate Voting Shares	-	-	-	(137)	(137)	-	(137)
Balance - February 29, 2024	72,695	6,260	(38,692)	141,914	182,177	1,082	183,259

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



Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Fiscal years ended	
	February 29, 2024 \$	February 28, 2023 \$
Cash flows from		
Operating activities		
Net loss for the year	(19,802)	(55,459)
Adjustments to reconcile net loss to cash provided by operating activities (note 25)	14,289	67,553
Changes in non-cash working capital items (note 26)	9,814	(11,572)
Cash provided by operating activities	4,301	522
Investing activities		
Short-term investments	(5,232)	8,250
Additions to property, plant and equipment	(6,839)	(4,370)
Additions to intangible assets	(2,358)	(2,219)
Proceeds on disposal of property, plant and equipment, and intangible assets	(45)	185
Net change in other assets	347	(87)
Cash provided (used) by investing activities	(14,127)	1,759
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(491)	(497)
Acquisition of non-controlling interests	201	266
Net change in revolving credit facility	5,000	-
Increase in long-term debt	1,286	3,666
Repayment of long-term debt	(8,762)	(4,398)
Repayment of long-term lease liabilities	(1,895)	(1,657)
Cash used by financing activities	(4,661)	(2,620)
Effect of exchange rate differences on cash	679	(2,873)
Net change in cash during the year	(13,808)	(3,212)
Net cash – Beginning of the year	50,253	53,465
Net cash – End of the year	36,445	50,253
Net cash is composed of:		
Cash and cash equivalents	36,445	50,513
Bank indebtedness	-	(260)
Net cash – End of the year	36,445	50,253
Supplementary information		
Interest paid	(1,274)	(974)
Income taxes paid	(6,708)	(8,160)

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 29, 2024 and February 28, 2023

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

1 General information and basis of preparation

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

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

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

These consolidated financial statements were approved by the Company's Board of Directors on May 16, 2024.

2 Summary of material accounting policies

Functional and presentation currency

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

Primary indicators include:

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

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

The functional and presentation currency of the Company is the U.S. dollar.

Consolidation

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

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

Foreign currency transactions and balances

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



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

Translation of accounts of foreign subsidiaries

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

Financial instruments

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

The Company recognizes a financial instrument on its consolidated statement of financial position when the Company becomes party to the contractual provisions of the financial instrument or non-financial derivative contract (see Embedded derivatives). All financial instruments are initially recognized at fair value and subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit and loss depending on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or 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 loss in the year in which these changes arise.

Financial instruments classified at amortized cost

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

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

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

Embedded derivatives

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

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.

Sales of services

Sales of services are recognized as the services are rendered, considering their acceptance by the Company's customers.

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 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 and computer software. Internally generated intangible assets relate to development costs. Research and development costs are expensed as incurred unless the development costs meet the criteria for deferral.



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

	Method	Rate/term
Patents, products and designs	Straight-line	5 to 15 years
Customer lists	Straight-line	10 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 15 to 17.

Impairment of non-financial assets

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

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

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

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

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

Income taxes

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



Current income taxes

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

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 measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index, rate or estimate. Cash payments for the principal portion of the lease liability are presented within the financial activities and the interest portion of the lease liability is presented within the operating activities of the statement of cash flows.

The Company has elected to apply the recognition exemptions for short term leases and leases where the underlying asset has a low value whereby payments made are charged to the consolidated statement of loss on a straight-line basis over the term of the lease.

Share-based compensation plans

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

Share options

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

PSUs and DSUs

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

Critical accounting estimates and assumptions

The Company's material 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 net realisable value (which is the estimated selling price minus costs necessary to make the sell) is below its carrying amount. This involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in



some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

Warranty provisions

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

Asbestos provision

Asbestos provision estimates the liability related to all settlement costs on outstanding open and future cases in relations with the Company's ongoing asbestos litigations. With the assistance of an actuary, the Company calculated the asbestos provision using the closed with indemnity (CWI) claim decay method and a 6.0% discount rate with the following significant assumptions:

- Expected number of future claims. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$1,100 to \$1,400.
- Projected average CWI severity. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$1,100 to \$1,400.
- Decay rate represents the rate at which the number of claims will decrease. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$7,800 to \$14,300.
- The inflation rate. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from \$7,300 to \$12,900.

The Company's estimate of the asbestos provision takes into consideration historical experience in settling those claims and projects them in the future using three different methods of valuation. Any change in the assumptions used could impact the value of the asbestos provision on the consolidated statement of financial position with a corresponding impact made to administration costs on the consolidated statement of loss.

Impairment of non-financial assets

Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization ("EBITDA") margin, revenue growth or the recoverable amount of each individual assets. Any change in the assumptions used could impact the carrying amount of the CGU.

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 material policies

Deferred tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. The Company estimates that future taxable profits will be sufficient to realize this asset.

Going concern

The assessment of the Company's ability to execute its future working capital requirements involves judgment. Estimate and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Refer to note 23 on the liquidity risk.

3 New accounting standards and amendments

Accounting standards and amendments issued but not yet adopted

IAS 1 Presentation of financial statements requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In January 2020, the Board issued the amendments *Classification of liabilities as current or non-current to IAS 1* (2020 amendments). The 2020 amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 amendments, an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

- a) the carrying amount of the liability;
- b) information about the covenants;
- c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period

The *amendments to IAS 1* are effective for annual reporting periods beginning on or after January 1, 2024 with earlier adoption permitted and should be applied retrospectively. The Company continues its analysis but does not expect the amendment to have a significant impact on its consolidated financial statements.

Accounting standards and amendments issued and adopted

An IASB amendments has resulted in modifications to some paragraphs of the standard IAS 1, Presentation of financial statements. These changes include the requirement for the entities to provide disclosures about their material accounting policies rather than their significant accounting policies. The amendments to the standard have been adopted by the Company as of March 1, 2023.

4 Accounts receivable

	As at	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Trade accounts receivable	110,097	113,529
Loss allowance	(224)	(481)
Other accounts receivables	10,041	8,005
	119,914	121,053

The table below summarizes the movements in the loss allowance:

	As at	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Balance – Beginning of year	481	509
Loss allowance expense (reversal)	68	46
Recoveries of trade accounts receivable	(228)	(47)
Write-off of trade accounts receivable	(98)	-
Foreign exchange	1	(27)
Balance – End of year	224	481

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

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

5 Inventories

	As at	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Raw materials	33,208	36,223
Work in process and finished parts	134,678	128,670
Finished goods	40,816	37,756
	208,702	202,649

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of \$2,030(2023 – \$4), including reversals of \$9,723 (2023 – \$10,769).

The net book value of inventories pledged as security under the Company's long-term debt amounted to \$86,424 (2023 – \$91,007).



6 Subsidiaries and transactions with non-controlling interests

a) Interest in subsidiaries

Set out below are the Company's principal subsidiaries as at February 29, 2024. 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
			2024	2023	2024	2023	
Velan Valve Corp.	U.S. Dollar	U.S.A	100	100	-	-	Valve Manufacturer
Velan Ltd.	U.S. Dollar	Korea	100	100	-	-	Valve Manufacturer
Velan Gulf Manufacturing Co. Ltd.	Saudi Riyal	Saudi Arabia	60	60	40	40	Valve Manufacturer
Velan Valvulas Industriais Lda.	Euro	Portugal	100	100	-	-	Valve Manufacturer
Velan S.A.S.	Euro	France	100	100	-	-	Valve Manufacturer
Segault S.A.S.	Euro	France	100	75	-	25	Valve Manufacturer
Velan GmbH	Euro	Germany	100	100	-	-	Valve Distribution
Velan ABV S.r.l.	Euro	Italy	100	100	-	-	Valve Manufacturer
Velan Valvac Manufacturing Co. Ltd.	U.S. Dollar	Taiwan	90	90	10	10	Valve Manufacturer
Velan Valve (Suzhou) Co. Ltd.	U.S. Dollar	China	85	85	15	15	Valve Manufacturer
Velan Valves India Private Limited	Indian Rupee	India	100	100	-	-	Valve Manufacturer

7 Property, plant and equipment

(thousands)	Land \$	Buildings \$	Machinery & equipment \$	Furnitures & fixtures \$	Data processing equipment \$	Rolling stock \$	Leasehold improvements \$	Right-of-use assets (note 8) \$	Total \$
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
Year ended February 28, 2023									
Beginning balance	9,570	25,507	23,941	671	743	248	1,104	12,122	73,906
Additions	-	36	3,154	112	526	245	297	1,038	5,408
Modifications to lease terms	-	-	-	-	-	-	-	(110)	(110)
Disposals	-	(18)	(364)	-	(3)	-	-	(60)	(445)
Depreciation	-	(1,605)	(4,418)	(201)	(414)	(174)	(254)	(1,656)	(8,722)
Exchange differences	(194)	(381)	(508)	(26)	(14)	(11)	(63)	(635)	(1,832)
	9,376	23,539	21,805	556	838	308	1,084	10,699	68,205
At February 28, 2023									
Cost	9,376	53,249	132,784	8,404	4,244	2,057	3,382	15,806	229,302
Accumulated depreciation	-	(29,710)	(110,979)	(7,848)	(3,406)	(1,749)	(2,298)	(5,107)	(161,097)
	9,376	23,539	21,805	556	838	308	1,084	10,699	68,205



Year ended February 29, 2024

Beginning balance	9,376	23,539	21,805	556	838	308	1,084	10,699	68,205
Additions	-	797	4,911	179	382	66	498	3,436	10,269
Modifications to lease terms	-	-	-	-	-	-	-	222	222
Disposals	-	-	(75)	-	-	-	-	(264)	(339)
Depreciation	-	(1,528)	(4,608)	(135)	(432)	(140)	(307)	(1,780)	(8,930)
Exchange differences	36	80	124	5	7	1	23	215	491
	9,412	22,888	22,157	605	795	235	1,298	12,528	69,918

At February 29, 2024

Cost	9,412	54,291	136,721	8,604	4,557	2,002	3,915	17,790	237,292
Accumulated depreciation	-	(31,403)	(114,564)	(7,999)	(3,762)	(1,767)	(2,617)	(5,262)	(167,374)
	9,412	22,888	22,157	605	795	235	1,298	12,528	69,918

Depreciation expense of \$8,930 (2023 – \$8,722) is included in the consolidated statement of loss: \$7,190 (2023 – \$7,019) in “cost of sales” and \$1,740 (2023 – \$1,703) in “administration costs”.

8 Leases

a) Right-of-use assets

Carrying value by asset class		As at	
		February 29, 2024	February 28, 2023
(thousands)		\$	\$
Land		5,537	5,616
Buildings		5,373	3,942
Furniture & Fixtures		24	-
Machinery & Equipment		384	133
Data Processing Equipment		50	92
Rolling Stock		1,160	916
		12,528	10,699

Depreciation by asset class			As at
	February 29, 2024	February 28, 2023	
(thousands)	\$	\$	
Land	199	103	
Buildings	883	838	
Furniture & Fixtures	5	8	
Machinery & Equipment	119	112	
Data Processing Equipment	42	48	
Rolling Stock	532	547	
	1,780	1,656	

b) Long-term lease liabilities

			As at
	February 29, 2024	February 28, 2023	
(thousands)	\$	\$	
Current portion of long-term lease liabilities	1,607	1,298	
Long-term lease liabilities	11,036	9,458	
	12,643	10,756	

Amounts recognized in the consolidated statement of loss:

			Fiscal years ended
	February 29, 2024 \$	February 28, 2023 \$	
(thousands)			
Expenses relating to short-term leases (included in “cost of sales” and “administration costs”)	281	417	
Expenses relating to leases of low-value assets, excluding short-term leases of low value (included in “cost of sales” and “administration costs”)	122	177	
Expenses related to variable lease payments (included in “cost of sales” and “administration costs”)	189	189	
Interest expenses (included in “finance costs”)	315	237	



9 Intangible assets and goodwill

(thousands)	Goodwill \$	Computer software \$	Patent, products & designs \$	Others \$	Total \$
At February 28, 2022					
Cost	8,788	9,243	18,535	6,073	42,639
Accumulated amortization	-	(8,259)	(11,616)	(6,071)	(25,946)
	8,788	984	6,919	2	16,693
Year ended February 28, 2023					
Beginning balance	8,788	984	6,919	2	16,693
Additions	-	223	1,996	-	2,219
Amortization	-	(385)	(1,636)	-	(2,021)
Exchange differences	(504)	(49)	(185)	-	(738)
	8,284	773	7,094	2	16,153
At February 28, 2023					
Cost	8,284	4,722	19,858	5,726	38,590
Accumulated amortization	-	(3,949)	(12,764)	(5,724)	(22,437)
	8,284	773	7,094	2	16,153
Year ended February 29, 2024					
Beginning balance	8,284	773	7,094	2	16,153
Additions	-	290	2,067	-	2,357
Amortization	-	(357)	(1,858)	-	(2,215)
Exchange differences	179	14	55	-	248
	8,463	720	7,358	2	16,543
At February 29, 2024					
Cost	8,463	5,069	22,169	5,849	41,548
Accumulated amortization	-	(4,349)	(14,811)	(5,847)	(25,007)
	8,463	720	7,358	2	16,543

Amortization expense of \$2,215 (2023 – \$2,021) is included in the consolidated statement of loss: \$803 (2022 – \$784) in “cost of sales” and \$1,412 (2022 – \$1,237) in “administration costs”.

As at February 29, 2024, the Company capitalized \$2,067 (2023 – \$1,787) of development costs, net of research and development tax credits of \$317 (2023 - \$299), as patents, products and designs.

Goodwill impairment test as at February 29, 2024

The Company must test its goodwill for impairment annually, unless if the following conditions are met:

- The assets and liabilities making up the unit have not changed significantly since the calculation of the recoverable amount made in the previous period.
- The most recent recoverable amount calculation resulted in an amount that exceeded the carrying amount of the unit by a substantial margin.
- Based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination would be less than the current carrying amount of the unit is remote.



All three conditions were met for Velan S.A.S. the Company's French subsidiary, for the fiscal year ended February 29, 2024. As a result, no impairment tests were conducted as the previously calculated recoverable amount exceeded the carrying amount of Velan S.A.S.

10 Credit facilities

- a) The Company has a facility with Export Development Canada of \$12,000 (2023 – \$27,000) for letters of credit and letters of guarantee. As at February 29, 2024, \$3,810 (2023 – \$6,563) was drawn against this facility in the form of letters of credit. The credit facility expires on November 30, 2024, and is renewed annually.
- b) Foreign subsidiaries have the following credit facilities available as at February 29, 2024. These facilities are only available for the subsidiary that entered the facility.

Credit facilities available (thousands)	As at February 29, 2024	As at February 28, 2023	Borrowing Rates
European subsidiaries	\$55,887 (€51,733)	\$50,667 (€47,907)	0.70% to 5.86%
Korean subsidiaries	\$3,365 (KW4,498,000)	\$3,373 (KW4,464,800)	5.10% to 7.99%
Indian subsidiary	\$2,744 (INR 227,000)	\$2,299 (INR 190,000)	7.00%
Taiwanese subsidiary	\$383 (NTD 12,000)	\$390 (NTD 12,000)	2.053%
Chinese subsidiary	\$980 (CNY 7,000)	\$1,009 (CNY 7,000)	3.25%

The majority of the facilities are available in the form of letter of credit. They are secured by corporate guarantees. Most 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 29, 2024. 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 \$1,792 (2023 – \$2,220).

An amount of \$16,044 (2023 – \$11,192) was drawn against these secured credit facilities in the form of letters of credit and letters of guarantee.

11 Account payable and accrued liabilities

	As at	
	February 29, 2024 \$	February 28, 2023 \$
(thousands)		
Trade accounts payable	46,294	39,898
Goods and services taxes payable	5,139	4,639
Commissions payable	1,404	2,571
Accrued liabilities	14,413	10,543
Accrued payroll expenses	19,997	20,889
Other	983	868
	88,230	79,408



12 Provisions

<i>(thousands)</i>	Provision for performance guarantees (note a) \$	Warranty provision (note b) \$	Asbestos provision (note c) \$	Other provision \$	Total \$
Balance – February 28, 2022	2,599	7,373	17,456	4,117	31,545
Additions	1,230	845	66,548	2,100	70,723
Payments	(881)	(318)	(8,861)	(485)	(10,545)
Reversals	(303)	(1,664)	(1,843)	-	(3,810)
Exchange differences	(110)	(394)	-	-	(504)
Balance – February 28, 2023	2,535	5,842	73,300	5,732	87,409
<i>Less: Current provision</i>	2,535	5,842	2,376	5,732	16,485
<i>Long-term provision</i>	-	-	70,924	-	70,924
Additions	1,714	748	10,000	600	13,062
Accretion	-	-	4,497	-	4,497
Payments	(823)	(100)	(9,597)	(3,932)	(14,452)
Reversals	(756)	(1,724)	-	-	(2,480)
Exchange differences	35	116	-	-	151
Balance – February 29, 2024	2,705	4,882	78,200	2,400	88,187
<i>Less: Current provision</i>	2,705	4,882	4,142	2,400	14,129
<i>Long-term provision</i>	-	-	74,058	-	74,058

- a) The Company's provision for performance guarantees consists of possible late delivery and other contractual noncompliance penalties or liquidated damages. Management's best estimates considers the specific contractual terms, past experience and a probability of potential cash outflows.
- 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 asbestos provision estimates the potential liability related to all future settlement costs taking into consideration, among other factors, past settlement experience and a projection of future claims.

13 Long-term debt

	As at	
	February 29, 2024 \$	February 28, 2023 \$
<i>(thousands)</i>		
Revolving credit facility (note a)	5,000	-
Canadian entity		
Secured bank loan (\$CAD 19,561; February 28, 2023 - \$CAD 20,906) (note b)	14,415	15,181
French subsidiaries		
Unsecured bank loan (€3,240; February 28, 2023 - €3,183) (note c)	3,500	3,366
Italian subsidiary		
Unsecured bank loan (€2,914; February 28, 2023 - €4,186) (note d)	3,148	4,427
Unsecured state bank loan (€230; February 28, 2023 - €460) (note e)	248	487
Other (note f)	2,466	6,435
	28,777	29,896
Less: current portion	24,431	8,177
	4,346	21,719

- a) 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, Term CORRA 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 29, 2024, the Company had drawn down \$5,000 (2023 - nil) on the revolving credit facility and had \$3,810 (2023 - \$5,148) in the form of outstanding letters of credit and letters of guarantee on a total of \$49,046 (2023 - \$49,511) borrowing availability. The facility matures on May 31, 2024, however, subsequent to year-end and prior to the issuance of the financial statements, Management negotiated an extension until August 30, 2024, which makes the total availability of \$41,546.

- b) The secured mortgage bank loan of \$14,415 (\$CAD 19,561) bears interest at 3.55% with principal repayments of \$69 repayable over 18 years. As at February 29, 2024, the Company was in breach of one of its financial covenants ratio. The secured mortgage bank loan is presented in current portion of long-term debt.

Subsequent to year-end, and prior to the release of these financial statements, the lender renounced its right to demand repayment of the loan for the fiscal year ended February 29, 2024 and for the fiscal year ended February 28, 2025 until March 1, 2026, inclusively, provided the breach is solely due to the payment of asbestos claims and related legal fees.

Accordingly, the secured mortgage bank loan will be re-classified as long-term debt on May 31, 2024.

- c) The unsecured bank loans total \$3,500 (€3,240) and bear an interest range of [0.25% - 3.52%]. Repayments include monthly payments totalling \$101. These loans expire between 2027 and 2029.
- d) The unsecured bank loans total \$3,148 (€2,914) bears interest at a range of [Euribor + 0.67% - Euribor + 1.25%]. Repayments include monthly payments of \$18 and quarterly payments of \$291. These loans expire in 2025 and 2027.



- e) The unsecured bank loan of \$248 (€230) bears interest of Euribor + 3.00% and is repayable in semi-annual payments of \$124. The loan expires in 2024.
- f) Included in Other is an amount of \$2,466 (¥67,298) (February 28, 2023 – \$4,909 (€4,641)) 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 aggregate net book value of the assets pledged as collateral under the revolving credit facility amounted to \$120,966 (2023 – \$130,936) and under long-term debt agreements amounted to \$14,415 (2023 – \$15,181).

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

14 Share capital

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

- b) Issued

	As at	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
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 has a DSU plan allowing the Board of Directors, through its CGHR Committee, to grant DSUs to certain of its independent directors and full-time employees. A DSU is a notional unit whose value is based on the volume weighted average price of the Company's Subordinate Voting Shares on the Toronto Stock Exchange for the 20 trading days immediately preceding the grant date. The DSU plan is non-dilutive since vested DSUs shall be settled solely in cash.

Each DSU grant shall vest at the earlier of:

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

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

In the event of a change of control, the Committee as constituted immediately prior to the change in control shall determine in its sole discretion the appropriate conversion, mitigation or redemption of DSUs taking into account the terms and conditions of the change of control.



Movements in outstanding DSUs and related expense were as follow:

	For the years ended	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>		
<i>In numbers of DSUs</i>		
Opening balance	74,174	83,234
Issued	103,917	243
Settled	(17,618)	-
Forfeited	(9,424)	(9,303)
Closing balance	151,049	74,174
DSU expense for the years	(\$361)	\$126
Fair value of vested outstanding DSUs, end of years	\$163	\$520

15 Cost of sales

	For the years ended	
	February 29 2024 \$	February 28, 2023 \$
<i>(thousands)</i>		
Change in inventories of finished goods and work in progress	(7,379)	2,182
Raw materials and consumables used	162,881	159,960
Employee expenses, excluding scientific research investments tax credits	67,634	65,363
Depreciation and amortization	7,991	7,803
Movement in inventory provisions – net	2,030	4
Foreign exchange loss	(415)	1,453
Other production overheads costs	20,867	21,199
	253,609	257,964



16 Administration costs

For the years ended		
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Employee expenses, excluding scientific research investments tax credits expenses	50,915	48,931
Scientific research investment tax credits	(1,406)	(1,391)
Commissions	3,570	4,619
Freight to customers	3,652	7,042
Professional fees	8,170	9,369
Asbestos related settlement costs (note 12)	14,255	69,676
Movement in loss allowance	(160)	(1)
Depreciation and amortization	3,235	2,940
Other	16,513	15,574
	98,744	156,759

17 Employee expense

For the years ended		
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Wages and salaries	84,065	82,249
Social security costs	28,205	26,681
Scientific research investment tax credits	(1,406)	(1,391)
Share-based compensation	(15)	126
Other	6,294	5,238
	117,143	112,903

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 \$5,513 (2023 - \$5,856).



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	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Research and development expenditures	6,064	6,181
Less: Scientific research investment tax credits	(1,331)	(1,391)
	4,733	4,790

19 Income taxes

	For the years ended	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Current taxes	8,557	8,072
Deferred income taxes	(1,086)	(27)
Income tax expense	7,471	8,045

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	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Income tax at statutory rate of 26.50%	(3,268)	(12,565)
Tax effects of:		
Difference in statutory tax rates in foreign jurisdiction	378	486
Non-deductible (taxable) foreign exchange losses (gains)	(455)	754
Derecognition of deferred tax assets	-	-
Deferred tax assets not recognized	9,428	18,996
Other differences	1,388	374
Income tax expense	7,471	8,045



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

	As at	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Deferred income tax assets:		
To be realized after more than 12 months	3,230	1,889
To be realized within 12 months	1,962	2,774
Deferred income taxes liabilities		
To be realized after more than 12 months	(3,325)	(3,823)
To be realized within 12 months	(137)	(143)
Net deferred income tax asset	1,731	697

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

	As at	
	February 29 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Balance – Beginning of the year	697	749
Recovery of income taxes in the consolidated statement of loss	1,051	(27)
Exchange differences	(17)	(25)
Net deferred income tax asset	1,731	697

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

	As at	
	February 29, 2024	February 28, 2023
<i>(thousands)</i>	\$	\$
Property, plant and equipment	(418)	(400)
Intangible assets	-	(621)
Non-deductible provisions and reserves	565	604
Investment tax credits	-	-
Inventories	369	1,129
Non-capital loss carry forwards	1,615	408
Other	(400)	(423)
Net deferred income tax asset	1,731	697



The Company did not recognize deferred income tax assets of \$41,923 (2023 – \$39,520) in respect of non-capital losses amounting to \$161,368 (2023 – \$152,001) that can be carried forward to reduce taxable profits in future years. These losses expire between 2038 and indefinitely.

Deferred income tax liabilities of \$6,472 (2023 – \$5,945) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are not expected to reverse in the foreseeable future. Unremitted earnings as at February 29, 2024 totalled \$337,668 (2023 – \$329,402).

20 Loss per share

a) Basic and diluted

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

	For the years ended	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
Net loss attributable to Subordinate and Multiple voting shareholders	(19,737)	(55,453)
Weighted average number of Subordinate and Multiple voting shares outstanding.	21,585,635	21,585,635
Basis and diluted loss per share	\$(0.91)	\$(2.57)

Diluted loss 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 does not have any dilutive potential Subordinate and Multiple Voting Shares.

21 Commitments

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 29, 2024, the aggregate maximum value of these guarantees, if exercised, amounted to \$47,725 (2023 - \$46,937). The guarantees expire as follows:

	As at
(thousands)	February 29, 2024
	\$
February 28, 2025	12,161
February 28, 2026	17,597
February 28, 2027	6,089
February 29, 2028	2,699
February 28, 2029	2,264
Subsequent years	6,915
	47,725



22 Segment reporting

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

Fiscal year ended February 29, 2024							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	29,566	116,229	49,688	5,313	9,851	-	210,647
Export	35,349	448	38,475	39,477	22,420	-	136,169
Intercompany (export)	50,489	9,267	459	-	57,948	(118,163)	-
	115,404	125,944	88,622	44,790	90,219	(118,163)	346,816
Property, plant and equipment	23,893	5,967	16,772	5,033	18,253	-	69,918
Intangible assets and goodwill	5,614	-	8,967	1,912	49	-	16,543
Other identifiable assets	256,866	30,243	168,469	70,437	139,407	(272,490)	392,932
Total identifiable assets	286,373	36,210	194,208	77,383	157,711	(272,490)	479,393

Fiscal year ended February 28, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	22,144	124,413	46,239	181	11,083	-	204,060
Export	38,867	11,321	44,501	51,213	20,467	-	166,369
Intercompany (export)	59,702	10,513	72	2,924	61,239	(134,450)	-
	120,713	146,247	90,812	54,318	92,789	(134,450)	370,429
Property, plant and equipment	25,125	4,170	15,809	5,497	17,604	-	68,205
Intangible assets and goodwill	4,762	-	8,796	2,527	68	-	16,153
Other identifiable assets	207,437	32,801	158,133	64,559	132,237	(201,668)	393,499
Total identifiable assets	237,324	36,971	182,738	72,583	149,909	(201,668)	477,857

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 29, 2024 and 2023 are as follows:

	Range of exchange rates		Fair value (In thousands of U.S. dollars)		Notional amount (In thousands indicated currency)	
	February 29, 2024	February 28, 2023	February 29, 2024 \$	February 28, 2023 \$	February 29, 2024	February 28, 2023
Foreign exchange forward contracts						
Sell US\$ for CA\$ - 0 to 12 months	-	1.32	-	107	-	US\$40,000
Buy US\$ for CA\$ - 0 to 12 months	-	1.38	-	(299)	-	US\$40,000
Sell US\$ for € - 0 to 12 months	-	-	-	-	-	-
Buy US\$ for € - 0 to 12 months	1.08 to 1.10	-	40	-	US\$6,518	-

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

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, provision for performance guarantees and long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 29, 2024 and February 28, 2023:

	Net income (loss)	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
Canadian dollar strengthening against the U.S. dollar	(868)	(847)
Euro strengthening against the U.S. dollar	(772)	(327)
Indian rupee strengthening against the U.S. dollar	875	346

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years. For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

Cash flow and fair value interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 29, 2024, two (2023 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 7.6% (2023 – 15.0%) and the Company's ten largest customers accounted for 41.3% (2023 – 60.4%) of trade accounts receivable. In addition, one customer accounted for 8.9% of the Company's sales (2023 – 13.4%).

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

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

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

As at February 29, 2024					
	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.056%	0.071%	0.081%	1.814%	
Gross carrying amount	81,030	12,600	7,426	9,041	110,097
Loss allowance	45	9	6	164	224

As at February 28, 2023

	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.130%	0.141%	0.169%	2.399%	
Gross carrying amount	83,118	9,961	5,902	14,548	113,529
Loss allowance	108	14	10	349	481

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.

As at February 29, 2024 the Company has cash and cash equivalents of \$36,445 and working capital (current assets minus current liabilities) surplus of \$226,623; it has incurred net losses of \$19,802 for the year then ended. As described in note 13 to the consolidated financial statements, the Company was in breach of a financial covenant, the consolidated fixed charges coverage ratio, on the Canadian secured bank loan with a balance of \$14,415 at that date. Refer to note 13 for more details.

Furthermore, subsequent to February 29, 2024, the Company successfully extended its revolving credit facility, originally maturing on May 31, 2024 to August 30, 2024. The Company is currently analyzing different refinancing scenarios for renewing its revolving credit facility.

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

As at February 29, 2024

	Carrying value \$	Less than 1 Year \$	1 to 3 Years \$	4 to 5 Years \$	After 5 Years \$	Total \$
Long-term debt	28,777	29,601	3,405	1,112	-	34,118
Long-term lease liabilities	12,643	1,929	3,141	2,202	11,310	18,582
Accounts payable and accrued liabilities	88,230	88,230	-	-	-	88,230
Customer Deposits	65,478	30,396	16,369	2,145	16,568	65,478
Derivative liabilities	26	26	-	-	-	26

As at February 28, 2023						
	Carrying value \$	Less than 1 Year \$	1 to 3 Years \$	4 to 5 Years \$	After 5 Years \$	Total \$
Long-term debt	29,896	8,840	6,609	4,156	15,814	35,419
Long-term lease liabilities	10,756	1,560	2,071	1,341	11,682	16,654
Accounts payable and accrued liabilities	79,408	79,408	-	-	-	79,408
Customer Deposits	56,138	28,201	23,281	518	4,138	56,138
Bank indebtedness	260	260	-	-	-	260
Derivative liabilities	299	299	-	-	-	299

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 29, 2024				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	125	-	125	-
Liabilities				
Derivative liabilities	26	-	26	-

As at February 28, 2023

(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	107	-	107	-
Liabilities				
Derivative liabilities	299	-	299	-

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 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 29, 2024 \$	February 28, 2023 \$
Bank indebtedness	-	260
Current portion of long-term lease liabilities	1,607	1,298
Current portion of long-term debt	24,431	8,177
Long-term lease liabilities	11,036	9,458
Long-term debt	4,346	21,719
Total debt	41,420	40,912
Equity	183,259	200,835
Total debt-to-equity ratio	22.6%	20.4%

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.

As at February 29, 2024, the Company was in breach of one of its financial covenants ratio. This breach also triggered cross-default of the revolving credit facility as well as the Export Development Canada facility which is comprised of letters of credit amounting to \$3,810, which guarantees the letter of credit issued under the revolving credit facility, that are not recorded as financial liabilities on the consolidated statement of financial position. The term loan and the revolving credit facility are presented in the current portion of long-term debt.

The Company is in default due to failure to meet one of its financial covenants, see note 23 relating to the liquidity risk.

25 Adjustments to reconcile net loss to cash provided from operating activities

	Fiscal periods ended	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
Depreciation of property, plant and equipment	8,930	8,722
Amortization of intangible assets	2,232	2,021
Amortization of financing costs	64	251
Deferred income taxes	(1,086)	(27)
Gain (loss) on disposal of property, plant and equipment	(272)	200
Net change in long-term provisions and customer deposits	4,422	56,721
Net change in derivative assets and liabilities	(291)	185
Net change in other liabilities	290	(520)
	14,289	67,553

26 Changes in non-cash working capital items

	Fiscal periods ended	
	February 29, 2024	February 28, 2023
(thousands)	\$	\$
Accounts receivable	2,596	(9,837)
Inventories	(4,254)	14,235
Income taxes recoverable	112	(3,254)
Deposits and prepaid expenses	(2,754)	(916)
Accounts payable and accrued liabilities	7,958	1,845
Income taxes payable	100	(1,100)
Customer deposits	8,556	(11,087)
Provisions	(2,500)	(1,458)
	9,814	(11,572)



27 Debt from financing activities reconciliation

<i>(thousands)</i>	Long-term lease liabilities \$	Long-term debt \$	Total \$
Balance - February 28, 2022	12,433	31,038	43,471
Cash inflows	-	3,666	3,666
Cash outflows	(1,657)	(4,398)	(6,055)
Foreign exchange adjustments	(682)	(410)	(1,092)
Other non-cash movements	662	-	662
Balance - February 28, 2023	10,756	29,896	40,652
Cash inflows	-	7,481	7,481
Cash outflows	(1,895)	(8,762)	(10,657)
Foreign exchange adjustments	235	163	(398)
Other non-cash movements	3,548	-	3,548
Balance - February 29, 2024	12,644	28,778	41,422

CORPORATE INFORMATION

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Auditors

PricewaterhouseCoopers LLP

Transfer agent

TSX Trust Company

Shares outstanding as at February 29, 2024

6,019,068 Subordinate Voting Shares and
15,666,567 Multiple Voting Shares

Listing

Symbol: VLN
Closing price on May 17, 2024: CA \$5.86

Annual Meeting

The Annual Meeting of Shareholders will be held at the Velan Head Office on July 11, 2024, at 4:30 p.m.



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