REPORT TO SHAREHOLDERS

Third quarter

Nine-month period ended November 30, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended November 30, 2021

HIGHLIGHTS[1]

- Sales for the quarter amounted to $110.0 million, an increase of 38.4 million or 53.7% compared to the same quarter of the previous fiscal year. This quarter's sales level represents the highest volume in the last seven quarters.
- Gross profit for the quarter of $35.9 million, or 32.6%, an increase of $13.8 million or 180 basis points from the same quarter of the previous year. The gross profit percentage of 30.5% for the first nine-month of the fiscal year is driven by an improved sales volume, a more profitable product mix, as well as the margin improvement activities undertaken over the past fiscal years within the scope of the V20 restructuring and transformation plan.
- Net income[2] of $4.5 million and EBITDA[3] of $13.3 million for the quarter. EBITDA[3] is comparable to the same quarter last year which included a non-recurring gain of $9.6 million recognized on the disposal of one of the Company's Montreal plants in the scope of the V20 transformation plan. The improved EBITDA[3], when adjusted for the non-recurring gain, is explained primarily by an increased gross profit, driven by an improved sales volume and product mix, despite $2.7 million lower Canada Emergency Wage Subsidies («CEWS»).
- Strong order backlog[3] of $543.0 million at the end of the quarter compared to $561.8 million at the end of the same quarter last year.
- Net new orders ("bookings")[3] of $88.4 million for the quarter, a decrease of $79.2 million or 47.3% compared to the same quarter of the previous fiscal year. The decrease for the quarter is primarily attributable to a generally lower level of bookings[3] in the current quarter, coupled with large oil and gas and nuclear orders recorded in the third quarter of the previous year. The book-to-bill ratio for the nine-month period stands at an even 1.00.
- The Company's net cash amounted to $65.8 million at the end of the quarter, a decrease of $2.3 million or 3.4% compared to the previous quarter of the current fiscal year. The Company used the cash primarily generated by its operations during the quarter to pay down $11.9 million of its revolving credit facility in order to reduce its overall debt load.

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

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the quarter ended November 30, 2021, current as of January 12, 2022, the date of approval of this Management Discussion and Analysis ("MD&A") by the Board of Directors. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2021 and February 29, 2020. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The significant accounting policies upon which these consolidated financial statements have been prepared are detailed in Note 2 of the Company's audited consolidated financial statements. All foreign currency transactions, balances and overseas operations have been converted to U.S. dollars, the Company's reporting currency. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at **www.sedar.com**.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Reconciliations of these amounts can be found at the end of this report. The Company has also presented supplementary financial measures which are defined at the end of this report.

FORWARD-LOOKING INFORMATION

This MD&A may include forward-looking statements, which generally contain words like "should", "believe", "anticipate", "plan", "may", "will", "expect", "intend", "continue" or "estimate" or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties. These risks and uncertainties are disclosed in the Company's filings with the appropriate securities commissions. While these statements are based on management's assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

ABOUT VELAN

The Company designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in most industry applications including power generation, oil and gas, refining and petrochemicals, chemicals, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with 1,719 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 and a 50%-owned Korean foundry.

RESULTS OF OPERATIONS

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

	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2021**	**November 30, 2020**	*Variance*	**November 30, 2021**	**November 30, 2020**	*Variance*
Sales	$109,971	$71,560	*38,411*	$286,393	$216,553	*69,840*
Gross profit	35,861	22,022	*13,839*	87,246	57,467	*29,779*
Administration costs	26,436	19,288	*7,148*	74,192	55,911	*18,281*
Restructuring and transformation income	-	(8,119)	*8,119*	-	(5,220)	*5,220*
Income taxes	5,227	881	*4,346*	8,129	1,489	*6,640*
Net income[1]	4,507	9,527	*(5,020)*	4,449	2,529	*1,920*
EBITDA[2]	13,291	13,784	*(493)*	23,007	13,925	*9,082*
Bookings[2]	88,430	167,640	*(79,210)*	286,354	345,663	*(59,309)*
Period ending backlog[2] of orders				542,961	561,776	*(18,815)*
(as a percentage of sales)						
Gross profit	32.6%	30.8%	*180 bpts*	30.5%	26.5%	*400 bpts*
(in dollars per share)						
Net income[1] per share – basic and diluted	0.21	0.44	*(0.23)*	0.21	0.12	*0.09*
EBITDA[2] per share – basic and diluted	0.62	0.64	*(0.02)*	1.07	0.65	*0.42*

Backlog[2]

	As at		
(thousands)	**November 30, 2021**	**February 28, 2021**	**November 30, 2020**
Backlog[2]	542,961	562,493	561,776
For delivery within the next twelve months	350,517	338,458	356,215
For delivery beyond the next twelve months	192,444	224,035	205,561
Percentage – beyond the next twelve months	35.4%	39.8%	36.6%

As a result of bookings[2] being comparable to sales in the current nine-month period, the Company's book-to-bill ratio[2] was an even 1.00 for the period. Furthermore, the total backlog[2] decreased by $19.5 million or 3.5% since the beginning of the fiscal year, amounting to $543.0 million as at November 30, 2021. The reduction of the backlog[2] is primarily due to the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year.

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

Bookings[1]

Bookings[1] amounted to $88.4 million, a decrease of $79.2 million or 47.3% for the quarter. Bookings[1] amounted to $286.4 million, a decrease of $59.3 million or 17.2% for the nine-month period. The decrease for both periods is primarily attributable to a generally lower level of bookings[1] in the current quarter, coupled with large oil and gas and nuclear orders recorded in the third quarter of the previous year by the Company's Italian and French operations. The decrease for both periods was partially offset by higher MRO orders recorded by the Company's North American operations. The Company is encouraged by the recovery of its MRO order bookings[1], which were severely impacted by the global pandemic at the end of the prior fiscal year, and ultimately adversely affected the sales of the latter part of the previous fiscal year and the first half of the current fiscal year.

Sales

Sales amounted to $110.0 million, an increase of $38.4 million or 53.7% for the quarter. Sales amounted to $286.4 million, an increase of $69.8 million or 32.3% for the nine-month period. Sales for both periods were positively impacted by increased shipments by the Company's North American and Italian operations of large orders primarily destined for the petrochemical and oil and gas markets respectively. Additionally, the Company's MRO sales for the quarter improved compared to last year in reaction to the higher bookings[1] of such orders recorded in the first half of the current fiscal year. The Company's MRO sales for the nine-month period were nonetheless negatively affected by the persistent unfavorable market conditions triggered by the coronavirus ("COVID-19") global pandemic which had significantly affected the Company's distribution channels' bookings[1] in the previous fiscal year. The lower distribution channels' bookings[1] in the latter part of the prior year translated in lower shipments of such orders in the first half of the current year.

Gross profit

Gross profit amounted to $35.9 million, an increase of $13.8 million or 62.8% for the quarter. Gross profit amounted to $87.2 million, an increase of $29.8 million or 51.8% for the nine-month period. The gross profit percentage for the quarter of 32.6% was an increase of 180 basis points compared to the same period last year, while the gross profit percentage for the nine-month period of 30.5% represented an increase of 400 basis points compared to the same period last year. The improvement in gross profit percentage for both periods is primarily attributable to the higher sales volume, which helped to cover the Company's fixed production overhead costs more efficiently. The Company's improved margins are also stemming from the delivery of a product mix with a greater proportion of higher margin product sales as well as margin improvement activities implemented over the course of the past fiscal years within the scope of the V20 restructuring and transformation plan. The gross profit for both periods also benefited from a positive reevaluation of the Company's provision for performance guarantees caused by the successful negotiation of a customer claim during the quarter. Additionally, the Company's gross profit benefited from favorable movements in unrealized foreign exchange translation primarily attributable to the fluctuation of the U.S. dollar against the euro and the Canadian dollar for the quarter and the nine-month period when compared to the prior year. Finally, the increase in gross profit percentage was such that it could more than offset the impact of a lower amount of CEWS of $1.5 million for the quarter and $4.6 million for the nine-month period compared to last year. The subsidies are allocated between cost of sales and administration costs.

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

EBITDA[1]

EBITDA[1] for the quarter amounted to $13.3 million or $0.62 per share compared to $13.8 million or $0.64 per share last year. EBITDA[1] for the nine-month period amounted to $23.0 million or $1.07 per share compared to $13.9 million or $0.65 per share in the prior period. The movements in EBITDA[1] for both periods are primarily attributable to:

- An increase in gross profit by $13.8 million, from 30.8% to 32.6% for the quarter and $29.8 million, from 26.5% to 30.5% for the nine-month period, primarily due to a higher sales volume and the delivery of a favorable product mix, while reflecting the improved margins resulting from the Company's targeted efforts under V20, described earlier. The Company's gross profit also benefited from favorable movements in unrealized foreign exchange translation for the quarter and nine-month period when compared to the prior year as well as a favorable reevaluation of the Company's provision for performance guarantees; and
- A reduction in other expenses of $3.1 million for the nine-month period primarily due to land clean-up costs of a former factory incurred in the second quarter of the prior year.

On the other hand, the favorable movements mentioned above were partially offset by an increase in administration costs of $7.1 million or 37.1% for the quarter and $18.3 million or 32.7% for the nine-month period, primarily attributable to:

- A decrease of $1.2 million for the quarter and $3.8 million for the nine-month period in CEWS received by the Company compared to last year. The subsidies are allocated between cost of sales and administration costs.
- A general increase in administration expenses, such as travel expenses and office maintenance costs that had been significantly lowered when the global pandemic broke out last year. The Company had also instituted select temporary salary reductions in the previous nine-month period in reaction to the uncertainties created by the global pandemic.
- An increase in sales commissions for both periods due to the higher sales volume; and
- An increase of $1.2 million for the nine-month period in the costs recognized in connection with the Company's ongoing asbestos litigation (see *Contingencies* section).

EBITDA[2] for both periods was also negatively impacted by the absence of restructuring and transformation income in the current fiscal year which totaled $8.1 million in the previous quarter and $5.2 million in the previous nine-month period. The restructuring and transformation income in the prior quarter and nine-month period resulted primarily from a $9.6 million gain recognized on the disposal of one of the Company's Montreal plants, an integral part of the North American manufacturing footprint optimization plan which was planned in the scope of V20.

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

Income taxes

	Three-month periods ended			
(thousands, excluding percentages)	November 30, 2021		November 30, 2020	
	$	%	$	%
Income tax at statutory rate	2,487	26.5	2,735	26.6
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	372	4.0	264	2.6
Non-deductible (taxable) foreign exchange losses (gains)	80	0.8	(352)	(3.4)
Unrecognized tax losses (Tax losses utilized not previously tax effected)	2,069	22.1	(1,528)	(14.9)
Benefit attributable to a financing structure	(63)	(0.7)	(65)	(0.6)
Other differences	282	3.0	(173)	(1.7)
Income tax expense (recovery)	**5,227**	**55.7**	**881**	**8.6**

	Nine-month periods ended			
(thousands, excluding percentages)	November 30, 2021		November 30, 2020	
	$	%	$	%
Income tax at statutory rate	3,158	26.5	989	26.6
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	551	4.6	400	10.8
Non-deductible (taxable) foreign exchange losses (gains)	151	1.3	(364)	(9.8)
Unrecognized tax losses	4,166	35.0	773	20.8
Benefit attributable to a financing structure	(195)	(1.7)	(190)	(5.1)
Other differences	298	2.5	(119)	(3.3)
Income tax expense	**8,129**	**68.2**	**1,489**	**40.0**

Net income[1]

Net income[1] for the quarter amounted to $4.5 million or $0.21 per share compared to $9.5 million or $0.44 per share last year. Net income[1] for the nine-month period amounted to $4.4 million or $0.21 per share compared to $2.5 million or $0.12 per share in the prior period. The movements in the Company's results were primarily attributable to the same factors as explained in the EBITDA[2] section, coupled with unfavorable movements in income taxes and net finance costs.

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

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

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

On November 30, 2021, the Company's order backlog[2] was $543.0 million and its net cash, subject to certain local exchange control restrictions, plus unused credit facilities amounted to $151.4 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. The Company also believes that its unused credit facilities are sufficient to overcome the remaining lingering effects of the COVID-19 pandemic on the world's economy. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. As at November 30, 2021, the Company is in compliance with all covenants related to its debt and credit facilities.

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

Cash flows - quarter and nine-month period ended November 30, 2021

(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		Nine-month periods ended	
(thousands)	**November 30, 2021**	**November 30, 2020**	**November 30, 2021**	**November 30, 2020**
Net Cash – Beginning of period	68,131	80,700	62,953	31,010
Cash provided (used) by operating activities	7,564	(11,353)	9,992	7,750
Cash provided by investing activities	8,432	9,028	5,740	4,582
Cash provided (used) by financing activities	(13,786)	(4,925)	(7,052)	24,942
Effect of exchange rate differences on cash	(2,360)	(430)	(3,652)	4,736
Change in net cash - held for sale	(2,144)	-	(2,144)	-
Net Cash – End of period	**65,837**	**73,020**	**65,837**	**73,020**

Operating activities

The favorable movement in cash provided by operating activities for the quarter is primarily attributable to a comparable EBITDA[1] combined with less unfavorable changes in non-cash working capital items. The favorable movement in cash provided by operating activities for the nine-month period is primarily attributable to an improved EBITDA[1], partially offset by unfavorable changes in non-cash working capital items.

The negative non-cash working capital movements for the quarter ended November 30, 2021 were primarily due to:

- A decrease in accounts payable and accrued liabilities due to the timing of payments, especially related to the higher inventory purchases made in the first half of the year; and
- A reduction in customer deposits collected on certain large project orders by the Company's North American and French operations.

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

The positive non-cash working capital movements for the quarter consisted primarily of:

- A decrease in accounts receivable mainly due to increased collections of prior quarter accounts, where a generally improved sale volume included a higher proportion of sales at the tail end of the quarter; and
- A decrease in inventories principally in reaction to the lower level of bookings[1] as well as the reduction of the backlog[1] in the quarter.

The negative non-cash working capital movements for the nine-month period ended November 30, 2021 were mainly due to an increase in inventories necessary to deliver the improved backlog[1] at the beginning of the year.

The positive non-cash working capital movements for the nine-month consisted principally of:

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

Investing activities

Cash provided by investing activities for the quarter was primarily due to proceeds on disposals of property, plant and equipment, partially offset by additions in property, plant and equipment and intangible assets. Proceeds on disposals of property plant and equipment for the quarter were primarily due to a deposit obtained by the Company's 50%-owned Korean foundry relating to the sale of property, plant and equipment. Cash provided by investing activities for the nine-month period was primarily due to proceeds obtained by the Company's 50%-owned Korean foundry relating to the sale of property, plant and equipment as well as proceeds on disposal of property, plant and equipment related to the sale of a vacant land that used to host a production plant of the Company's North American operations. The plant's operations were fully transferred in fiscal 2017 to other plants, and the building was demolished. These proceeds were partially offset by additions in property, plant and equipment, intangible assets and an increase in short-term investments.

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

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

Financing activities

During the course of the nine-month period, while the Company continued to pay down its outstanding long-term debt, its North American operations borrowed $5.9 million in the form of a secured mortgage loan bearing monthly interest payments at a yearly interest rate of 3.80%, with principal payments beginning in October 2021 and repayable over 20 years. The company did not undertake any new debt issuance during the course of the quarter.

During the nine-month period of the previous year, the Company's North American operations borrowed $10.9 million in the form of a secured mortgage loan bearing monthly interest payments at a yearly interest rate of 3.80%, with principal payments beginning in October 2021 and repayable over 20 years. Additionally, its Italian subsidiary secured three new long-term debt issuances with two financial institutions as part of the measures and initiatives put in place by the Italian government to support companies during the pandemic. Specifically, the subsidiary borrowed $3.4 million in the form of unsecured bank loans, bearing interest between 1.00% and 1.25%, with principal repayments beginning in 2021 and 2022 and repayable in monthly and quarterly installments, expiring in 2025 and 2026.

During the current quarter, the company paid-down $11.9 million of its revolving credit facility, bringing the net paid-down amount for the nine-month period to $5.6 million.

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

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 November 30, 2021 and February 28, 2021 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	November 30, 2021	February 28, 2021	November 30, 2021 $	February 28, 2021 $	November 30, 2021	February 28, 2021
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 15 months	1.28-1.30	1.30	(374)	(135)	US$31,000	US$22,000
Buy US$ for CA$ - 0 to 15 months	1.20-1.25	1.22	174	48	US$31,000	US$22,000
Sell € for US$ - 0 to 12 months	1.22-1.34	1.22-1.24	-	(168)	€4,642	€18,363
Buy € for US$ - 0 to 12 months	1.16-1.20	1.16-1.20	104	148	€4,642	€18,363
Buy US$ for € - 0 to 12 months	1.17	-	1	-	US$27	US$-
Sell US$ for € - 0 to 12 months	1.19	-	(1)	-	US$25	US$-

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

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 November 30, 2021, four (February 28, 2021 – five) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.6% (February 28, 2021 – 15.6%), and the Company's ten largest customers accounted for 54.3% (February 28, 2021 – 63.5%) of trade accounts receivable. In addition, there was one (November 30, 2020 – two) customer that accounted for more than 10% of the Company's sales.

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

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

The 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)	**November 30, 2021 $**	**February 28, 2021 $**
Current	54,969	76,407
Past due 0 to 30 days	13,640	19,630
Past due 31 to 90 days	12,415	9,672
Past due more than 90 days	19,853	17,653
	100,877	123,362
Less: Loss allowance	(935)	(1,146)
	99,942	122,216
Other receivables	10,237	13,157
Total accounts receivable	**110,179**	**135,373**

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

	Nine-month periods ended	
(thousands)	**November 30, 2021 $**	**November 30, 2020 $**
Balance – Beginning of the year	1,146	2,002
Loss allowance expenses	277	28
Recoveries of trade accounts receivables	(225)	(172)
Write-off of trade accounts receivable	(173)	(263)
Foreign exchange	(90)	103
Balance – End of the period	**935**	**1,698**

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

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

Two of the Company's U.S. subsidiaries have been named as one of the defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defence related to certain products that may have contained an internal asbestos containing component. 2,001 claims were outstanding at the end of the reporting period (February 28, 2021 – 1,696). During the reporting period, the Company resolved 221 claims (November 30, 2020 – 275) and received 526 claims (November 30, 2020 – 397). Settlement costs and legal fees related to these asbestos claims amounted to $2,711 (November 30, 2020 – $2,897) for the quarter and $9,358 (November 30, 2020 – $8,114) for the nine-month period.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information presented in the Company's interim and annual reports to shareholders is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, in order for appropriate decisions to be made in regards to disclosures. Internal controls over financial reporting have also been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements in accordance with IFRS.

The Company did not make any changes to the design of internal controls over financial reporting during the three-month and nine-month periods ended November 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements are prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies as described in notes 2 and 3 of the Company's audited consolidated financial statements are essential to understanding the Company's financial positions, results of operations 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 (see *Forward-looking information* section above). These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed. There were no significant changes made to critical accounting estimates during the past two fiscal years.

There have been no material changes from those identified in the annual MD&A.

ACCOUNTING STANDARDS AND AMENDMENTS ADOPTED IN THE PERIOD

In August 2020, the International Accounting Standards Board ("IASB") issued *Interest Rate Benchmark Reform (Phase 2)*, which amends *IFRS 9 Financial instruments*, *IAS 39 Financial instruments: Recognition and measurement*, *IFRS 7 Financial instruments: Disclosures* and *IFRS 16 Leases*. The Phase 2 amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. These amendments complement those issued in 2019 and focus on issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark rate. This amendment was adopted effective March 1, 2021 and resulted in no material adjustments.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

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

SUMMARY OF QUARTERLY RESULTS

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

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

	QUARTERS ENDED							
	November 2021	**August 2021**	**May 2021**	**February 2021**	**November 2020**	**August 2020**	**May 2020**	**February 2020**
Sales	$109,971	$101,893	$74,529	$85,510	$71,560	$68,340	$76,653	$113,641
Net income (loss)[1]	4,507	5,015	(5,073)	338	9,527	(5,112)	(1,886)	(11,116)
Net income (loss) [1] per share								
- Basic and diluted	0.21	0.23	(0.24)	0.02	0.44	(0.24)	(0.09)	(0.51)

SUBSEQUENT EVENT (in thousands of U.S. dollars)

As at November 30, 2021, the Company held for sale its 50% interest in Juwon Special Steel Co. Ltd., a Korean foundry. The sale to the Company's joint venture partners was concluded on December 15, 2021 for net proceeds of $4,225.

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

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. Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

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

	Three-month periods ended		Nine-month periods ended	
(thousands, except amount per shares)	**November 30, 2021 $**	**November 30, 2020 $**	**November 30, 2021 $**	**November 30, 2020 $**
Net income[1]	4,507	9,527	4,449	2,529
Adjustments for:				
Depreciation of property, plant and equipment	2,382	2,541	7,190	7,516
Amortization of intangible assets	556	674	1,565	1,868
Finance costs – net	619	161	1,674	523
Income taxes	5,227	881	8,129	1,489
EBITDA	**13,291**	**13,784**	**23,007**	**13,925**
EBITDA per share				
- Basic and diluted	0.62	0.64	1.07	0.65

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

Definitions of supplementary financial measures

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

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

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

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

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

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended November 30, 2021

VELAN

Consolidated Statements of Financial Position

(Unaudited)

(in thousands of U.S. dollars)

	As at	
	November 30, 2021	**February 28, 2021**
	$	**$**
Assets		
Current assets		
Cash and cash equivalents	66,687	74,688
Short-term investments	1,971	285
Accounts receivable	110,179	135,373
Income taxes recoverable	3,253	3,798
Inventories (note 7)	229,466	204,161
Deposits and prepaid expenses	8,674	8,670
Derivative assets (note 11)	278	196
Assets held for sale (note 8)	19,213	-
	439,721	427,171
Non-current assets		
Property, plant and equipment	75,496	96,327
Intangible assets and goodwill	16,387	17,319
Deferred income taxes	36,686	39,067
Other assets	717	949
	129,286	153,662
Total assets	569,007	580,833
Liabilities		
Current liabilities		
Bank indebtedness	850	11,735
Short-term bank loans	35	-
Accounts payable and accrued liabilities	91,425	90,840
Income taxes payable	2,288	1,609
Customer deposits	68,612	62,083
Provisions	22,800	29,515
Derivative liabilities (note 11)	375	303
Liabilities held for sale (note 8)	18,359	-
Current portion of long-term lease liabilities	1,454	1,578
Current portion of long-term debt (note 9)	7,591	9,902
	213,789	207,565
Non-current liabilities		
Long-term lease liabilities	11,505	12,649
Long-term debt (note 9)	38,821	48,189
Income taxes payable	1,244	1,410
Deferred income taxes	2,251	2,545
Other liabilities	6,890	8,254
	60,711	73,047
Total liabilities	274,500	280,612
Total equity	294,507	300,221
Total liabilities and equity	569,007	580,833

Contingencies (note 10)

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

VELAN

Consolidated Statements of Income

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

	Three-month periods ended		Nine-month periods ended	
	November 30, 2021 $	**November 30, 2020 $**	**November 30, 2021 $**	**November 30, 2020 $**
Sales (note 12)	109,971	71,560	286,393	216,553
Cost of sales (notes 7)	74,110	49,538	199,147	159,086
Gross profit	35,861	22,022	87,246	57,467
Administration costs	26,436	19,288	74,192	55,911
Restructuring and transformation income	-	(8,119)	-	(5,220)
Other expense (income)	(579)	411	(537)	2,535
Operating profit	10,004	10,442	13,591	4,241
Finance income	77	161	367	575
Finance costs	(696)	(322)	(2,041)	(1,098)
Finance costs – net	(619)	(161)	(1,674)	(523)
Income before income taxes	9,385	10,281	11,917	3,718
Income tax expense	5,227	881	8,129	1,489
Net income for the period	4,158	9,400	3,788	2,229
Net income attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**4,507**	**9,527**	**4,449**	**2,529**
Non-controlling interest	(349)	(127)	(661)	(300)
Net income for the period	4,158	9,400	3,788	2,229
Net income per Subordinate and Multiple Voting Share				
Basic and diluted	0.21	0.44	0.21	0.12
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic and diluted	21,585,635	21,585,635	21,585,635	21,585,635

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

VELAN

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2021 $	November 30, 2020 $	November 30, 2021 $	November 30, 2020 $
Comprehensive income (loss)				
Net income for the period	4,158	9,400	3,788	2,229
Other comprehensive income (loss)				
Foreign currency translation	(6,080)	490	(9,502)	11,299
Comprehensive income (loss)	(1,922)	9,890	(5,714)	13,528
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(1,559)	9,886	(5,007)	13,663
Non-controlling interest	(363)	4	(707)	(135)
Comprehensive income (loss)	(1,922)	9,890	(5,714)	13,528

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

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

VELAN

Consolidated Statements of Changes in Equity

(Unaudited)

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

	Equity attributable to the Subordinate and Multiple Voting shareholders						
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	**Total equity**
Balance - February 29, 2020	72,695	6,260	(34,047)	236,269	281,177	3,684	284,861
Net income for the period	-	-	-	2,529	2,529	(300)	2,229
Other comprehensive income	-	-	11,134	-	11,134	165	11,299
Balance - November 30, 2020	72,695	6,260	(22,913)	238,798	294,840	3,549	298,389
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income for the period	-	-	-	4,449	4,449	(661)	3,788
Other comprehensive loss	-	-	(9,456)	-	(9,456)	(46)	(9,502)
Balance - November 30, 2021	72,695	6,260	(30,463)	243,585	292,077	2,430	294,507

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

VELAN

Consolidated Statements of Cash Flow

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2021 $	November 30, 2020 $	November 30, 2021 $	November 30, 2020 $
Cash flows from				
Operating activities				
Net income for the period	4,158	9,400	3,788	2,229
Adjustments to reconcile net income to cash provided (used) by operating activities (note 13)	4,918	(6,096)	10,975	(837)
Changes in non-cash working capital items (note 14)	(1,512)	(14,657)	(4,771)	6,358
Cash provided (used) by operating activities	7,564	(11,353)	9,992	7,750
Investing activities				
Short-term investments	(268)	327	(1,686)	(200)
Additions to property, plant and equipment	(1,379)	(3,575)	(4,948)	(7,511)
Additions to intangible assets	(520)	(470)	(1,330)	(993)
Proceeds on disposal of property, plant and equipment, and intangible assets	10,597	12,683	13,729	13,712
Net change in other assets	2	63	(25)	(426)
Cash provided by investing activities	8,432	9,028	5,740	4,582
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	-	-	(482)
Short-term bank loans	35	5,913	35	4,536
Net change in revolving credit facility	(11,872)	(9,537)	(5,624)	10,798
Increase in long-term debt	-	-	5,889	14,305
Repayment of long-term debt	(1,522)	(873)	(6,068)	(2,931)
Repayment of long-term lease liabilities	(427)	(428)	(1,284)	(1,284)
Cash provided (used) by financing activities	(13,786)	(4,925)	(7,052)	24,942
Effect of exchange rate differences on cash	(2,360)	(430)	(3,652)	4,736
Change in cash and cash equivalents from reclassification of cash and cash equivalents as held of sale	(2,144)	-	(2,144)	-
Net change in cash during the period	(2,294)	(7,680)	2,884	42,010
Net cash – Beginning of the period	68,131	80,700	62,953	31,010
Net cash – End of the period	65,837	73,020	65,837	73,020
Net cash is composed of:				
Cash and cash equivalents	66,687	79,961	66,687	79,961
Bank indebtedness	(850)	(6,941)	(850)	(6,941)
Net cash – End of the period	65,837	73,020	65,837	73,020
Supplementary information				
Interest received (paid)	(526)	(482)	(1,360)	(945)
Income taxes received (paid)	(1,782)	(3,039)	(3,366)	(5,548)

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

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PricewaterhouseCoopers LLP have not reviewed the unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended November 30, 2021.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended November 30, 2021

1 General information

These unaudited condensed interim 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 and 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 Cote de Liesse, Montreal, Quebec, Canada, H4T 1G2. The Company's ultimate parent company is Velan Holdings Co. Ltd.

These unaudited condensed interim consolidated financial statements were approved for issue by the Company's Board of Directors on January 12, 2022. The Company's auditors have not performed a review of these unaudited condensed interim consolidated financial statements.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended November 30, 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These unaudited condensed interim consolidated financial statements have been prepared using the same basis of presentation, accounting policies, and methods of computation as outlined in Note 2, *Summary of significant accounting policies*, in the Company's annual consolidated financial statements for the year ended February 28, 2021, which have also been prepared in accordance with IFRS. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended February 28, 2021.

3 Changes in accounting policies

In August 2020, the International Accounting Standards Board ("IASB") issued *Interest Rate Benchmark Reform (Phase 2)*, which amends *IFRS 9 Financial instruments*, *IAS 39 Financial instruments: Recognition and measurement*, *IFRS 7 Financial instruments: Disclosures* and *IFRS 16 Leases*. The Phase 2 amendments address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. These amendments complement those issued in 2019 and focus on issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows arising from the replacement of an interest rate benchmark with an alternative benchmark rate. This amendment was adopted effective March 1, 2021 and resulted in no material adjustments.

4 New accounting standards and amendments issued but not yet adopted

In January 2020, the International Accounting Standards Board ("IASB") issued *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments in *Classification of Liabilities as Current or Non-current (Amendments to IAS 1)* affect only the presentation of liabilities in the statements of financial position, not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. In

July 2020, the IASB published *Classification of Liabilities as Current or Non-current – Deferral of Effective Date (Amendment to IAS 1)* deferring the effective date of the January 2020 amendments to IAS 1 by one year. The amendments to IAS 1 are effective for annual reporting periods beginning on or after January 1, 2023 with earlier adoption permitted. The Company is currently evaluating the impact of these amendments on its financial statements.

5 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended February 28, 2021.

However, the occurrence of the coronavirus ("COVID-19") pandemic has caused disruptions in the Company's global operations which have materially adversely affected its business and financial results. The economic slowdown triggered by the global pandemic has translated in a lower sales volume and subsequently depressed results for the Company while net order bookings have showed positive trends for the fiscal year ended February 28, 2021. The Company has implemented proactive measures to protect its global workforce and mitigate the numerous effects of the pandemic, but given the ongoing dynamic nature of circumstances surrounding COVID-19, it is not possible to reliably estimate the length, severity and long term impact the global pandemic may have on the Company's results, conditions and cash-flows.

During the three-month period ended November 30, 2021, the company has applied for wage subsidies which provided a reduction of salaries of $21 (November 30, 2020 – $1,541) in Cost of sales and $16 (November 30, 2020 – $1,239) in Administration costs. During the nine-month period ended November 30, 2021, the company has applied for wage subsidies which provided a reduction of salaries of $1,142 (November 30, 2020 – $5,714) in Cost of sales and $905 (November 30, 2020 – $4,673) in Administration costs.

6 Seasonality

The Company's sales are not subject to seasonality. Quarterly sales can vary based on the timing of revenue recognition on large orders.

7 Inventories

	As at	
(thousands)	**November 30, 2021 $**	**February 28, 2021 $**
Raw materials	39,624	40,404
Work in process and finished parts	144,735	118,553
Finished goods	45,107	45,204
	229,466	**204,161**

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the three-month period ended November 30, 2021 of $1,963 (November 30, 2020 - $ 1,256), including reversals of $678 (November 30, 2020 - $2,985). The Company recognized a net additional inventory provision for the nine-month period ended November 30, 2021 of $5,937 (November 30, 2020 – $4,069), including reversals of $2,552 (November 30, 2020 - $5,528).

8 Assets and Liabilities held for sale

As at November 30, 2021, the Company held for sale its 50% interest in Juwon Special Steel Co. Ltd. a Korean foundry (see note 15).

	As at
(thousands)	**November 30, 2021 $**
Cash and cash equivalents	2,144
Accounts receivable	1,265
Inventories	1,558
Deposits and prepaid expenses	359
Property, plant and equipment	13,816
Other assets	71
Total assets	19,213
Accounts payable and accrued liabilities	1,174
Long-term lease liabilities	49
Long-term debt	5,074
Deposit on sale of property, plant and equipment	10,579
Other liabilities	1,483
Total liabilities	18,359
Net assets held for sale	**854**

9 Long-term debt

(thousands)	As at November 30, 2021 $	As at February 28, 2021 $
Revolving credit facility (note a)	16,508	22,132
Canadian entity		
Secured bank loan ($CAD 22,500; February 28, 2021 - $CAD 15,000) (note b)	17,223	11,581
French subsidiaries		
Unsecured bank loan (€1,919; February 28, 2021 - €5,547)	2,176	6,723
Italian subsidiary		
Unsecured bank loan (€2,919; February 28, 2021 - €3,000)	3,308	3,636
Unsecured state bank loan (€805; February 28, 2021 - €920)	913	1,115
Korean structured entity		
Secured bank loan (nil; February 28, 2021 – KW 7,064,400)	-	6,266
Other	6,284	6,638
	46,412	58,091
Less: current portion	7,591	9,902
	38,821	**48,189**

a) As at November 30, 2021, the Company had drawn down $16,508 (February 28, 2021 – $22,132) on the revolving credit facility and had $4,080 (February 28, 2021 – $5,436) in the form of outstanding letters of credit and letters of guarantee on a total of $58,050 (February 28, 2021 – $55,518) borrowing availability. Furthermore, as at November 30, 2021, the Company was in compliance with its covenant.

b) During the nine-month period ended November 30, 2021, the Company's Canadian subsidiary borrowed $5,889 in the form of a secured mortgage loan bearing monthly interest payments at a yearly interest rate of 3.80%, with principal payments beginning in October 2021 and repayable over 20 years.

10 Contingent liabilities

Two of the Company's U.S. subsidiaries have been named as defendants in a number of asbestos-related legal proceedings pertaining to products they formerly sold. Management believes it has a strong defence, and the subsidiaries have previously been dismissed from a number of similar cases. During the three-month period ended November 30, 2021, settlement and legal costs for these matters amounted to $2,711 (November 30, 2020 – $2,897). During the nine-month period ended November 30, 2021, settlement and legal costs for these matters amounted to $9,358 (November 30, 2020 – $8,114).

11 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 November 30, 2021
(thousands)	Total $	Level 1 $	Level 2 $	Level 3 $
Financial position classification and nature				
Assets				
Derivative assets	278	-	278	-
Liabilities				
Derivative liabilities	375	-	375	-

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

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

VELAN

12 Segment reporting

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

							Three-month period ended November 30, 2021
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	7,168	17,779	10,865	361	5,262	-	41,435
Export	29,210	343	9,525	21,708	7,750	-	68,536
Intercompany (export)	8,638	2,024	31	6,025	10,489	(27,207)	-
	45,016	**20,146**	**20,421**	**28,094**	**23,501**	**(27,207)**	**109,971**

							Three-month period ended November 30, 2020
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	6,754	18,222	12,523	262	3,547	-	41,308
Export	1,432	-	9,840	15,163	3,817	-	30,252
Intercompany (export)	6,577	1,784	9	8	13,633	(22,011)	-
	14,763	**20,006**	**22,372**	**15,433**	**20,997**	**(22,011)**	**71,560**

							Nine-month period ended November 30, 2021
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	16,188	59,546	30,779	491	16,630	-	123,634
Export	56,130	4,303	30,681	52,221	19,424	-	162,759
Intercompany (export)	30,976	6,398	43	13,057	31,851	(82,325)	-
	103,294	**70,247**	**61,503**	**65,769**	**67,905**	**(82,325)**	**286,393**

							Nine-month period ended November 30, 2020
(thousands)	Canada $	United States $	France $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales							
Customers -							
Domestic	12,470	64,006	27,384	1,243	9,283	-	114,386
Export	22,812	-	26,868	41,269	11,218	-	102,167
Intercompany (export)	17,945	8,369	73	9	43,142	(69,538)	-
	53,227	**72,375**	**54,325**	**42,521**	**63,643**	**(69,538)**	**216,553**

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

	Three-months period ended		Nine-month periods ended	
(thousands)	**November 30, 2021 $**	**November 30, 2020 $**	**November 30, 2021 $**	**November 30, 2020 $**
Depreciation of property, plant and equipment	2,382	2,541	7,190	7,516
Amortization of intangible assets	556	674	1,565	1,868
Deferred income taxes	1,428	207	1,938	(649)
Loss (gain) on disposal of property, plant and equipment	135	(9,562)	(41)	(9,560)
Net change in derivative assets and liabilities	162	(357)	(10)	(280)
Net change in other liabilities	255	401	333	268
	4,918	**(6,096)**	**10,975**	**(837)**

14 Changes in non-cash working capital items

	Three-months period ended		Nine-month periods ended	
(thousands)	**November 30, 2021 $**	**November 30, 2020 $**	**November 30, 2021 $**	**November 30, 2020 $**
Accounts receivable	11,677	(2,349)	18,865	22,517
Inventories	4,681	(10,299)	(33,807)	(15,104)
Income taxes recoverable	317	(1,172)	506	(990)
Deposits and prepaid expenses	699	(1,205)	(775)	(2,621)
Accounts payable and accrued liabilities	(7,263)	4,176	5,078	2,215
Income taxes payable	891	(478)	595	(1,083)
Customer deposits	(8,808)	296	10,145	6,801
Provisions	(3,706)	(3,626)	(5,378)	(5,377)
	(1,512)	**(14,657)**	**(4,771)**	**6,358**

15 Subsequent event

As at November 30, 2021, the Company held for sale its 50% interest in Juwon Special Steel Co. Ltd., a Korean foundry. The sale to the Company's joint venture partners was concluded on December 15, 2021 for net proceeds of $4,225.

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Velan Inc. is listed on the Toronto stock exchange under the symbol VLN

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