



REPORT TO SHAREHOLDERS

Third quarter

Nine-month period ended November 30, 2021



MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended November 30, 2021



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	
	November 30, 2021	February 28, 2021
(thousands)	\$	\$
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
	November 30, 2021
<i>(thousands)</i>	\$
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

	As at	
	November 30, 2021	February 28, 2021
<i>(thousands)</i>	\$	\$
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				
<i>(thousands)</i>	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				
<i>(thousands)</i>	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.



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	
	November 30, 2021	November 30, 2020	November 30, 2021	November 30, 2020
<i>(thousands)</i>	\$	\$	\$	\$
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	
	November 30, 2021	November 30, 2020	November 30, 2021	November 30, 2020
<i>(thousands)</i>	\$	\$	\$	\$
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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