



CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2023 and 2022



Independent auditor's report

To the Shareholders of Velan Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Velan Inc. and its subsidiaries (together, the Company) as at February 28, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at February 28, 2023 and 2022;
- the consolidated statements of loss for the years then ended;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
1250 René-Lévesque Boulevard West, Suite 2500, Montréal, Quebec, Canada H3B 4Y1
T: +1 514 205 5000, F: +1 514 876 1502

"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 28, 2023. 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
<p>Asbestos provision</p> <p><i>Refer to note 2 – Summary of significant accounting policies and note 12 – Provisions to the consolidated financial statements.</i></p> <p>The Company's asbestos provision amounted to \$73.3 million as at February 28, 2023. 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.</p> <p>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.</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none"> • Tested how management determined the asbestos provision, which included the following: <ul style="list-style-type: none"> – 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
<p>We considered this a key audit matter due to the 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.</p>	

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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, 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.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

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

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

/s/PricewaterhouseCoopers LLP¹

Montréal, Quebec
May 17, 2023

¹ CPA auditor, public accountancy permit No. A126402




Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	February 28, 2023 \$	February 28, 2022 \$
Assets		
Current assets		
Cash and cash equivalents	50,513	54,015
Short-term investments	37	8,726
Accounts receivable (note 4)	121,053	115,834
Income taxes recoverable	6,195	2,955
Inventories (note 5)	202,649	223,198
Deposits and prepaid expenses	7,559	6,877
Derivative assets (note 23)	107	553
	388,113	412,158
Non-current assets		
Property, plant and equipment (note 7 and 8)	68,205	73,906
Intangible assets and goodwill (note 9)	16,153	16,693
Deferred income taxes (note 19)	4,663	4,774
Other assets	723	897
	89,744	96,270
Total assets	477,857	508,428
Liabilities		
Current liabilities		
Bank indebtedness (note 10)	260	550
Accounts payable and accrued liabilities (note 11)	79,408	80,503
Income taxes payable	2,832	3,806
Customer deposits	28,201	41,344
Provisions (note 12)	16,485	18,444
Derivative liabilities (note 23)	299	560
Current portion of long-term lease liabilities (note 8)	1,298	1,360
Current portion of long-term debt (note 13)	8,177	8,111
	136,960	154,678
Non-current liabilities		
Long-term lease liabilities (note 8)	9,458	11,073
Long-term debt (note 13)	21,719	22,927
Income taxes payable	933	1,244
Deferred income taxes (note 19)	3,966	4,025
Customer deposits	27,937	30,139
Provisions (note 12)	70,924	13,101
Other liabilities	5,125	5,731
	140,062	88,240
Total liabilities	277,022	242,918
Total equity	200,835	265,510
Total liabilities and equity	477,857	508,428

Commitments and contingencies (note 21)

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


James A. Mannebach, Director

6


Bruno Carbonaro, Director



Consolidated Statements of Loss

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

	Fiscal years ended	
	February 28, 2023 \$	February 28, 2022 \$
Sales (note 12 and 22)	370,429	411,242
Cost of sales (notes 5 and 15)	257,964	276,273
Gross profit	112,465	134,969
Administration costs (note 16)	156,759	113,039
Gain on disposal of Juwon Special Steel Co. Ltd. (note 6)	-	(16,108)
Other expense (income)	1,568	(538)
Operating profit (loss)	(45,862)	38,576
Finance income	467	392
Finance costs	(2,019)	(2,792)
Finance costs – net	(1,552)	(2,400)
Income (loss) before income taxes	(47,414)	36,176
Income tax expense (note 19)	8,045	46,431
Net loss for the year	(55,459)	(10,255)
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(55,453)	(21,141)
Non-controlling interest	(6)	10,886
Net loss for the year	(55,459)	(10,255)
Net loss per Subordinate and Multiple Voting Share (note 20)		
Basic and diluted	(2.57)	(0.98)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA\$0.03)	- (CA\$-)

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 28, 2023 \$	February 28, 2022 \$
Comprehensive loss		
Net loss for the year	(55,459)	(10,255)
Other comprehensive loss		
Foreign currency translation	(8,985)	(11,159)
Comprehensive loss	(64,444)	(21,414)
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(64,438)	(32,260)
Non-controlling interest	(6)	10,846
Comprehensive loss	(64,444)	(21,414)

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						Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income (loss) for the year	-	-	-	(21,141)	(21,141)	10,886	(10,255)
Other comprehensive loss	-	-	(11,119)	-	(11,119)	(40)	(11,159)
Comprehensive income (loss)	-	-	(11,119)	(21,141)	(32,260)	10,846	(21,414)
Disposal of non-controlling interests (note 6)	-	-	-	-	-	(12,454)	(12,454)
Dividends							
Non-controlling interest	-	-	-	-	-	(843)	(843)
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

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 28, 2023 \$	February 28, 2022 \$
Cash flows from		
Operating activities		
Net loss for the year	(55,459)	(10,255)
Adjustments to reconcile net loss to cash provided by operating activities (note 25)	67,553	45,152
Changes in non-cash working capital items (note 26)	(11,572)	(17,029)
Cash provided by operating activities	522	17,868
Investing activities		
Short-term investments	8,250	(8,708)
Additions to property, plant and equipment	(4,370)	(6,144)
Additions to intangible assets	(2,219)	(2,477)
Proceeds on disposal of property, plant and equipment, and intangible assets	185	30,183
Proceeds on disposal of Juwon Steel Co. Ltd. net of cash disposal	-	(12,684)
Net change in other assets	(87)	(196)
Cash provided (used) by investing activities	1,759	(26)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(497)	-
Dividends paid to non-controlling interest	-	(843)
Acquisition of non-controlling interests	266	-
Net change in revolving credit facility	-	(22,132)
Increase in long-term debt	3,666	7,874
Repayment of long-term debt	(4,398)	(6,722)
Repayment of long-term lease liabilities	(1,657)	(1,696)
Cash used by financing activities	(2,620)	(23,519)
Effect of exchange rate differences on cash	(2,873)	(3,811)
Net change in cash during the year	(3,212)	(9,488)
Net cash – Beginning of the year	53,465	62,953
Net cash – End of the year	50,253	53,465
Net cash is composed of:		
Cash and cash equivalents	50,513	54,015
Bank indebtedness	(260)	(550)
Net cash – End of the year	50,253	53,465
Supplementary information		
Interest paid	(974)	(1,509)
Income taxes paid	(8,160)	(4,293)

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended February 28, 2023 and 2022

(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 as issued by the International Accounting Standards Board ("IFRS").

These consolidated financial statements were approved by the Company's Board of Directors on May 17, 2023.

2 Summary of significant accounting policies

Functional and presentation currency

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

Primary indicators include:

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

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

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

Consolidation

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

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

Foreign currency transactions and balances

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



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

Revenue is recognized when the 5-step approach dictated by IFRS 15 has been completed. The 5-steps leading to revenue recognition are to identify the contract(s) with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation.

Sales of goods

Sales of goods are recognized when the Company has delivered products to the customer and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery of the products does not occur until the products have been shipped to a specified location in accordance with the agreed-upon shipping terms, the control, the risk of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Company has objective evidence that all criteria for acceptance have been satisfied. Customers have a right to return faulty products, and some products are sold with volume discounts. Sales are recorded based on the price specified in the sales contract, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts, returns and accruals for performance guarantees. The volume discounts are assessed based on anticipated annual purchases.

Provision for performance guarantees are provisions that arise for possible late delivery and other contractual non-compliance penalties or liquidated damages. It is recognized as a reduction of sales when the Company has a present legal or constructive obligation as a result of a past event, and the amount has been reliably estimated. Provision for performance guarantees is not recognized for costs that need to be incurred to operate in the future or expected future operating losses.

Sales of services

Sales of services are recognized when the Company renders services.

Interest income

Interest income is recognized using the effective interest rate method.



Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash in banks, other short-term highly liquid investments with original maturities of three months or less, and bank indebtedness. Bank indebtedness is shown in current liabilities on the consolidated statement of financial position.

Short-term investments

Short-term investments include all highly liquid investments with original maturities greater than three months but less than one year.

Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost of inventories is determined as follows:

- a) raw materials principally using the weighted average method except for items that are not ordinarily interchangeable, in which case specific identification of their individual costs is used; and
- b) work in process and finished goods using the raw material cost described in (a) plus applicable direct labour and manufacturing overhead.

The value of obsolete or unmarketable inventory is based on the Company's assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. The write-down may be reversed if the circumstances which caused it no longer exist.

Property, plant and equipment

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

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

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

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

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



Goodwill

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

Intangible assets

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

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

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

Government assistance

Government assistance, in the form of wage subsidies and investment tax credits ("ITCs"), is accounted for using the cost reduction method. Under this method, assistance relating to eligible expenditures is deducted from the cost of the related assets or related expenses in the period in which the expenditures are incurred, provided there is reasonable assurance of realization. The details of the wage subsidies received by the Company are disclosed in notes 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.

Provision for performance guarantees is measured at the present value of the expenditures required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Leases

In situations where the Company is a lessee, it recognizes a right-of-use asset and a lease liability when the asset is available for use. The right-of-use asset is measured at the amount of the lease liability adjusted for any initial direct costs, prepaid lease payments, restoration costs, and any lease incentives received. The right-of-use asset is depreciated over the shorter of the lease term and useful life of the asset using the straight-line method since it closely reflects the expected pattern of consumption of the future economic benefits. The right-of-use asset may be periodically reduced by impairment losses, if any, and adjusted for certain remeasurement of the lease liability.

The lease liability is measured at the present value of lease payments payable discounted using the implicit rate or the Company's incremental borrowing rate when the implicit rate cannot be determined. It is subsequently 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 significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed.

Inventories

Inventories must be valued at the lower of cost and net realizable value. A write-down of inventory will occur when its estimated 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.

Provision for performance guarantees

Provision for performance guarantees consist of possible late delivery and other contractual non-compliance penalties or liquidated damages. The Company estimates the specific contractual terms, historical trends and forward-looking performance risks. The Company estimates its exposure under these obligations based on an analysis of all identified or expected claims. Any change in the assumptions used could impact the value of the provision for performance guarantees on the consolidated statement of financial position with a corresponding impact made to sales on the consolidated statement of 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. During the year ended February 28, 2023, the Company recorded the estimated settlement costs for unreported claims relating to its Asbestos legal claims. Previously, the Company only recognized the estimated settlement costs relating to reported claims. 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. A reasonably possible change of 1% has an impact on the total liability of \$706.
- Projected average CWI severity. A reasonably possible change of 1% has an impact on the total liability of \$706.
- Decay rate represents the rate at which the number of claims will decrease. A reasonably possible change of 1% has an impact on the total liability of \$7,020.
- The inflation rate. A reasonably possible change of 1% has an impact on the total liability of \$6,313.



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 accounting policies

Consolidation

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

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

3 New accounting standards and amendments

Accounting standards and amendments issued 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:

- the carrying amount of the liability;
- information about the covenants;
- 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 does not expect the amendment to have a significant impact on its consolidated financial statements.

4 Accounts receivable

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Trade accounts receivable	113,529	108,217
Loss allowance	(481)	(509)
Other accounts receivables	8,005	8,126
	121,053	115,834

The table below summarizes the movements in the loss allowance:

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Balance – Beginning of year	509	1,146
Loss allowance expense (reversal)	46	321
Recoveries of trade accounts receivable	(47)	(683)
Write-off of trade accounts receivable	-	(241)
Foreign exchange	(27)	(34)
Balance – End of year	481	509

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 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Raw materials	36,223	48,381
Work in process and finished parts	128,670	136,221
Finished goods	37,756	38,596
	202,649	223,198

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the year of \$4 (2022 – \$3,479), including reversals of \$10,769 (2022 – \$4,911).

The net book value of inventories pledged as security under the Company's long-term debt amounted to \$91,007 (2022 – \$98,306).

6 Subsidiaries and transactions with non-controlling interests

a) Interest in subsidiaries

Set out below are the Company's principal subsidiaries as at February 28, 2023. 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
			2023	2022	2023	2022	
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	-	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	75	75	25	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

b) Significant restrictions

Cash and cash equivalents and short-term investments held in certain Asian countries are subject to local exchange control regulations. These regulations provide for restrictions on exporting capital from those countries, other than through normal dividends. However, such restrictions do not have a significant impact on the Company's operations and treasury management as less than 13% (2022 – 16%) of the Company's cash and cash equivalents and short-



term investments are subject to such restrictions. The total amount of cash and cash equivalents and short-term investments subject to such restrictions as at February 28, 2023 was \$6,258 (2022 – \$8,825).

c) Non-controlling interests

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

7 Property, plant and equipment

(thousands)	Land \$	Buildings \$	Machinery & equipment \$	Furnitures & fixtures \$	Data processing equipment \$	Rolling stock \$	Leasehold improve- ments \$	Right-of- use assets (note 8) \$	Total \$
At February 28, 2021									
Cost	26,501	56,184	141,940	8,797	7,876	2,583	3,117	17,221	264,219
Accumulated depreciation	-	(29,414)	(115,927)	(7,947)	(6,906)	(2,287)	(2,106)	(3,305)	(167,892)
	26,501	26,770	26,013	850	970	296	1,011	13,916	96,327
Year ended February 28, 2022									
Beginning balance	26,501	26,770	26,013	850	970	269	1,011	13,916	96,327
Additions	-	988	4,216	112	276	135	417	1,012	7,156
Modifications to lease terms	-	-	-	-	-	-	-	30	30
Disposals	(6,843)	(76)	(275)	-	(1)	(2)	-	(168)	(7,365)
Disposal of Juwon Special Steel Co. Ltd.	(9,537)	(82)	(371)	(2)	-	(46)	-	(46)	(10,084)
Depreciation	-	(1,701)	(5,062)	(261)	(478)	(126)	(241)	(1,722)	(9,591)
Exchange differences	(551)	(392)	(580)	(28)	(24)	(9)	(83)	(900)	(2,567)
	9,570	25,507	23,941	671	743	248	1,104	12,122	73,906
At February 28, 2022									
Cost	9,570	54,341	134,591	8,490	7,992	2,033	3,297	16,336	236,650
Accumulated depreciation	-	(28,834)	(110,650)	(7,819)	(7,249)	(1,785)	(2,193)	(4,214)	(162,744)
	9,570	25,507	23,941	671	743	248	1,104	12,122	73,906
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



Depreciation expense of \$8,722 (2022 – \$9,591) is included in the consolidated statement of loss: \$7,019 (2022 – \$7,751) in “cost of sales” and \$1,703 (2022 – \$1,840) in “administration costs”.

8 Leases

a) Right-of-use assets

Carrying value by asset class		As at
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Land	5,616	6,565
Buildings	3,942	4,233
Furniture & Fixtures	-	9
Machinery & Equipment	133	192
Data Processing Equipment	92	104
Rolling Stock	916	1,019
	10,699	12,122

Depreciation by asset class		As at
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Land	103	119
Buildings	838	805
Furniture & Fixtures	8	13
Machinery & Equipment	112	100
Data Processing Equipment	48	55
Rolling Stock	547	630
	1,656	1,722

b) Long-term lease liabilities

		As at
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Current portion of long-term lease liabilities	1,298	1,360
Long-term lease liabilities	9,458	11,073
	10,756	12,433



Amounts recognized in the consolidated statement of loss:

	For the years ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Expenses relating to short-term leases (included in “cost of sales” and “administration costs”)	417	296
Expenses relating to leases of low-value assets, excluding short-term leases of low value (included in “cost of sales” and “administration costs”)	177	131
Expenses related to variable lease payments (included in “cost of sales” and “administration costs”)	189	179
Interest expenses (included in “finance costs”)	237	278

9 Intangible assets and goodwill

<i>(thousands)</i>	Goodwill \$	Computer software \$	Patent, products & designs \$	Customer lists \$	Data processing equipment \$	Total \$
At February 29, 2021						
Cost	9,495	8,683	17,949	6,545	15	42,687
Accumulated amortization	-	(8,169)	(10,744)	(6,442)	(13)	(25,368)
	9,495	514	7,205	103	2	17,319
Year ended February 28, 2022						
Beginning balance	9,495	514	7,205	103	2	17,319
Additions	-	944	1,533	-	-	2,477
Amortization	-	(415)	(1,540)	(100)	-	(2,055)
Exchange differences	(707)	(59)	(279)	(3)	-	(1,048)
	8,788	984	6,919	-	2	16,693
At February 28, 2022						
Cost	8,788	9,243	18,535	6,058	15	42,639
Accumulated amortization	-	(8,259)	(11,616)	(6,058)	(13)	(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	5,711	15	38,590
Accumulated amortization	-	(3,949)	(12,764)	(5,711)	(13)	(22,437)
	8,284	773	7,094	-	2	16,153



Amortization expense of \$2,021 (2022 – \$2,055) is included in the consolidated statement of loss: \$784 (2022 – \$970) in “cost of sales” and \$1,237 (2022 – \$1,085) in “administration costs”.

As at February 28, 2023, the Company capitalized \$1,787 (2022 – \$1,533) of development costs, net of research and development tax credits of \$299 (2022 - \$304), as patents, products and designs.

Goodwill impairment test as at February 28, 2023

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 28, 2023. 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

- The Company has a facility with Export Development Canada of \$27,000 (2022 – \$24,000) for letters of credit and letters of guarantee. As at February 28, 2023, \$6,563 (2022 – \$9,848) was drawn against this facility in the form of letters of credit. The credit facility expires on November 30, 2023 and is renewed annually.
- Foreign subsidiaries have the following credit facilities available as at February 28, 2023 totalling \$57,738 (2022 - \$67,351):

Credit facilities available (thousands)	As at February 28, 2023	As at February 28, 2022	Borrowing Rates
European subsidiaries	\$50,667 (€47,907)	\$59,983 (€53,465)	0.70% to 9.36%
Korean subsidiaries	\$3,373 (KW4,464,800)	\$3,524 (KW4,235,400)	5.84% to 6.79%
Indian subsidiary	\$2,299 (INR 190,000)	\$2,516 (INR 190,000)	8.50%
Taiwanese subsidiary	\$390 (NTD 12,000)	\$535 (NTD 15,000)	1.93%
Chinese subsidiary	\$1,009 (CNY 7,000)	\$793 (CNY 5,000)	3.50%

The above credit facilities are available by way of demand operating lines of credit, bank loans, guarantees, letters of credit and foreign exchange forward contracts. They are secured by corporate guarantees. The majority of these credit facilities have variable borrowing rates based on EURIBOR, KORIBOR, EONIA or prime rate. The borrowing rates listed above are the rates in effect as at February 28, 2023. The terms of the above facilities range from annual renewal to an indefinite term. The aggregate net book value of the assets pledged under the above credit facilities amounted to \$2,220 (2022 – \$2,576).

As at February 28, 2023, an amount of \$260 (2022 – \$550) was drawn against these secured credit facilities in the form of demand operating lines of credit and bank overdrafts. An additional \$11,192 (2022 – \$9,566) 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 28, 2023	February 28, 2022
(thousands)	\$	\$
Trade accounts payable	39,898	34,306
Goods and services taxes payable	4,639	3,753
Commissions payable	2,571	2,209
Accrued liabilities	10,543	14,373
Accrued payroll expenses	20,889	24,190
Other	868	1,672
	79,408	80,503

12 Provisions

(thousands)	Provision for performance guarantees (note a) \$	Warranty provision (note b) \$	Asbestos provision (note c) \$	Other provision \$	Total \$
Balance – February 28, 2021	18,815	7,141	2,710	3,559	32,225
Additions	2,168	3,072	19,924	2,298	27,462
Usage	(1,033)	(356)	(5,178)	(217)	(6,784)
Reversals	(16,646)	(2,001)	-	(1,523)	(20,170)
Exchange differences	(705)	(483)	-	-	(1,188)
Balance – February 28, 2022	2,599	7,373	17,456	4,117	31,545
Less: Current provision	2,599	7,373	4,355	4,117	18,444
Long-term provision	-	-	13,101	-	13,101
Additions	1,230	845	66,548	2,100	70,723
Usage	(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
Less: Current provision	2,535	5,842	2,376	5,732	16,485
Long-term provision	-	-	70,924	-	70,924

- The Company's provision for performance guarantees consists of possible late delivery and other contractual non-compliance penalties or liquidated damages. Management's best estimates considers the specific contractual terms, past experience and a probability of potential cash outflows.
- 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. For the year ended February 28, 2023, together with its process to sell the Company, management finalized its assessment and analysis of unreported claims relating to the asbestos-containing products. As a result of obtaining this information, an additional liability of \$55,954 was recognized in "administration costs". In prior years, management was unable to reasonably obtain reliable information over unreported claims.

13 Long-term debt

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Revolving credit facility (note a)	-	-
Canadian entity		
Secured bank loan (\$CAD 20,906; February 28, 2022 - \$CAD 22,500) (note b)	15,181	17,134
French subsidiaries		
Unsecured bank loan (€3,183; February 28, 2022 - €2,943) (note c)	3,366	3,302
Italian subsidiary		
Unsecured bank loan (€4,186; February 28, 2022 - €2,869) (note d)	4,427	3,219
Unsecured state bank loan (€460; February 28, 2022 - €690) (note e)	487	774
Other (note f)	6,435	6,609
	29,896	31,038
Less: current portion	8,177	8,111
	21,719	22,927

- a) On July 3, 2020, the Company and its U.S. subsidiary company, Velan Valve Corp. secured new financing in the form of a \$65,000 multi-currency revolving credit facility subject to a borrowing base calculation and renewable every three years. This revolving credit facility can be drawn in US dollars or Canadian dollars. Drawings bear interest at either the US Base rate, US Prime rate, Canadian prime rate, CDOR or SOFR, plus a margin based on the Company's excess availability. Under the terms of the credit facility, the Company is required to satisfy a restrictive covenant based on a financial ratio. As at February 28, 2023, the Company had drawn down nil (2022 - nil) on the revolving credit facility and had \$5,148 (2022 - \$3,980) in the form of outstanding letters of credit and letters of guarantee on a total of \$49,511 (2022 - \$49,365) borrowing availability. As at February 28, 2023, the Company was in compliance with all of its covenant. This credit facility expires on July 3, 2023. Management is currently negotiating an extension with the bank syndicate to push the expiry date to December 31, 2023.
- b) The secured mortgage bank loan of \$15,181 (\$CAD 20,906) bears interest at 3.80% with monthly principal repayments of \$75 and repayable over 20 years.
- c) The unsecured bank loans total \$3,366 (€3,183) and bear interest at a range of [0.25% - 2.95%]. Repayments include monthly payments totalling \$129. These loans expire between 2023 and 2028.



- d) The unsecured bank loans total \$4,427 (€4,186) and bear interest at a range of [Euribor+0.67% - Euribor+1.25%]. Repayments include monthly payments of \$17 and quarterly payments of \$283. These loans expire in 2025 and 2027.
- e) The unsecured bank loan of \$487 (€460) bears interest at Euribor+3.00% and is repayable in semi-annual payments of \$122, expires in 2024.
- f) Included in Other is an amount of \$4,909 (€4,641) (February 28, 2022 – \$5,072 (€4,521)) related to an unconditional put option held by a minority shareholder in one of the Company's subsidiary companies. This is recognized as a liability instead of non-controlling interest. The liability is initially recognized as the non-controlling interest's share of the net identifiable assets of the subsidiary or structured entity. Subsequently, the liability is carried at the amount of the present value of estimated future cash flows discounted at the original effective rate. Adjustments to the carrying value are recorded as interest expense in the consolidated statement of loss.

The aggregate net book value of the assets pledged as collateral under the revolving credit facility amounted to \$130,936 (2022 – \$130,277) and under long-term debt agreements amounted to \$15,181 (2022 – \$17,134).

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

14 Share capital

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

	As at	
	February 28, 2023	February 28, 2022
(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 established a fixed share option plan (the "Share Option Plan") in 1996, amended in fiscal 2007, to allow for the purchase of Subordinate Voting Shares by certain of its full-time employees, directors, officers and consultants. The remaining outstanding options expired during the year ended February 28, 2021.
- d) On July 13, 2017, the Company adopted a PSU plan allowing the Board of Directors, through its Corporate Governance and Human Resources ("CGHR") Committee, to grant PSUs to certain of its full-time employees. A PSU is a notional unit whose value is based on the volume weighted average price of the Company's Subordinate Voting Shares on the Toronto Stock Exchange for the 20 trading days immediately preceding the grant date. The PSU plan is non-dilutive since vested PSUs shall be settled solely in cash. Each PSU grant shall vest at the end of a three-year performance cycle, which will normally start on March 1 of the year in which such PSU is granted and end on the last day of February of the third year following such grant, subject to the achievement of certain performance objectives over such cycle, as determined by the Company's CGHR Committee.

As at February 28, 2023, the Company had no PSUs outstanding.

- e) On July 13, 2017, the Company adopted a DSU plan allowing the Board of Directors, through its CGHR Committee, to grant DSUs to certain of its independent directors and full-time employees. A DSU is a notional unit whose value is based on the volume weighted average price of the Company's Subordinate Voting Shares



on the Toronto Stock Exchange for the 20 trading days immediately preceding the grant date. The DSU plan is non-dilutive since vested DSUs shall be settled solely in cash.

Each DSU grant shall vest at the earlier of:

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

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

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 28, 2023	February 28, 2022
<i>(thousands)</i>		
<i>In numbers of DSUs</i>		
Opening balance	83,234	76,925
Issued	243	32,890
Settled	-	-
Forfeited	(9,303)	(26,581)
Closing balance	74,174	83,234
DSU expense for the years	\$126	\$151
Fair value of vested outstanding DSUs, end of years	\$520	\$412

15 Cost of sales

	For the years ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Change in inventories of finished goods and work in progress	2,182	(31,977)
Raw materials and consumables used	159,960	200,111
Employee expenses, excluding scientific research investments tax credits	65,363	70,550
Depreciation and amortization	7,803	8,722
Movement in inventory provisions – net	4	3,479
Foreign exchange loss	1,453	1,395
Other production overheads costs	21,199	23,993
	257,964	276,273

During the fiscal year, the Company applied for the Employee Retention Credit in the United States (2022 - Canada Emergency Wage Subsidy) of which \$1,017 (2022 - \$1,142) was recorded as a reduction of “Cost of sales”.



16 Administration costs

	For the years ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Employee expenses, excluding scientific research investments tax credits expenses	48,931	52,052
Scientific research investment tax credits	(1,391)	(1,594)
Commissions	4,619	7,387
Freight to customers	7,042	4,984
Professional fees	9,369	11,423
Asbestos related settlement costs (note 12)	69,676	19,924
Movement in loss allowance	(1)	(362)
Depreciation and amortization	2,940	2,926
Other	15,574	16,299
	156,759	113,039

During the fiscal year, the Company applied for the Employee Retention Credit in the United States (2022 - Canada Emergency Wage Subsidy) of which \$502 (2022 - \$905) was recorded as a reduction of "Administration costs".

17 Employee expense

	For the years ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Wages and salaries	82,249	87,674
Social security costs	26,681	29,413
Scientific research investment tax credits	(1,391)	(1,594)
Share-based compensation	126	154
Other	5,238	5,361
	112,903	121,008

During the fiscal year, the Company applied for the Employee Retention Credit in the United States (2022 - Canada Emergency Wage Subsidy) of which \$1,519 (2022 - \$2,047) is included as a reduction of "Employee expenses".

Compensation for executive and non-executive directors and certain members of senior management, including salaries and other short-term benefits and share-based compensation in the form of DSUs amounted to \$5,856 (2022 - \$6,394).



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 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Research and development expenditures	6,181	7,014
Less: Scientific research investment tax credits	(1,391)	(1,594)
	4,790	5,420

19 Income taxes

	For the years ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Current taxes	8,072	10,796
Deferred income taxes	(27)	35,635
Income tax expense	8,045	46,431

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 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Income tax at statutory rate of 26.50%	(12,565)	9,587
Tax effects of:		
Difference in statutory tax rates in foreign jurisdiction	486	130
Non-deductible (taxable) foreign exchange losses (gains)	754	(613)
Derecognition of deferred tax assets	-	32,603
Deferred tax assets not recognized	18,996	4,941
Other differences	374	(217)
Income tax expense	8,045	46,431



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

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Deferred income tax assets:		
To be realized after more than 12 months	1,889	2,559
To be realized within 12 months	2,774	2,215
Deferred income taxes liabilities		
To be realized after more than 12 months	(3,823)	(3,643)
To be realized within 12 months	(143)	(382)
Net deferred income tax asset	697	749

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

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Balance – Beginning of the year	749	36,522
Recovery of income taxes in the consolidated statement of loss	(27)	(35,635)
Exchange differences	(25)	(138)
Net deferred income tax asset	697	749

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

	As at	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Property, plant and equipment	(400)	(460)
Intangible assets	(621)	(868)
Non-deductible provisions and reserves	604	849
Investment tax credits	-	-
Inventories	1,129	1,304
Non-capital loss carryforwards	408	-
Other	(423)	(76)
Net deferred income tax asset	697	749



The Company did not recognize deferred income tax assets of \$39,520 (2022 – \$44,456) in respect of non-capital losses amounting to \$152,001 (2022 – \$149,516) that can be carried forward to reduce taxable profits in future years. These losses expire between 2038 and indefinitely.

The Company did not recognize deferred income tax assets of \$1,129 (2022 – \$1,282) in respect of capital losses amounting to \$8,520 (2022 – \$9,673) that can be carried forward indefinitely against future taxable capital gains. Deferred income tax liabilities of \$5,945 (2022 – \$5,594) have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries. Such amounts are not expected to reverse in the foreseeable future. Unremitted earnings as at February 28, 2023 totalled \$329,402 (2022 – \$304,354).

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 28, 2023	February 28, 2022
(thousands)	\$	\$
Net loss attributable to Subordinate and Multiple voting shareholders	(55,453)	(21,141)
Weighted average number of Subordinate and Multiple voting shares outstanding.	21,585,635	21,585,635
Basis and diluted loss per share	\$(2.57)	\$(0.98)

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 had one category of dilutive potential Subordinate and Multiple Voting Shares: stock options. The remaining outstanding options expired during the year ended February 28, 2021.



21 Commitments

In the normal course of business, the Company issues performance bond guarantees related to product warranty and on-time as well as advance guarantees and bid bonds. As at February 28, 2023, the aggregate maximum value of these guarantees, if exercised, amounted to \$46,937 (2022 - \$58,512). The guarantees expire as follows:

	As at
	February 28, 2023
(thousands)	\$
February 29, 2024	24,835
February 28, 2025	8,242
February 28, 2026	2,172
February 28, 2027	2,293
February 29, 2028	1,839
Subsequent years	7,556
	46,937

22 Segment reporting

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

	Fiscal year ended February 28, 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

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

23 Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Company's financial performance.

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Overview

The Company's financial instruments and the nature of risks which they may be subject to are set out in the next section.

Market risk

Currency risk

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

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



The amounts outstanding under derivatives contracts as at February 28, 2023 and 2022 are as follows:

	Range of exchange rates		Fair value (In thousands of U.S. dollars)		Notional amount (In thousands indicated currency)	
	February 28, 2023	February 28, 2022	February 28, 2023 \$	February 28, 2022 \$	February 28, 2023	February 28, 2022
Foreign exchange forward contracts						
Sell US\$ for CA\$ - 0 to 12 months	1.32	1.27-1.28	107	(470)	US\$40,000	US\$50,000
Buy US\$ for CA\$ - 0 to 12 months	1.38	1.25	(299)	301	US\$40,000	US\$50,000
Sell € for US\$ - 0 to 12 months	-	1.15	-	(90)	-	€15,000
Buy € for US\$ - 0 to 12 months	-	1.13	-	252	-	€15,000

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 28, 2023 and 2022:

	Net income (loss)	
	February 28, 2023 \$	February 28, 2022 \$
(thousands)		
Canadian dollar strengthening against the U.S. dollar	(847)	(1,284)
Euro strengthening against the U.S. dollar	(327)	53
Indian rupee strengthening against the U.S. dollar	346	155

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

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

Cash flow and fair value interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at February 28, 2023, four (2022 – three) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.0% (2022 – 10.8%) and the Company's ten largest customers accounted for 60.4% (2022 – 55.7%) of trade accounts receivable. In addition, one customer accounted for 13.4% of the Company's sales (2022 – 10.1%).



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

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

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

As at February 28, 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

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

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

Liquidity risk

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



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

As at February 28, 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

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

Fair value of financial instruments

The fair value hierarchy has the following levels:

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



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

As at February 28, 2023				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	107	-	107	-
Liabilities				
Derivative liabilities	299	-	299	-

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

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

24 Capital management

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

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

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



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

	As at	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Bank indebtedness	260	550
Current portion of long-term lease liabilities	1,298	1,360
Current portion of long-term debt	8,177	8,111
Long-term lease liabilities	9,458	11,073
Long-term debt	21,719	22,927
Total debt	40,912	44,021
Equity	200,835	265,510
Total debt-to-equity ratio	20.4%	16.6%

The Company's objective is to conservatively manage the total debt-to-equity ratio and to maintain funding capacity for potential opportunities.

The Company's financial objectives and strategy as described above have remained unchanged since the last reporting period. These objectives and strategies are reviewed annually or more frequently if the need arises.

The Company is in compliance with all covenants related to its debt and is not subject to any capital requirements imposed by a regulator.

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

	Fiscal periods ended	
	February 28, 2023 \$	February 28, 2022 \$
<i>(thousands)</i>		
Depreciation of property, plant and equipment	8,722	9,591
Amortization of intangible assets	2,021	2,055
Amortization of financing costs	251	263
Deferred income taxes	(27)	35,635
Gain (loss) on disposal of property, plant and equipment and Juwon Special Steel Co. Ltd.	200	(16,108)
Net change in long-term provisions and customer deposits	56,721	14,699
Net change in derivative assets and liabilities	185	(100)
Net change in other liabilities	(520)	(883)
	67,553	45,152

26 Changes in non-cash working capital items

	Fiscal periods ended	
	February 28, 2023	February 28, 2022
(thousands)	\$	\$
Accounts receivable	(9,837)	11,080
Inventories	14,235	(28,020)
Income taxes recoverable	(3,254)	803
Deposits and prepaid expenses	(916)	1,031
Accounts payable and accrued liabilities	1,845	(3,119)
Income taxes payable	(1,100)	2,166
Customer deposits	(11,087)	11,602
Provisions	(1,458)	(12,572)
	(11,572)	(17,029)

27 Debt from financing activities reconciliation

(thousands)	Long-term lease liabilities \$	Long-term debt \$	Total \$
Balance - February 28, 2021	14,227	58,091	72,318
Cash inflows	-	7,874	7,874
Cash outflows	(1,696)	(28,854)	(30,550)
Foreign exchange adjustments	(912)	(891)	(1,803)
Disposal of Juwon Special Steel Co. Ltd.	(48)	(5,182)	(5,230)
Other non-cash movements	862	-	862
Balance - February 28, 2022	12,433	31,038	43,471
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