MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended February 28, 2023

FISCAL 2023 HIGHLIGHTS[1] AND OUTLOOK ON 2024

	For the reporting periods ended on		
(thousands)	February 28, 2023	February 28, 2022	February 28, 2021
Operating data			
Sales	370,429	411,242	302,063
Gross Profit	112,465	134,969	80,539
Net income (loss)[2]	(55,453)	(21,141)	2,867
Adjusted net income[3]	501	11,462	2,867
Adjusted EBITDA[3]	21,092	39,599	15,573
Net income (loss)[2] per share – Basic and Diluted	(2.57)	(0.98)	0.13
Adjusted net income per share – Basic and Diluted	0.02	0.53	0.13
Balance sheet data			
Total assets	477,857	508,428	580,833
Total Long-Term Financial Liabilities	26,844	28,658	56,443
Shareholder Data			
Cash dividends per share			
- Multiple voting shares	0.02	-	-
- Subordinate voting shares	0.02	-	-
Outstanding Shares at reporting date			
- Multiple voting shares	15,566,567	15,566,567	15,566,567
- Subordinate voting shares	6,019,068	6,019,068	6,019,068

- On February 10th, 2023, Flowserve Corporation ("Flowserve") (NYSE: FLS), a leading provider of flow control products and services for the global infrastructure markets, and Velan Inc. announced that they have entered into a definitive agreement under which Flowserve will acquire Velan in an all cash transaction (the "transaction") valued at approximately $245 million (C$329 million). The resolution relating to the transaction was approved by 99.99% of the votes cast by all Velan Inc. shareholders.
- The Company closed the year with continued momentum on increasing production and sales, recovering from a slower than anticipated start in the first half, despite delivering lower sales compared to the previous fiscal year. Sales for the year amounted to $370.4 million, a decrease of 40.8 million or 9.9% compared to the previous fiscal year. The decrease in sales occurred mostly in the first half of the year where uncertainties relative to the global economy caused shipments delays by negatively affecting logistics and operations. The decrease is also partly due to the weakening of the euro average rate against the U.S. dollar combined with a lower sales volume delivered by the Company's Italian operations.
- Despite lower margins compared to the prior year, the Company continued to increase its gross profit from the first half of the current year where a significant improvement was realised. Gross profit for the year of $112.5 million, or 30.4%, a decrease of $22.5 million or 16.7% from the previous year. The gross profit percentage for the year decreased by 240 basis points from 32.8% to 30.4%. The gross profit decrease is primarily driven by the lower sales volume for the year. As noted, despite the decrease compared to the previous fiscal year, the gross profit percentage increased by 790 basis points throughout the current fiscal year from 26.8% in the first

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

quarter to 34.7% in the fourth quarter. The consistent increase in gross profit percentage was obtained primarily due to the sales increase achieved throughout the year which had a favorable impact on the absorption of fixed production overhead costs.

- Throughout the last several years the asbestos related costs have shown an increasing trend. Following additional information obtained during the strategic review process and throughout the fourth quarter of the fiscal year, the Company's management was able to estimate the impact of future unknown asbestos settlement costs. The result of this evaluation led to a non-recurring charge of $56.0 million to increase the Company's asbestos provision. Important to note that the asbestos provision does not provide for legal related costs for defense.
- Net loss[1] of $55.5 million for the year compared to $21.1 million last year. Net loss[1] for the fiscal year is adjusted for a $56.0 million charge to increase the Company's asbestos provision to reflect the potential settlement value of future unknown claims based on an actuarial study (see *Results of operations* section). Net loss[1] for the previous fiscal year is adjusted for a $32.6 million non-cash tax adjustment to derecognize a portion of the Company's deferred tax asset.
- Adjusted EBITDA[2] of $21.1 million and adjusted net income[2] of $0.5 million for the fiscal year. The decrease in adjusted EBITDA[2] is primarily attributable to the previously mentioned reduction in gross profit. As gross profit increased throughout the fiscal year, the Company improved it's adjusted EBITDA[2]. The decrease in adjusted net income[1] compared to last year is attributable to the same factors as for adjusted EBITDA[2], coupled with a favorable movement in income taxes.
- Order backlog[2] of $464.3 million at the end of the fiscal year, of which 66.3% of orders are deliverable within the next 12 months. Prior year order backlog totaled $501.2 million and included 64.2% of orders deliverable in the next 12 months.
- Net new orders ("bookings")[2] of $353.2 million for the year, a decrease of $10.3 million or 2.8% compared to the previous fiscal year. The decrease in bookings[2] is partly due to the weakening of the euro average rate against the U.S. dollar. The decrease is also due to lower bookings[2] recorded by the Company's Italian operations, which recorded significant downstream oil and gas orders in the previous year and were negatively impacted by project delays in the current fiscal year. This decrease was partially offset by higher nuclear and Navy orders recorded by Company's French and North American operations in the current fiscal year.
- The Company's net cash amounted to $50.5 million at the end of the fiscal year, a slight decrease compared to last year. The overall available liquidity remains strong with $140.9 million of available cash on-hand and facilities.

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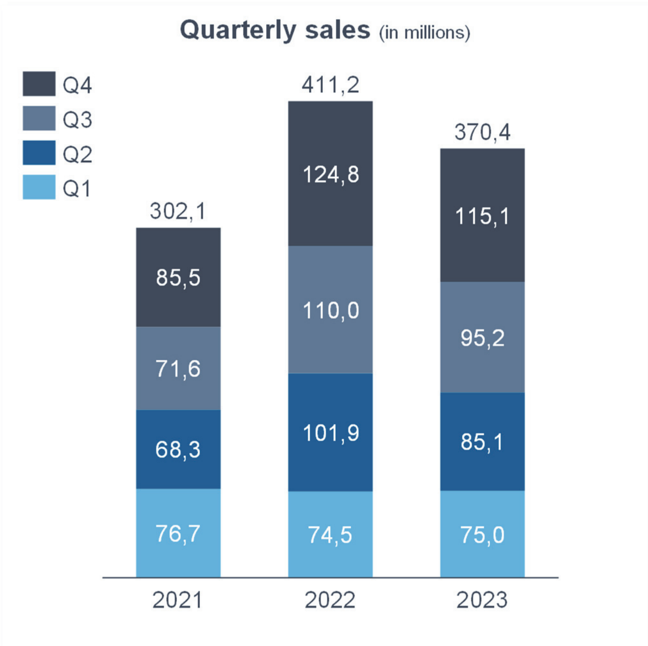
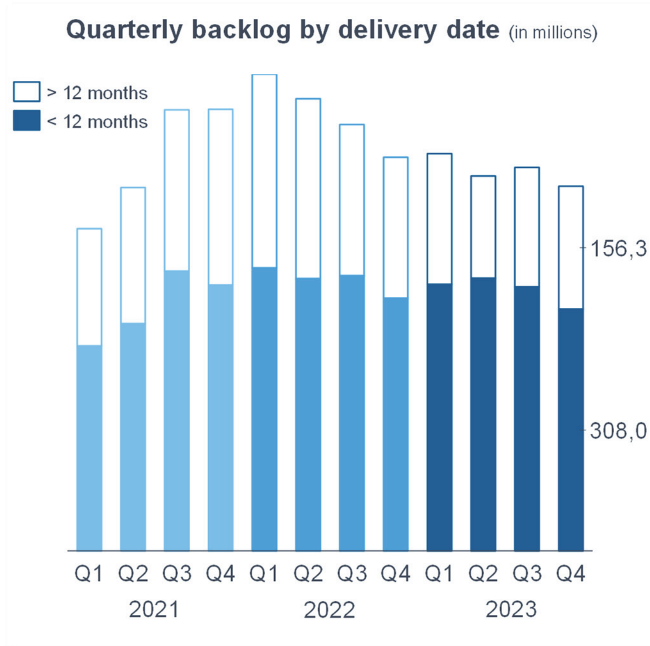
[2] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*





Outlook

Fiscal 2023 was challenging as the Company faced various problems in terms of logistics and operations which impacted the delivery of several significant orders. The Company was however able to prudently manage the business while facing these headwinds caused by the volatility on various macro economic factors across the globe. The Company was nonetheless able to present a net income when adjusted for extraordinary items as well as an adjusted EBITDA[1] slightly above recent history.

Finally, the Company will continue to preserve its net cash, by managing diligently its working capital, as the overall liquidity of the Company remains strong. The Company will aim to build on the momentum gained over the fiscal year while continuing to carefully manage and recover from the various logistics and operations issues faced predominantly in the first half of the fiscal year. The Company feels confident on its opportunity base for future bookings[1].

Management continues to closely monitor the global situation surrounding the increase in geo-political tensions, which has delayed certain significant projects, and the continued uncertainty around world health measures, ensuring the well-being and safety of employees and the continuity of operations and businesses. Furthermore, as Management believes that the strength of its financial position would allow the Company to counter certain risks, there can be no assurance that external outside economic and geopolitical factors will not materially adversely affect the Company's results of operations or financial condition. Such factors include, but are not limited to foreign currency fluctuations, in particular the Canadian dollar and the euro against the U.S. dollar, commodity price fluctuations from both a procurement (price of steel) and sales (price of oil) perspective. See *Certain Risks That Could Affect Our Business* section for more details.

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

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the fiscal year ended February 28, 2023. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2023 and 2022. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The significant accounting policies upon which these consolidated financial statements have been prepared are detailed in Note 2 of the Company's audited consolidated financial statements. All foreign currency transactions, balances and overseas operations have been converted to U.S. dollars, the Company's reporting currency. This MD&A was approved by the Board of Directors of the Company on May 17, 2023. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at **www.sedar.com**.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

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

FORWARD-LOOKING INFORMATION

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

ABOUT VELAN

The Company designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in most industry applications including power generation, oil and gas, refining and petrochemicals, chemicals, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with 1,647 employees. The Company's head office is located in Montreal, Canada. The Company's business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life. The Company's strategic goals include, but are not limited to, customer-driven operational excellence and margin improvements, accelerated growth through increased focus on key target markets where the Company has distinct competitive advantages and continuously improving and modernizing its systems and processes.

The consolidated financial statements of the Company include the North American operations comprising two manufacturing plants in Canada, as well as one manufacturing plant and one distribution facility in the U.S. Significant overseas operations include manufacturing plants in France, Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a sales operation in Germany.

RESULTS OF OPERATIONS

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

	Three-month periods ended			Fiscal year ended		
(thousands)	**February 28, 2023**	**February 28, 2022**	*Variance*	**February 28, 2023**	**February 28, 2022**	*Variance*
Sales	$115,141	$124,849	*(9,708)*	$370,429	$411,242	*(40,813)*
Gross profit	39,945	47,723	*(7,778)*	112,465	134,969	*(22,504)*
Administration costs	80,841	38,848	*41,993*	156,759	113,039	*43,720*
Income taxes	4,102	38,303	*(34,201)*	8,045	46,431	*(38,386)*
Net loss[1]	(47,164)	(25,590)	*21,574*	(55,453)	(21,141)	*34,312*
Adjusted net income[2]	8,790	7,013	*1,777*	501	11,462	*(10,961)*
Adjusted EBITDA[2]	16,468	16,592	*(124)*	21,092	39,599	*(18,507)*
Bookings[2]	87,085	77,097	*9,988*	353,176	363,451	*(10,275)*
Period ending backlog[2] of orders				464,337	501,224	*(36,887)*
(as a percentage of sales)						
Gross profit	34.7%	38.2%	*-350 bpts*	30.4%	32.8%	*-240 bpts*
(in dollars per share)						
Net income (loss)[1] per share – basic and diluted	(2.18)	(1.19)	*(0.99)*	(2.57)	(0.98)	*(1.59)*
Adjusted net income[2] per share – basic and diluted	0.41	0.32	*0.09*	0.02	0.53	*(0.51)*
Adjusted EBITDA[2] per share – basic and diluted	0.76	0.77	*(0.01)*	0.98	1.83	*(0.85)*

Backlog[2]

	As at		
(thousands)	**February 28, 2023**	**February 28, 2022**	**February 28, 2021**
Backlog[2]	464,337	501,224	562,493
For delivery within the next twelve months	307,991	321,860	338,458
For delivery beyond the next twelve months	156,346	179,364	224,035
Percentage – beyond the next twelve months	33.7%	35.8%	39.8%

As a result of sales outpacing bookings[2] in the fiscal year, the Company's book-to-bill ratio[2] was 0.95 for the year. Total backlog[2] decreased by $36.9 million or 7.4% since the beginning of the fiscal year, amounting to $464.3 million as at February 28, 2023. The reduction of the backlog[2] is primarily due to the weakening of the euro spot rate against

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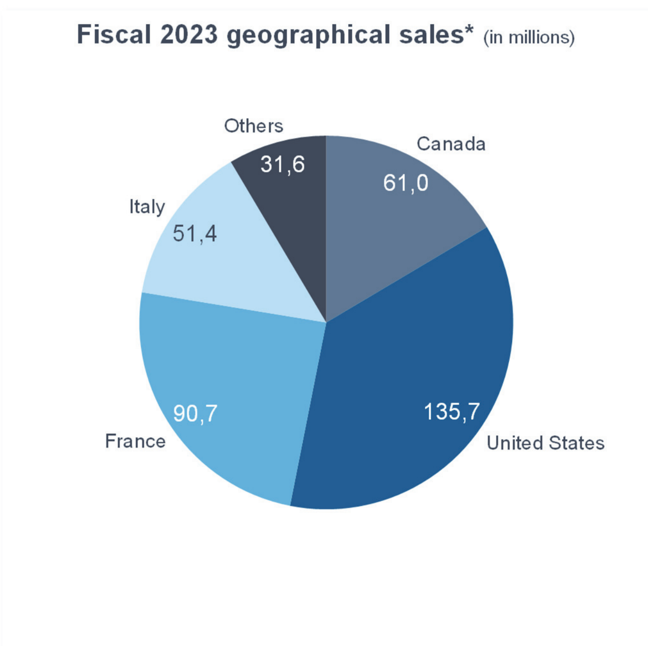
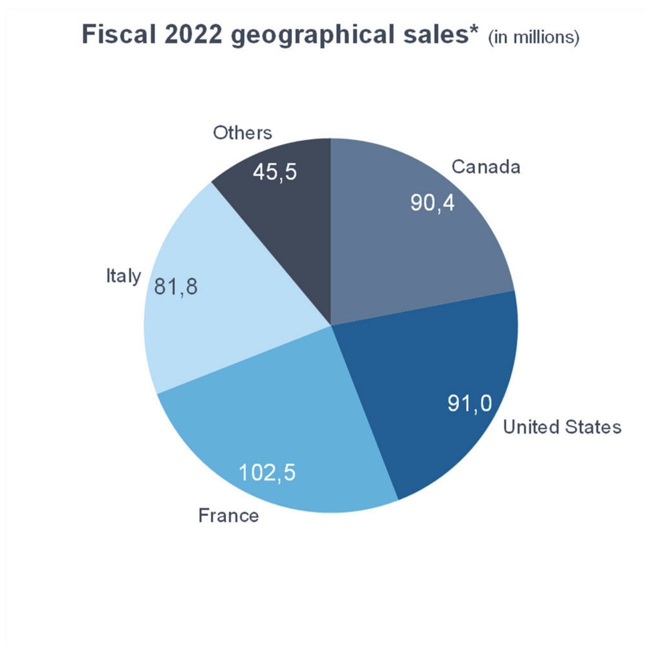
the U.S. dollar since the beginning of the fiscal year which represented $17.3 million. The Company's backlog[1] deliverable within a year is slightly lower than last year.

Bookings[1]

Bookings[1] for the quarter amounted to $87.1 million, an increase of $10.0 million or 13.0%. Bookings[1] for the fiscal year amounted to $353.2 million, a decrease of $10.3 million or 2.8% compared to the previous year. The weakening of the euro average rate against the U.S. dollar on order bookings[1] for the Company's European operations resulted in a negative impact of $3.6 million in the fourth quarter and $17.3 million on the fiscal year compared to the prior year. This increase for the quarter is also attributable to higher bookings[1] in the Company's French and German subsidiaries, mostly in the nuclear market, partially offset by lower bookings[1] in the Company's Italian operations, notably in terms of downstream oil and gas orders. The decrease for the fiscal year is partly attributable to lower bookings[1] in the Company's Italian operations, which recorded significant downstream oil and gas orders in the previous year and were negatively impacted by project delays in the current year. This decrease was partially offset by higher nuclear and Navy orders recorded by Company's French and North American operations in the current fiscal year. The decrease for fiscal year is also attributable to the disposal of the Company's Korean foundry at the end of the previous fiscal year. The Korean foundry had recorded $5.5 million of bookings[1] in the prior fiscal year.

Sales





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

Sales for the quarter amounted to $115.1 million, an increase from the previous quarter of $19.9 million or 20.9%, but a decrease of $9.7 million or 7.8% compared to the last quarter of the previous year. Sales for the fiscal year amounted to 370.4 million, a decrease of $40.8 million or 9.9% compared to last year. The negative effect of the weakening of the euro average rate against the U.S. dollar on sales for the quarter amounted to $3.8 million, and $20.0 million for the fiscal year compared to last fiscal year. Sales for both periods were negatively impacted by decreased shipments by the Company's Italian operations of orders destined to the oil and gas markets. The Company's sales in the prior year were also positively impacted by a revaluation of the provision for performance guarantees of $8.8 million for the quarter and $13.2 million for the fiscal year. Sales for the fiscal year were negatively

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

impacted by decreased shipments by the Company's North American operations of large project orders destined primarily to the petrochemical market. These negative impacts to sales for both periods were partially offset by increased MRO sales in the Company's North American operation. Finally, the fiscal year sales were also positively impacted by the recognition of a $10.9 million order destined to the process market.

Gross profit

Gross profit for the quarter amounted to $39.9 million, an increase from the previous quarter of $11.0 million or 37.9%, but a decrease of $7.8 million or 16.3% compared to the last quarter of the previous year. Gross profit for the fiscal year amounted to $112.5 million, a decrease of $22.5 million or 16.7% compared to last year. The gross profit percentage for the quarter of 34.7% is a decrease of 350 basis points compared to the same period last year, while the gross profit percentage for the fiscal year of 30.4% represents a decrease of 240 basis points compared to last year. The decrease in gross profit percentage for both periods is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The change in the gross profit percentage was also negatively impacted by the favorable revaluation of the provision for performance guarantees in the prior year (see *Sales* section). Otherwise, the Company's gross profit benefitted from a favorable revaluation of its inventory provision based on new estimates relating to changes in market demand. Finally, the Company's gross profit for the quarter was negatively impacted by unfavorable foreign exchange movements, when compared to similar movements from the previous year, which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and Canadian dollar.

Administration costs

Administration costs before non-recurring items for the quarter amounted to $24.9 million, a decrease of $0.9 million or 3.3% compared to the last fiscal year. Administration costs before non-recurring items for the fiscal year amounted to $100.8 million, an increase of $0.9 million or 0.9% compared to the previous year. Administration costs, when adjusted for these non-recurring items, were comparable to the prior year's quarter and fiscal year. The slight increase for the year is primarily attributable to costs incurred related to the announced transaction (see *Fiscal 2023 highlights and outlook on 2024* section). Administration costs for both periods were negatively impacted by a $56.0 million charge to increase the Company's asbestos provision to reflect the potential settlement value of future unknown claims based on an actuarial study. Prior year numbers included a $13.1 million charge to increase the Company's asbestos provision to account for all known litigations rather than only settled amounts. Unadjusted administration costs for the quarter amounted to $80.8 million, an increase of $42.0 million or 108.1% compared to the last quarter of the previous fiscal year. Unadjusted administration costs for the fiscal year amounted to $156.8 million, an increase of $43.7 million or 38.7% compared to last year.

Asbestos related costs

Throughout the last several years the asbestos related costs have shown an increasing trend. Following additional information obtained during the strategic review process and throughout the fourth quarter of the fiscal year, the Company's management was able to estimate the impact of future unknown asbestos settlement costs. The result of this evaluation led to a non-recurring charge of $56.0 million to increase the Company's asbestos provision.

Adjusted EBITDA[1]

Adjusted EBITDA[1] for the quarter amounted to $16.5 million or $0.76 per share compared to $6.1 million or $0.28 per share last quarter and $16.6 million or $0.77 per share in the last quarter of the previous year. Adjusted EBITDA[1] for the fiscal year amounted to $21.1 million or $0.98 per share compared to $39.6 million or $1.83 per share last year. The decrease in adjusted EBITDA[1] for both periods is primarily attributable to the previously explained decrease in gross profit, higher other expense and a $4.6 million non-recurring gain, after minority interests, on the disposal of the Company's investment in Juwon Steel Co. Ltd in the fourth quarter of the prior fiscal year. The increase in other expense is primarily attributable to the recording of a provision related to a commodity tax audit totaling $1.8 million

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

for the quarter and $2.1 million for the fiscal year. These negative movements in adjusted EBITDA[2] for the quarter were largely offset by a reduction in administration costs, excluding the $56.0 million adjustment to the asbestos provision.

Income taxes

	Three-month periods ended			
(thousands, excluding percentages)	February 28, 2023		February 28, 2022	
	$	%	$	%
Income tax at statutory rate	(11,425)	26.5	6,429	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	436	(1.0)	(421)	(1.7)
Non-deductible (taxable) foreign exchange losses (gains)	40	(0.1)	(764)	(3.2)
Losses not tax effected	14,290	(33.1)	775	3.2
Derecognition of deferred tax assets	-	-	32,603	134.4
Other differences	761	(1.8)	(319)	(1.3)
Income tax expense	**4,102**	**(9.5)**	**38,303**	**157.9**

The favorable movement in the Company's income tax expense in the current quarter and fiscal year is primarily attributable to the derecognition of deferred tax assets approach in the fourth quarter of the previous fiscal year.

	Fiscal years ended			
(thousands, excluding percentages)	February 28, 2023		February 28, 2022	
	$	%	$	%
Income tax at statutory rate	(12,565)	26.5	9,587	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	486	(1.0)	130	0.4
Non-deductible (taxable) foreign exchange losses (gains)	754	(1.6)	(613)	(1.7)
Losses not tax effected	18,996	(40.1)	4,941	13.7
Derecognition of deferred tax assets	-	-	32,603	90.1
Other differences	374	(0.8)	(217)	(0.6)
Income tax expense	**8,045**	**(17.0)**	**46,431**	**128.3**

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

Net loss[1] for the quarter amounted to $47.2 million or $2.18 per share compared to a $25.6 million or $1.19 per share last year. Net loss[1] for the fiscal year amounted to $55.5 million or $2.57 per share compared to $21.1 million or $0.98 per share last year. The net losses[1] for the quarter and the fiscal year were impacted by a $56.0 million charge to increase the Company's asbestos provision to reflect the potential settlement value of future unknown claims based on an actuarial study. The net losses[1] in the prior year's quarter and fiscal year were impacted by a $32.6 million non-cash tax adjustment to derecognize a portion of the Company's deferred tax asset. Excluding these adjustments,

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the Company's adjusted net income[1] for the quarter amounted to $8.8 million or $0.41 per share compared to $7.0 million or $0.32 per share last year. The Company's adjusted net income[1] for the fiscal year amounted to $0.5 million or $0.02 per share compared to $11.5 million or $0.53 per share last year. The movements in the Company's adjusted results were primarily attributable to the same factors as explained in the adjusted EBITDA[1] section, coupled with favorable movements in income taxes.

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

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

						As at February 28, 2023
(thousands)	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 and short-term bank loans	260	260	-	-	-	260
Derivative liabilities	299	299	-	-	-	299
Performance bonds guarantees	-	24,835	10,414	4,132	7,556	49,937

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

On February 28, 2023, the Company's order backlog[1] was 464.4 million and its net cash, subject to certain local exchange control restrictions, plus unused credit facilities amounted to $140.9 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. As at February 28, 2023, the Company is in compliance with all covenants related to its debt and credit facilities.

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

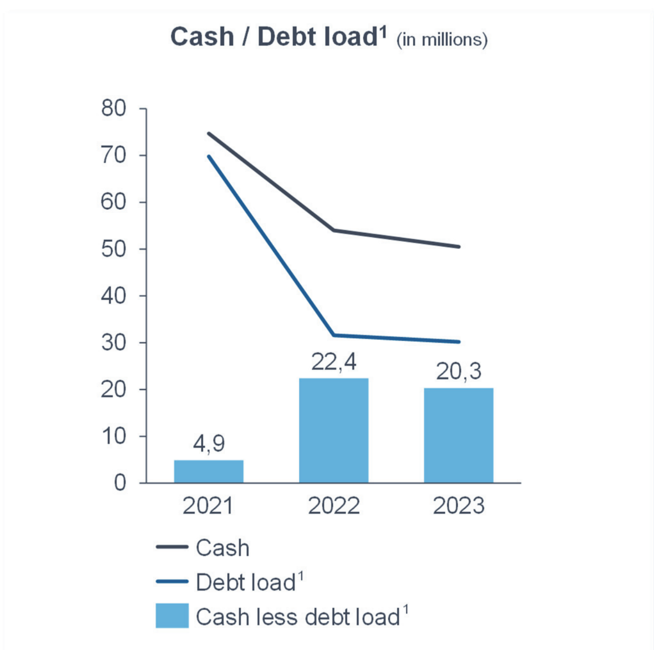
[1] *Non-IFRS and supplementary financial measures – more information at the end of this report*

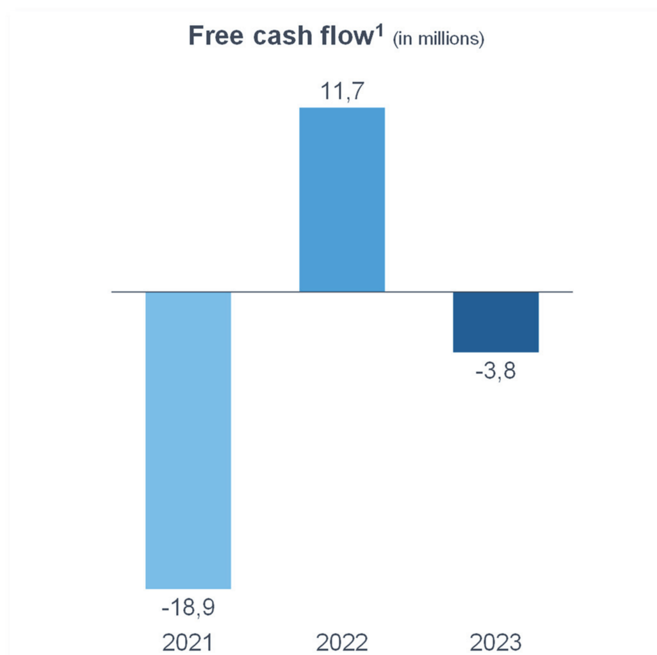
Cash flows - quarter and fiscal year ended February 28, 2023

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

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

	Three-month periods ended		Fiscal years ended	
(thousands)	February 28, 2023	February 28, 2022	February 28, 2023	February 28, 2022
Net Cash – Beginning of period	29,311	65,837	53,465	62,953
Change in net cash – held for sale	-	2,144	-	-
Cash provided by operating activities	18,489	7,876	522	17,868
Cash provided (used) by investing activities	7,103	(5,766)	1,759	(26)
Cash used by financing activities	(4,850)	(16,467)	(2,620)	(23,519)
Effect of exchange rate differences on cash	200	(159)	(2,873)	(3,811)
Net Cash – End of period	**50,253**	**53,465**	**50,253**	**53,465**





On May 17, 2023, the Board declared an eligible quarterly dividend of CA$0.03 per share, payable on June 30, 2023, to all shareholders of record as at June 16, 2023.

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

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

Operating activities

The favorable movement in cash provided by operating activities for the quarter is primarily attributable to positive changes in non-cash working capital movements. The unfavorable movement in cash provided by operating activities for the fiscal year is primarily attributable to the negative movement in adjusted EBITDA[1] partially offset by positive changes in non-cash working capital movements.

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

	Three-month periods ended		Fiscal years ended	
(thousands)	**February 28, 2023**	**February 28, 2022**	**February 28, 2023**	**February 28, 2022**
Accounts receivable	(5,750)	(7,785)	(9,837)	11,080
Inventories	16,373	5,787	14,235	(28,020)
Income tax recoverable	1,189	297	(3,254)	803
Deposits and prepaid expenses	(140)	1,806	(916)	1,031
Accounts payable and accrued liabilities	(56)	(8,197)	1,845	(3,119)
Income tax payable	879	1,571	(1,100)	2,166
Customer deposits	(12,997)	1,457	(11,087)	11,602
Provisions	1,413	(7,194)	(1,458)	(12,572)
Changes in non-cash working capital items	**911**	**(12,258)**	**(11,572)**	**(17,029)**

For the quarter and the fiscal year ended February 28, 2023, the positive non-cash working capital movements were principally due to a decrease in inventories in reaction to the reduction in backlog[1].

This negative non-cash working capital movements for both periods were partially offset by:

- A lower amount of customer deposits collected on certain large orders by the Company's French and Italian operations,
- An increase in accounts receivable due to the higher proportion of sales that occurred at the tail end of the quarter.

For the fiscal year ended February 28, 2023, the negative non-cash working capital movements were also due to an increase in income taxes recoverable primarily due to installments payments as well as required deposits made to tax authorities regarding various tax assessments.

Investing activities

Cash provided by investing activities for the quarter and the fiscal year was primarily due to collection of short-term investments, partially offset by additions to property, plant and equipment and intangible assets. The fluctuation in additions to property, plant and equipment for the current quarter is primarily attributable to the timing of the receipts of certain equipment.

Cash used by investing activities for the prior year's quarter and fiscal year was primarily due to the net cash disposal of Juwon Special Steel Co. Ltd., additions in property, plant and equipment and an increase in short-term investments, partially offset by the proceeds on disposals of property, plant and equipment. Proceeds on disposals of property, plant and equipment for the prior year's quarter and fiscal year were primarily related to the final payment received regarding the $27.0 million net sale of a land and foundry in South Korea as explained at the beginning of the section. Cash used by investing activities for the prior fiscal year was also due to the reception of a deposit related to the

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

aforementioned sale in the third quarter of the prior fiscal year as well as proceeds on disposal of property, plant and equipment related to the sale of a vacant land that used to host a production plant of the Company's North American operations. The plant's operations had already been transferred in fiscal 2017 to other plants, and the building was demolished.

Financing activities

During the current quarter, the company paid back the remaining $5.4 million drawn on its revolving credit facility. During the same quarter last year, the company paid back the remaining $16.5 million drawn on its revolving credit facility, bringing the net paid-down amount for the fiscal year to $22.1 million.

During the quarter, while the Company continued to pay down its outstanding long-term debt, its French operations borrowed $1.6 million in the form of an unsecured bank loan bearing monthly interest payments at a yearly interest rate of 2.95%, expiring in 2028. During the fiscal year, the Company's Italian operations borrowed $2.1 million in the form of unsecured bank loans, bearing annual interest between 0.67% and 0.71%, repayable quarterly and expiring in fiscal 2027. During the previous year's last quarter, the Company's French operations borrowed $1.6 million in the form of an unsecured bank loan bearing monthly interest payments at a yearly interest rate of 0.25%, expiring in 2027. During the course of the previous fiscal year, the Company's North American operations borrowed $5.9 million in the form of a secured mortgage loan bearing monthly interest payments at a yearly interest rate of 3.80%, with principal payments beginning in October 2021 and repayable over 20 years.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Market risk

Currency risk

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

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

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

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of 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 15 months	1.32	1.27-1.28	107	(470)	US$40,000	US$50,000
Buy US$ for CA$ - 0 to 15 months	1.28	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 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)	
(thousands)	February 28, 2023 $	February 28, 2022 $
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.

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 (February 28, 2022 – three) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 15.0% (February 28, 2022 – 10.8%), and the Company's ten largest customers accounted for 60.4% (February 28, 2022 – 55.7%) of trade accounts receivable. In addition, there was one (February 28, 2022 – one) customer that accounted for more than 10% of the Company's sales.

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

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

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

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

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

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

The table below summarizes the ageing of the trade accounts receivable:

	As at	
(thousands)	**February 28, 2023 $**	**February 28, 2022 $**
Current	83,118	64,689
Past due 0 to 30 days	9,961	17,995
Past due 31 to 90 days	5,902	9,248
Past due more than 90 days	14,548	16,285
	113,529	108,217
Less: Loss allowance	(481)	(509)
	113,048	107,708
Other receivables	8,005	8,126
Total accounts receivable	**121,053**	**115,834**

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

	Fiscal years ended	
(thousands)	**February 28, 2023 $**	**February 28, 2022 $**
Balance – Beginning of the year	509	1,146
Loss allowance expense	46	321
Recoveries of trade accounts receivables	(47)	(683)
Write-off of trade accounts receivable	-	(241)
Foreign exchange	(27)	(34)
Balance – End of the period	**481**	**509**

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

INTERNAL CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), in a timely manner so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52 109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at February 28, 2023 and have concluded that such disclosure controls and procedures were designed and operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the *"Internal Control-Integrated Framework (2013)"* issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO")*. This evaluation was performed by the CEO and the CFO of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the CEO and the CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively as at February 28, 2023.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company did not make any material changes to the design of internal control over financial reporting during the year ended February 28, 2023 that have materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & ASSUMPTIONS

The Company's significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated. These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below:

Inventories

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

Provisions

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

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 estimates the liability related to all settlement costs on outstanding open and future cases in relations with the Company's ongoing asbestos ligations. 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 income as well as evaluating positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. In the event these assessments are changed, there would be an adjustment to income tax expense with a corresponding adjustment to income tax balances on the consolidated statement of financial position.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Consolidation

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

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

Accounting standards and amendments issued but not yet adopted

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

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

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

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

a) the carrying amount of the liability;

b) information about the covenants;

c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period

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

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

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

The demand for the Company's products in any particular industry or market can vary significantly according to the level of economic activity in that industry or market. These potential variations may be mitigated by the fact that the Company's sales are diversified geographically as well as by end user market. There can be no assurance that an economic recession or downturns in certain industries or geographic locations, such as the current downturn in the oil and gas industry, will not have a significant adverse effect on the Company's sales.

The Company's financial condition and results of operations may also be adversely affected by commodity price volatility. Crude oil and natural gas prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. Crude oil and natural gas prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil and natural gas; global economic conditions; the actions of the Organization of Petroleum Exporting Countries ("OPEC") and OPEC+; government regulation; political stability and geopolitical factors; the ability to transport crude to markets; developments related to the market for liquefied natural gas; the availability and prices of alternate fuel sources; and weather conditions.

In 2020 and 2021, global oil prices weakened materially as a result of the global outbreak of coronavirus ("COVID-19"), compounded by OPEC+, led by Saudi Arabia and Russia, failing to reach an agreement on constraining output. Recently, global oil prices have increased, namely as a result of the military conflict in Ukraine and the related international economic sanctions imposed on Russia. Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, OPEC+ actions, inflation, the availability and cost of credit, the deceleration of economic growth in China, trade disputes between the United States and China, civil unrest in Venezuela and Iran and the outbreak of COVID-19 have contributed to increased economic uncertainty and diminished expectations for the global economy. Rapid variations of commodity prices could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is exposed to the risk of inflation fluctuation.

Asbestos litigation

Two of the Company's U.S. subsidiaries have been named as defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defense related to certain products that may have contained an internal component containing asbestos which were placed in accordance with customer's specifications. Although the Company is defending these allegations vigorously, there can be no assurance that it will prevail. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

Competition

Competitive pressures in the Company's markets could lead to a loss of market share, which could negatively impact revenues, margins and net income. The Company also competes with manufacturers based in low wage countries that offer valves at lower prices. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's results of operations and financial condition.

Backlog

The Company's order backlog consists of sales orders that are considered firm. It is also an indication of future sales revenues. However, there can be no assurance that subsequent cancellations or scope adjustments will not occur, that the order backlog will ultimately result in earnings, or when the related revenues and earnings from such order backlog will be recognized.

Dependence upon key personnel

The Company is dependent upon the abilities and experience of its executive officers and other key employees. There can be no assurance that the Company can retain the services of such executive officers and key employees. If several executive officers or other key employees were to leave the employ of the Company, its operations could be adversely affected.

Foreign currency exchange risks

Due to the geographic mix of the Company's customers and its operations, the Company is exposed to foreign currency exchange risk. The Company enters into foreign currency forward contracts in order to manage a portion of its net exposure to foreign currencies. Such forward contracts contain an inherent credit risk related to default on obligations by the counterparty, which the company mitigates by entering into contracts with sound financial institutions that it anticipates will satisfy their obligations. Risk related to currency fluctuations could have a material adverse effect on the Company's results of operations and its financial position.

Debt restrictions

The Company's operations are restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Company's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, under certain conditions, the Company's ability to:

- incur debt;
- pay dividends on stock or redeem subordinated debt;
- make investments;
- sell assets, including capital stock in subsidiaries;
- guarantee other indebtedness;
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates;
- create or assume liens securing debt;
- sell or transfer and leaseback transactions;
- engage in mergers or consolidations; and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Company's ability to plan for or react to market conditions or to meet its capital needs. The Company's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Company's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance. The restrictive covenants contained in the Company's senior note indenture, along with the Company's credit facility, do not apply to its joint ventures, minority investments and unrestricted subsidiaries.

Interest rate risk and debt financing

A portion of the Company's liabilities consist of debt instruments that bear interest at variable rates. As such, the Company is exposed to the risk of interest rate fluctuations. This risk could have an adverse effect on the Company's results of operations. At maturity of such instruments, the Company may also not be able to refinance such instruments at terms favorable to the Company, or at all. In addition, the terms of the Company`s indebtedness provide that, upon an event of default, such indebtedness becomes immediately due and payable. Failure to refinance existing indebtedness on favorable terms or to comply with the terms of such indebtedness could have a material adverse effect on the Company's results of operations and its financial position.

Availability and prices of raw materials

The price of raw materials, principally steel, represents a substantial portion of the cost of manufacturing the Company's products. Historically, there have been fluctuations in these raw material prices and, in some instances, price movements have been volatile. There can be no certainty that the Company will be able to pass on increases resulting from higher costs of raw materials to its customers through increases in selling prices, or otherwise absorb such cost increases without negatively affecting its margins.

In addition, certain raw materials become, from time to time, in short supply for periods of time. Typically, these shortages do not last long and the Company is usually able to ensure that its needs are met. However, there can be no assurances that its sources of supply will be adequate to supply all of its needs on a timely basis, particularly in the context of the global supply chain disruptions related to the Ukraine conflict.

Labour relations

A substantial portion of the Company's workforce is covered by union agreements. The collective agreement for the Montreal plant of the Company expires in 2022. Although the Company has been successful in the past in negotiating renewals, there can be no assurance that this will continue. Failure to renegotiate these agreements could lead to work disruptions or higher labour costs, which could negatively impact results.

Reliance on key suppliers

The Company has several key suppliers with whom it has invested in forging dies and casting patterns. While the Company has alternate sources for most material purchases, the loss of a key supplier could impact negatively on the Company.

Reliance on distributors and sales agents

The Company is directly affected by the ability of independent third-party distributors and sales agents retained by the Company to sell its products in their respective markets. The Company's continued success is thus dependent on its ability to attract and retain the distributors and sales agents it requires to support its existing business and to continue to grow.

Project undertakings

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

Political and economic risks associated with international sales and operations

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

The Company's business and operating results could also be adversely impacted by changes in tax laws from time to time, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

Ukraine conflict

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

Force majeure events

Force majeure events are unforeseeable events or circumstances that occur beyond the control of the Company. Such events include but are not limited to political unrest, war, terrorism, strikes, riots, and crime, as well as seismic or severe weather-related events such as earthquakes, hurricanes, tsunamis, tornadoes, ice storms, flooding and volcanic eruptions. The risk of occurrence of a force majeure event is unpredictable and may result in delays or cancellations of orders and deliveries to customers, delays in the receipt of materials from suppliers, damage to facilities or equipment, personal injury or fatality, and possible legal liability.

Product liability and other lawsuits

The Company, like other worldwide manufacturing companies, has been, and will continue to be, subject to a variety of potential liability claims or other lawsuits connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures. While the Company maintains comprehensive general liability insurance coverage which it considers to generally be in accordance with industry practice, such insurance does not cover certain categories of claims (such as ongoing asbestos claims) to which the Company is subject. Comprehensive general liability premiums have also increased significantly during the last several years. Accordingly, the Company cannot be certain that comprehensive general liability insurance coverage will continue to be available to it at a reasonable cost, or, if available, would be adequate to cover its liabilities.

Health and safety risk

The Company is committed to providing all employees, contractors, and visitors to its premises with a healthy and safe work environment. The Company has implemented a program throughout its operations with policies and procedures that must be followed to ensure that it meets all applicable health and safety laws, regulations, and standards.

Environmental compliance matters

The Company's operations and properties are subject to increasingly stringent laws and regulations relating to environmental protection, including air and water discharges, waste management and disposal and employee safety. Such laws and regulations both impose substantial fines for violations and mandate cessation of operations in certain circumstances, the installation of costly pollution control equipment, or the undertaking of costly site remediation activities. Furthermore, new laws and regulations, or stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean up requirements could require the Company to incur additional costs which could be significant.

Controls over disclosures and financial reporting

In accordance with National Instrument 52-109, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing, maintaining, and evaluating the effectiveness of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer are also responsible for the effective design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. A system of controls is subject to certain inherent limitations and is partially based on the possibility or probability of future events. Accordingly, a system of internal controls can provide only reasonable, and not absolute, assurance of reaching the desired objectives.

Control of the Company

Velan Holding Co. Ltd. (the “Controlling Shareholder”) owns 15,566,567 Multiple Voting Shares representing, in the aggregate, approximately 92.8% of the voting interests in the Company. Voting control enables the Controlling Shareholder to determine all matters requiring shareholder approval. The Controlling Shareholder has advised the Company that the disposition of the shares requires the consent of certain Velan family members and controlled entities.

The Controlling Shareholder effectively has sufficient voting power to prevent a change in control of the Company, which may negatively affect the price and liquidity of the Subordinate Voting Shares (as such term is defined herein). The sale of a significant number of Subordinate Voting Shares by the Controlling Shareholder pursuant to the exercise of the conversion right attached to the Multiple Voting Shares may negatively impact upon the market price and liquidity of the Subordinate Voting Shares.

Income and other tax risks

The Company operates in a number of different tax jurisdictions and has a significant amount of cross-border purchase and sale transactions. The tax rules and regulations in various countries are becoming more complex. There is a risk that one or more tax authorities could disagree with the tax treatment adopted by the Company, resulting in defense costs and possible tax assessments.

Compliance with international laws

Due to the international nature of its operations, the Company is subject to differing systems of laws and regulations which are often complex and differ from one country to the next. Such laws and regulations include but are not limited to anti-bribery legislation, export and customs controls, foreign currency exchange controls, transfer pricing regulations and economic sanctions imposed by governmental authorities. Failure to comply with such laws could negatively impact earnings and may result in criminal, civil and administrative legal sanctions. The Company has implemented policies and procedures to effect compliance with these laws by its employees and representatives.

Non-controlling interest

The Company’s operations in China and Taiwan, and certain of its operations in France are undertaken with partners that are classified as non-controlling interest. The success of these operations depends on the satisfactory performance of such partners in their obligations. The failure of such partners to perform their obligations could impose additional financial and performance obligations on the Company that could negatively impact its earnings and financial condition.

Cybersecurity

The Company’s information technology networks are critical to the day-to-day operation of its business, and include information about its finances, employees, products, customers and suppliers. Cybersecurity risks are becoming increasingly sophisticated, varied and numerous. The potential consequences of a material cybersecurity breach could include loss of key information, reputational damage and disruption of operations, with consequential material negative financial consequences. While the Company devotes substantial resources to maintaining and securing its information technology networks, there can be no assurance that the Company will be able to prevent, detect or respond to a potential breach of its information technology networks because of, among other things, the evolving nature of cybersecurity threats, the difficulty in anticipating such threats and the difficulty in immediately detecting all such threats. The failure to prevent, detect or respond to a breach in the Company’s information technology networks could have a material adverse impact on the Company's business, financial condition, result of operations and cash flows.

Risks associated to the Arrangement

The completion of the arrangement (the "**Arrangement**") pursuant to the arrangement agreement entered into as of February 9, 2023 among the Company, 14714750 Canada Inc. (the "**Purchaser**") and Flowserve US Inc., as amended by the first amendment to the arrangement agreement dated March 27, 2023 (the "**Arrangement Agreement**") is still subject to a number of conditions, certain of which are outside the control of the Company, including receipt of applicable regulatory approvals, and no governmental entity issuing any laws, regulations or other instruments that has the effect of making the Arrangement illegal or otherwise prohibiting the consummation of the Arrangement, all of which are further described in the manner described in the management information circular of the Company dated March 30, 2023 . The Arrangement Agreement also contains a number of additional conditions for the benefit of the Purchaser including compliance with covenants by the Company, the truth and correctness of certain representations and warranties made by the Company as of the closing of the Arrangement, and the absence of a Material Adverse Effect (as such term is defined in the Arrangement Agreement) between the date of the Arrangement Agreement and the closing of the Arrangement. There can be no certainty, nor can the Company provide any assurance, that these conditions will be satisfied or waived or, if satisfied or waived, when they will be satisfied or waived.

If the Arrangement is not completed, the market price of the Velan's shares may decline to the extent that the market price reflects a market assumption that the Arrangement will be completed. If the Arrangement is not completed and the board of directors decides to seek another merger or business combination, there can be no assurance that it will be able to find a party willing to pay an equivalent or more attractive price than the consideration to be paid pursuant to the Arrangement.

Certain costs related to the Arrangement, such as legal, and certain financial advisor fees, must be paid by the Company even if the Arrangement is not completed. The Arrangement could cause the attention of management to be diverted from the day-to-day operations of the Company. The Arrangement also imposes covenants that restrict the Company's from taking certain actions. These disruptions could be exacerbated by a delay in the completion of the Arrangement and could have an adverse effect on the business, operating results or prospects of the Company.

In addition, since the completion of the Arrangement is subject to uncertainty, officers and employees of the Company may experience uncertainty about their future roles with the Company. This may adversely affect the Company's ability to attract or to retain key management and personnel in the period until the Arrangement is completed or terminated. In response to this same uncertainty, the Company's customers, suppliers and partners may delay or defer decisions concerning the Company. Any change, delay or deferral of those decisions by customers, suppliers and partners could negatively impact the Company's business, operations and prospects, regardless of whether the Arrangement is ultimately completed.

Further information regarding the Arrangement and the specific risk factors related thereto can be found in the Company's management information circular dated March 30, 2023, which is available under the Company's profile on SEDAR at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

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

	QUARTERS ENDED							
	February 2023	**November 2022**	**August 2022**	**May 2022**	**February 2022**	**November 2021**	**August 2021**	**May 2021**
Sales	$115,141	$95,229	$85,054	$75,005	$124,849	$109,971	$101,893	$74,529
Net income (loss)[1]	(47.164)	2,739	(3,676)	(7,352)	(25,590)	4,507	5,015	(5,073)
Net income (loss)[1] per share								
- Basic and diluted	(2.18)	0.13	(0.17)	(0.34)	(1.19)	0.21	0.23	(0.24)
Adjusted net income (loss)[2]	8,790	2,739	(3,676)	(7,352)	7,013	4,507	5,015	(5,073)
Adjusted net income (loss)[2] per share								
- Basic and diluted	0.41	0.13	(0.17)	(0.34)	0.32	0.21	0.23	(0.24)
Adjusted EBITDA[2]	16,468	6,136	1,365	(2,878)	16,592	13,291	10,657	(941)
Adjusted EBITDA[2] per share								
- Basic and diluted	0.76	0.28	0.06	(0.13)	0.77	0.62	0.49	(0.04)

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

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

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

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

	Three-month periods ended		Fiscal year ended	
(thousands, except amount per shares)	February 28, 2023 $	February 28, 2022 $	February 28, 2023 $	February 28, 2022 $
Net loss[1]	(47,164)	(25,590)	(55,453)	(21,141)
Adjustment for:				
Derecognition of deferred tax assets	-	32,603	-	32,603
Adjustment to asbestos provision	55,954	-	55,954	-
Adjusted net income	**8,790**	**7,013**	**501**	**11,462**
Adjusted net income per share				
- Basic and diluted	0.41	0.32	0.02	0.53
Adjustments for:				
Depreciation of property, plant and equipment	2,452	2,401	8,722	9,591
Amortization of intangible assets	608	753	2,272	2,318
Finance costs – net	516	725	1,552	2,400
Income taxes (excluding Derecognition of deferred tax asset)	4,102	5,700	8,045	13,828
Adjusted EBITDA	**16,468**	**16,592**	**21,092**	**39,599**
Adjusted EBITDA per share				
- Basic and diluted	0.76	0.77	0.98	1.83
Bank Indebtedness	260	500	260	500
Current portion of long-term debt	8,177	8,111	8,177	8,111
Long-term debt	21,719	22,927	21,719	22,927
Debt Load	**30,156**	**31,538**	**30,156**	**31,538**
Cash provided by operating activities	18,489	7,876	522	17,868
Additions to property, plant and equipment	(1,385)	(1,196)	(4,370)	(6,144)
Free cash flow	**17,104**	**6,680**	**(3,848)**	**11,724**

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

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

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

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

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

Definitions of supplementary financial measures

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

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

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

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