

**VELAN INC.
ANNUAL INFORMATION FORM
FOR THE FISCAL YEAR ENDED
FEBRUARY 28, 2013**

May 28, 2013

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THE COMPANY

INCORPORATION

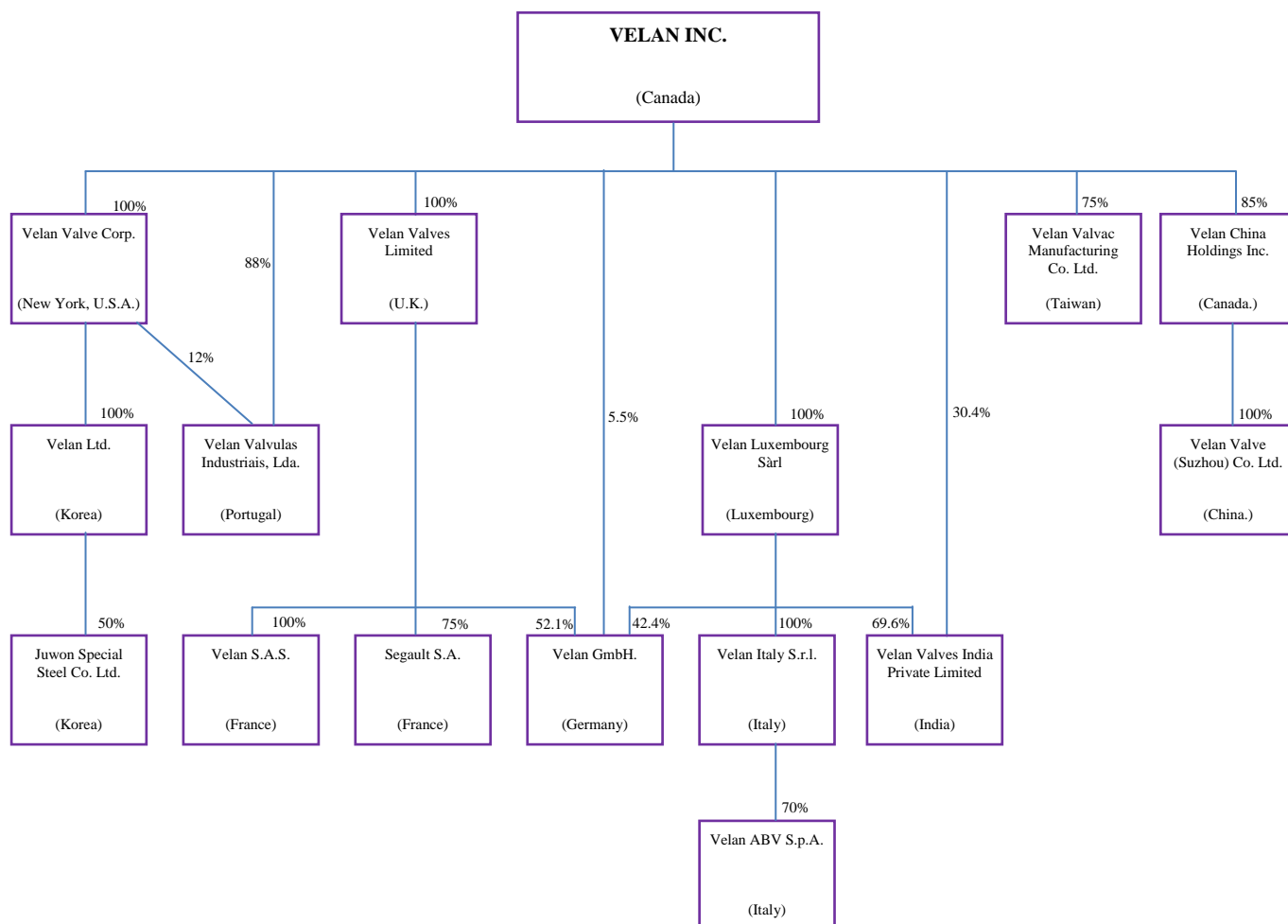
Velan Inc. (“Velan” or the “Company”) was incorporated under the *Companies Act* (Canada) on December 12, 1952 and was continued under the *Canada Business Corporations Act* on February 11, 1977. Velan’s articles have been amended from time to time, including when its name was changed from Velan Engineering Ltd. to Velan Inc. on February 1, 1981 and its share capital was modified on September 17, 1996.

The registered and principal office of Velan is located at 7007 Cote de Liesse Road, St. Laurent, Quebec, H4T 1G2.

In this Annual Information Form, unless the context otherwise requires or indicates, “Velan” and “Company” means Velan Inc. or Velan Inc. together with its subsidiaries and the 50% owned companies that are consolidated in the accounts of Velan, or any one or more of them, as the case may be. All references to currency amounts are in US dollars, unless otherwise noted.

SUBSIDIARIES

The following organizational chart illustrates the current corporate structure of Velan, its subsidiaries and the majority and 50% owned companies, and their respective jurisdictions of incorporation, as of May 17, 2013.



GENERAL DEVELOPMENT OF THE COMPANY OVER THE LAST THREE YEARS

In December 2010, the Company incorporated a company in India. This company commenced commercial operations in Fiscal 2012.

In April 2011, Velan acquired a 70% interest in ABV Energy SpA, an Italian valve manufacturer located in Lucca, Italy. Velan ABV SpA, as it has been renamed, manufactures engineered valves, actuators and control systems supplied to energy markets.

BUSINESS OF THE COMPANY

INTRODUCTION

Velan designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in many industries including power generation, oil and gas, refining and petrochemicals, chemicals, pulp and paper, LNG and cryogenics, mining and shipbuilding. The Company is a world leader in steel industrial valves used primarily in high-temperature or high-pressure applications, with one of the most comprehensive industrial valve lines of gate, globe, check, ball, butterfly and engineered severe service valves made from carbon, alloy or stainless-steel, in sizes varying from 1/2" to 64" in diameter.

The Company has 17 valve manufacturing plants, of which four are in Canada, two in each of France, Italy and Korea and one in each of the United States, Portugal, the United Kingdom, Taiwan, China and India. The Company's global network also includes five stocking distribution centers and hundreds of distributors and service shops worldwide. The Company sells its products directly and through this international network of distributors and agents supported by regional sales managers. Velan employs over 2,000 people, 55% of whom are located in North America.

The cornerstone of the Company's business strategy has been to design, manufacture and market new and innovative valves with emphasis on quality, safety, ease of operation, simple in-line maintenance and long service life.

PRODUCTS

The Company manufactures a broad line of industrial steel valves for application in a large number of industries. Velan's many product lines are grouped into the broad categories of gate, globe, check and quarter-turn valves. Within these product groups, the Company offers one of the most comprehensive product offerings available from any valve manufacturer, in sizes varying from 1/4" to 64", with pressure ratings from vacuum to over 10,000 psi, temperature ratings from -458 to 1,500 °F, and availability of many material and design options. Velan offers a wide range of automation options as well. All of Velan's valves are designed and manufactured with quality as a priority, and incorporate many unique design features for environmentally friendly performance, simple maintenance, reliable service and low total cost of ownership.

Gate, Globe and Check Valves

Gate, globe and check valves constitute the most significant part of Velan's product line.

- **API 600 cast steel gate, globe, and check valves**

Velan is one of the world's largest manufacturers of these valves, which are used extensively in process industries (such as oil, chemical, petrochemical, refining, and pulp and paper) and power industries (such as nuclear, fossil fuel, and cogeneration power).

- **API 603 stainless-steel gate, globe, and check valves**
A complementary product to the API 600 valves, these products are used for corrosive applications in the petrochemical and related industries.
- **API 602 small forged gate, globe, and check valves**
As part of the Company's most mature product line, these valves remain the leading choice for high performance in virtually any industrial application. This product line includes many different configurations and options, making the valves suitable for standard services and tough applications alike.
- **Large forged pressure seal and bolted bonnet gate, globe, and check valves**
Velan's forged high pressure valves are used extensively by the nuclear and fossil power generation industries, the US Navy, and other industries with high pressure/temperature steam applications. Velan is the only manufacturer supplying forged valves in sizes up to 24" using one-piece closed-die forged bodies for superior quality and performance.
- **Y-pattern valves**
Velan's high-pressure y-pattern globe valves are widely used in power plants around the world. They are maintenance friendly, incorporate many design features and offer quick in-line serviceability.
- **Knife gate valves**
Velan's all stainless steel conventional or bolted bonnet knife gate valves offer a high performance option for handling slurries in pulp and paper mills and other industries.
- **Proquip dual-plate check valves**
Built for long, reliable service life in critical services, this engineered product line extends from valves for cryogenics to high temperatures and pressures (ASME 2500), standard to specialty materials (monel, inconel, titanium) and sizes up to 60". It is used primarily in the oil and gas industries.

Many of the above products are available with options that enable them to handle different special services such as corrosive and erosive fluids, cryogenics, and meet nuclear quality standards.

Quarter-Turn Valves

The Company's quarter-turn product line continues to grow in importance. Many of the Company's most technically advanced products developed recently fall under this category.

- **Resilient-seated ball valves**
Velan manufactures a wide range of Memoryseal™ ball valves with a unique seat design for superior performance.
- **Securaseal™ metal-seated ball valves**
Velan's Securaseal™ metal-seated ball valves are for severe applications including high temperature, highly corrosive and/or abrasive media applications.. Velan has become a leader in metal-seated ball valves for several niche markets, including HPAL mineral processing.
- **Coker ball valves**
Velan is a world leader in ball valves for delayed cokers, one of the toughest applications in an oil refinery. Since they were first introduced to the market over 25 years ago, Velan valves have been installed in well over a hundred refineries across the globe.

- **Power ball valves**
These high-pressure/high temperature ball valves help meet the power industry's growing demand for quarter-turn products. Power ball valves are rugged, one-piece forged valves, designed to handle the toughest steam isolation applications in nuclear and thermal power plants as well as other steam applications.
- **API 6D pipeline ball valves**
The Company sells an extended range of trunnion-mounted pipeline ball valves up to 64" in size, produced by the joint venture in Italy. These valves perform a variety of standard and severe services, including cryogenic, offshore, sub sea, and underground.
- **Torqseal triple-offset butterfly valves**
A technically advanced product offering, these zero-leakage valves are built for long and reliable service life in critical services. Since they can handle everything from cryogenics to high temperatures and pressures, they're put to work in a wide range of environments such as offshore oil platforms, fossil and nuclear power plants, and petroleum refineries.
- **Velflex high performance cryogenic butterfly valves**
Velan is a pioneer and market leader in this type of cryogenic butterfly valve used in the liquid natural gas (LNG) industry.

Other Products

In addition to the foregoing primary product groups, the Company also offers:

- **Bimetallic steam traps**
This comprehensive range of steam traps is based on a unique bimetallic design that was developed and originally patented by A.K. Velan, Founder of Velan. Bimetal is a composite metal comprising two or more metallic layers with different coefficients of expansion, which changes curvature when subjected to heat. Velan steam traps are commonly used in a wide range of steam applications including a high-pressure range for thermal and nuclear power plants or aboard ships. The product range includes the innovative Piping Kings which combine a trap with two valves and a bypass for easy in-line maintenance and efficient installation.
- **Adareg control valves**
These control valves are designed for severe service conditions. Adareg valves are used for cryogenic applications, such as in CERN, the world's largest particle physics laboratory, where one finds temperatures down to -273 C. They are also used in other research and aerospace applications as well as nuclear service.

The ABV acquisition in April 2011 added valves manufactured to API6D and 6A standards as well as emergency shut-down valves, high integrity pressure protection systems (HIPPS), subsea ball valves, control ball valves, diverter valves, modular double block and bleed valves, slab gate valves, choke valves, and nozzle check valves. The company also manufactures its own line of pneumatic and hydraulic actuators, including gas-over-oil actuators.

SALES, DISTRIBUTION AND MARKETING

The Company sells its products directly or through a network of distributors and agents.

Velan's sales team is engaged in both direct sales and sales support and has a team of sales agents in North America and abroad. Velan's distribution network includes over 100 distributors, with branches in the United States, Canada and overseas. As industrial distributors play a major role in selling valves to end users,

Velan has a selective distribution in some areas by offering selective exclusive geographic territories for each product line and in other areas working with more than one distributor for the same territory and products.

The sales effort is supported by a customer service department which deals with service problems in the field. The department maintains a data base of all reported problems used to assess requirements for corrective action. The service program is supplemented by companies that qualify as approved service/modification shops and must have acceptable quality assurance programs and pass audits by Velan personnel. There are currently over 35 approved service/modification shops in North America and over 25 overseas, including Velan subsidiaries in France, Portugal, Korea, China and Taiwan, which provide extensive maintenance service for valves used in thermal and nuclear power stations.

The Company promotes its products through its regular participation in trade shows, the twice yearly publication of its flagship publication, Velan View, and the distribution of a variety of product catalogues and brochures and by product seminars.

MARKETS SERVED

Velan sells its valves worldwide and has been successful in developing markets for its products in approximately 60 countries. The geographic breakdown of sales during the last two fiscal years was as follows:

Fiscal 2013		Fiscal 2012	
Canada	11 %	Canada	9%
United States	27%	United States	30%
Outside North America	62%	Outside North America	61%

RAW MATERIALS

The Company sources its raw material and components on a worldwide basis. Most raw material purchases consist of castings and forgings. To ensure the high quality of its raw materials, the Company maintains inspection programs at its key suppliers. Other purchases include actuators and valve components such as stems, bolting and packing. The Company has access to more than one supplier for most of its raw material and component requirements.

Agreements with major suppliers are negotiated periodically by head office. Each manufacturing facility then purchases material at the established price.

INTANGIBLE RIGHTS

The Company owns a limited number of trademarks and patents relating to the name and special designs of some of its products. While its trademarks, patents and licenses provide some marketing benefits, the Company believes that its products, competitiveness and reputation for quality are significantly more important.

COMPETITION

The industrial valve industry is global and very fragmented. However, there has been a trend towards consolidation. There are a relatively small number of large, global companies and a large number of small to medium sized companies specializing in niche markets, products and applications. Fragmentation is further

intensified by the different product and market focus of most companies. While there are numerous different applications and industries in which valves are used, competition in each segment is strong.

Generally, the industry is divided between manufacturers of standard commodity valves and manufacturers of highly engineered valves, but commodity valve manufacturers are expanding into more engineered valves. Valve companies range from fully integrated manufacturers with casting foundries to companies whose valves are manufactured on a subcontracted basis in low wage countries under their own brand names. The degree of competition generally varies depending on the product with less competition in highly engineered valves than in standard commodity valves. The Company has a large number of competitors, attributable to its broad product line and worldwide sales.

Over the last several years there has been rapid expansion of valve production in Asia, particularly in China and India. Chinese manufacturers sell at substantially lower prices and are making inroads in international markets, both as sub-contractors to other valve companies and under their own brand names.

While price competition has become increasingly important, the Company considers that factors such as quality, valve performance, engineering capability, customer service and experience in handling large projects will continue to be important criteria in end users' valve procurement decisions.

HUMAN RESOURCES

As of February 28, 2013, the Company had 2,030 full time employees, 923 of whom were located in Canada, 182 in the United States and 925 overseas.

ENVIRONMENTAL MATTERS AND PRODUCT LIABILITY

The Company's operations are subject to various federal, provincial, state, national and local laws and regulations relating to the protection of the environment. Compliance with these laws and regulations requires the Company to incur expenses and monitor its operations on an ongoing basis. Velan believes that its operations are in compliance in all material respects with such environmental laws and regulations. The Company maintains programs to reduce hazardous waste and maintains contracts for its disposal with duly authorized contractors. Management does not believe that environmental protection requirements shall have any material financial or operational effect on the capital expenditures, earnings and competitive position of the Company.

The Company maintains product liability and other insurance coverage which it believes to be generally in accordance with industry practices, and the product liability policies do not cover all categories of liabilities.

RISK FACTORS

Cyclical Nature of End User Markets

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 will not have a significant adverse effect on the Company's sales.

Competition

Competitive pressures in our 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 substantially 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

Velan 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. See "Directors and Officers".

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 simple 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.

Interest rate risk

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.

Availability and Prices of Raw Materials

The price of raw materials, principally steel, represents a substantial portion of the cost of manufacturing Velan'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 significantly affecting its margins.

In addition, certain raw materials are in short supply for a period 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.

Labour Relations

A substantial portion of the Company's workforce is covered by union agreements. 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

Velan is directly affected by the ability of independent third party distributors and sales agents retained by the Company to sell Velan's 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 sales of valves, the Company may enter into contracts that provide for the production of valves at specified prices and in accordance with time schedules. These contracts may involve greater risks as a result of unforeseen increases in the prices of raw materials and other 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. The Company's business and operating results could be impacted by trade protection measures, changes in tax laws, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

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.

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. Although we are defending these allegations vigorously, there can be no assurance that we will prevail. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on our business, financial condition, results of operations and cash flows.

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. Product 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. The Company recognizes that a lack of a strong health and safety program may expose it to lost production time, penalties and lawsuits, and may impact future orders as customers may take into account the Company's health and safety record when awarding sales contracts.

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 CEO and the CFO 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 Canadian GAAP. 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 92.5% of the voting interests in Velan. 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.

The sale of a significant number of Subordinate Voting Shares by the Controlling Shareholder pursuant to the exercise of the conversion right attaching to the Multiple Voting Shares may impact upon the market price and liquidity thereof.

Income and other tax risks

The Company operates in a number of different tax jurisdictions and has a significant number 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.

Special purpose entities and non-controlling interest

The Company's operations in China, Taiwan and Italy, and certain of its operations in France and Korea are undertaken with partners that are classified as special purpose entities or 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.

Business acquisitions

The success of a business acquisition depends in part upon the integration of the acquired business through such tasks as the realization of synergies, elimination of cost duplication, information systems integration, and establishment of controls and procedures. The inability to adequately integrate an acquired business in a timely manner might result in lost business opportunities, higher than expected integration costs and departures of key personnel, all of which could have a negative impact on earnings.

DIVIDENDS

The Company pays a dividend at an annual rate of C\$0.32 per share, payable quarterly.

CAPITAL STRUCTURE

Velan's authorized share capital consists of an unlimited number of preferred shares, issuable in series (the "Preferred Shares"), an unlimited number of multiple voting shares (the "Multiple Voting Shares"), and an unlimited number of subordinate voting shares (the "Subordinate Voting Shares") all without nominal or par value.

The Preferred Shares may be issued from time to time, in series, the terms of each series including the number of shares, the designation, rights, privileges, restrictions and conditions to be attached to such Preferred Shares to be determined by the Board of Directors of Velan, provided that Preferred Shares shall rank, with respect to the payment of dividends and the distribution of capital in the event of liquidation, dissolution or wind-up of Velan or other distribution of assets of Velan, *pari passu* among themselves and in priority over the Subordinate Voting Shares and the Multiple Voting Shares.

Each of the Multiple Voting Shares carries the right to five votes per share and each of the Subordinate Voting Shares carries the right to one vote per share at any meeting of the shareholders of Velan, except meetings at which only holders of a specified class are entitled to vote. Subject to the prior rights of the holders of Preferred Shares and any other shares ranking senior to the Multiple Voting Shares and the Subordinate Voting Shares with respect to the payment of dividends, all dividends which may be declared or paid on the Multiple Voting Shares and the Subordinate Voting Shares shall rank equally and all dividends declared and paid shall be declared and paid in identical amounts, on a per share basis, to the holders of Multiple Voting Shares and Subordinate Voting Shares, without preference or distinction.

In the event of the liquidation, dissolution or winding-up of Velan, whether voluntary or involuntary, or other distribution of assets of Velan among shareholders for the purpose of winding-up its affairs, subject to the rights, privileges, restrictions and conditions attaching to the Preferred Shares and to any other class of shares ranking prior to the Subordinate Voting Shares or the Multiple Voting Shares, the holders of the Subordinate Voting Shares and the holders of the Multiple Voting Shares shall be entitled to receive the remaining property of Velan; the Subordinate Voting Shares and the Multiple Voting Shares shall rank *pari passu* on a per share basis with respect to the payment of dividends and distribution of assets in the event of the liquidation, dissolution or winding-up of Velan, whether voluntary or involuntary, or any other distribution of the assets of Velan among shareholders for the purpose of winding up its affairs.

The Multiple Voting Shares may, at any time at the option of the holder, be converted into Subordinate Voting Shares on the basis of one Subordinate Voting Share for each Multiple Voting Share.

MARKET FOR SECURITIES

The Subordinate Voting Shares are listed on the Toronto Stock Exchange.

The C\$ price ranges and volume of the Subordinate Voting Shares traded on the TSX on a monthly basis from March 1, 2012 up to and including February 28, 2013 was as follows:

Subordinate Voting Shares (VLN)

<u>Month</u>	<u>High</u>	<u>Low</u>	<u>Volume Traded</u>
March 2012	12.45	12.00	11,000
April 2012	12.45	12.00	11,600
May 2012	12.55	11.64	13,500
June 2012	12.30	11.60	15,700
July 2012	12.10	11.62	316,900
August 2012	11.80	11.40	106,900
September 2012	11.80	11.20	52,000
October 2012	11.90	10.96	103,600

November 2012	11.60	11.15	59,200
December 2012	11.50	11.15	124,200
January 2013	11.99	11.40	155,900
February 2013	12.70	11.70	37,100

DIRECTORS AND OFFICERS

The following table lists the directors and executive officers of Velan. Each director is elected to hold office until the close of the next annual meeting of shareholders or until a successor is duly elected, unless his office is earlier vacated in accordance with the by-laws of Velan.

Name and municipality of residence	Principal Occupation	Office	Period during which Served as a Director
A.K. Velan ⁽¹⁾ Montreal, Quebec, Canada	Founder and Executive Chairman of Velan	Executive Chairman	1952-current
Ivan Velan ⁽¹⁾ Montreal, Quebec, Canada	Executive Vice-President of Velan	Executive Vice-President, and Director	1971-current
Thomas Velan ⁽¹⁾ Montreal, Quebec, Canada	President and CEO of Velan	President and CEO and Director	1976-current
Gabor Jellinek ⁽²⁾ Montreal, Quebec, Canada	President, GJ Holdings Inc. (private investment company)	Director	2003-current
William Sheffield ^{(2),(3)} Vancouver, British Columbia, Canada	Corporate Director	Director	2004-current
Kenneth MacKinnon ^{(2),(3)} Montreal, Quebec, Canada	President and CEO, MacKinnon, Bennett & Co. (private investment company)	Director	2005-current
Peter Velan ⁽⁴⁾ Montreal, Quebec, Canada	Corporate Director	Director	2008-current
Anna Martini ^{(2),(3)} Montreal, Quebec, Canada	President, Groupe Dynamite Inc. (specialty apparel retailer)	Director	2008-current
Victor Apostolescu Kirkland, Quebec, Canada	Vice-President, Quality Assurance of Velan	Vice-President, Quality Assurance	—

Name and municipality of residence	Principal Occupation	Office	Period during which Served as a Director
John Ball Montreal, Quebec, Canada	Chief Financial Officer of Velan	Chief Financial Officer	—
Stephen Cherlet Beaconsfield, Quebec, Canada	Chief Operating Officer of Velan	Chief Operating Officer	—
Sabine Bruckert Montreal, Quebec, Canada	Vice-President, Human Resources and General Counsel, Corporate Secretary of Velan	Vice-President, Human Resources and General Counsel, Corporate Secretary	—
Jose del Buey Montreal, Quebec, Canada	Vice-President, Severe Service Applications of Velan	Vice President, Severe Service Applications	—
Paul Dion Vaudreuil-Dorion, Quebec, Canada	Vice-President, Canadian Sales of Velan	Vice-President, Canadian Sales	—
Wolfgang Maar Houston, Texas, United States of America	Executive Vice-President, International Sales and Overseas Operations of Velan	Executive Vice-President, International Sales and Overseas Operations	—
Paul Lee Hockessin, Delaware, United States of America	Vice-President, Sales – United States (Eastern Division) of Velan	Vice-President, Sales – United States (Eastern Division)	—
Gil Perez Montreal, Quebec, Canada	Vice-President, Engineering of Velan	Vice-President, Engineering	—
Charles Pogue Kingwood, Texas, United States of America	Vice-President, Sales – United States (Western Division) of Velan	Vice-President, Sales – United States (Western Division)	—
Gilles Sabourin Kirkland, Quebec, Canada	Vice-President, Treasurer and Financial Systems	Vice-President, Treasurer And Financial Systems	—

Name and municipality of residence	Principal Occupation	Office	Period during which Served as a Director
Andrew Smith Granby, Quebec, Canada	Vice-President, Procurement and Overseas Manufacturing of Velan	Vice-President, Procurement and Overseas Manufacturing	—
Raffi Sossoyan St. Laurent, Quebec, Canada	Vice-President, Global Financial Reporting of Velan	Vice-President, Global Financial Reporting	—
Nabil Tarfa Montreal, Quebec, Canada	Vice-President, Materials and Process Technologies	Vice-President, Materials And Process Technologies	
George Zarifah Dollard-des-Ormeaux, Quebec, Canada	Vice-President, Global Capital Investment and Production of Velan	Vice-President, Global Capital Investment and Production	—

NOTES:

- (1) Messrs. A.K., Ivan and Thomas Velan hold the same respective offices with Velan Valve Corp. as with Velan and Mr. A.K. Velan is a director thereof.
- (2) Member of the Corporate Governance and Human Resources Committee.
- (3) Member of the Audit Committee.
- (4) Peter Velan was also a director from 1971 to 2005.

During the last five years, all of the foregoing directors and executive officers have been engaged in their present principal occupations or in other executive capacities with the entities indicated opposite their names or with related affiliated or predecessor entities.

As at February 28, 2013, the directors and senior executives held as a group, directly or indirectly, or exercised control or direction over, 15,566,567 (100%) of the Multiple Voting Shares and 345,801 (5.44%) of the Subordinate Voting Shares of Velan.

Corporate Cease Trade Orders or Bankruptcies

To the knowledge of the directors and officers of Velan, no proposed director of Velan, except for Mr. William Sheffield:

- (a) is, as at the date of this Annual Information Form or has been, within the 10 years before the date of this Annual Information Form, a director or executive officer of any company, that, while that person was acting in that capacity:
 - (i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;

(ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or

(iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or

(b) has, within the 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Between April 3, 2006 and May 3, 2006, William Sheffield who was then a director of Royal Group Technologies Limited was prohibited from trading in securities of Royal Group Technologies Limited pursuant to a management cease trade order issued by the Ontario Securities Commission in connection with the delay in filing of certain of Royal Group Technologies Limited's financial statements.

Committees

The Board of Directors of Velan (the "Board of Directors") has established two committees to assist it in effectively carrying out its responsibilities.

Audit Committee

The Audit Committee is composed of Anna Martini (Chair), Kenneth MacKinnon, and William Sheffield. The primary responsibilities of the Audit Committee are to review the nature and scope of the audit services provided by Velan's auditors, the recommendations of the auditors and the responses of Velan's management, the internal accounting and financial procedures of Velan, Velan's annual financial statements and Velan's risk management and insurance plans. The Audit Committee also assesses the integrity of Velan's internal controls and reviews the quality of its management information systems.

Corporate Governance and Human Resources Committee

The Corporate Governance and Human Resources Committee is composed of Gabor Jellinek (Chair), William Sheffield, Anna Martini and Kenneth MacKinnon. The Corporate Governance and Human Resources Committee has the mandate to develop Velan's approach to corporate governance issues and to review its ongoing response to the corporate governance practices currently set forth in National Instruments 58-101 and 58-201. The Committee is also authorized to evaluate the overall performance of the Board of Directors and its committees. The Committee also reviews the performance of senior management and is evolving a succession plan. In furtherance of this mandate, the Committee reviews Velan's current governance practices and the description included in the proxy circular.

The Committee also reviews and assesses the current human resources and compensation policies of Velan. The Committee makes recommendations as to the desirability of modifications thereto and the compensation levels and compensation components for senior officers of Velan.

AUDIT COMMITTEE DISCLOSURE AND ACCOUNTANTS' FEES AND SERVICES

The Charter of the Audit Committee is attached hereto as Schedule A.

Composition of the Audit Committee

The Audit Committee is composed of Anna Martini (Chair), Kenneth MacKinnon and William Sheffield, each of whom is (i) independent and (ii) financially literate for the purposes of Multilateral Instrument 52-110 *Audit Committees*.

Relevant Education and Experience

The following is a description of the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities or as a member of the Committee.

Anna Martini: Ms. Martini is President of Groupe Dynamite Inc., a large specialty apparel retailer. She is an FCPA and she previously spent 19 years at Deloitte & Touche LLP including 9 years as an audit partner. She is currently treasurer and a director of the McGill University Health Centre Foundation, and is a director of the Retail Council of Canada.

Kenneth MacKinnon: Mr. MacKinnon is President and CEO of MacKinnon, Bennett & Co., a private investment company formed in January 2008. Prior to September 2006, he was a Managing Partner of Miralta Capital, a private equity investment management firm. Prior to November 2004, Mr. MacKinnon was an independent consultant and, prior to December 2001, was a Managing Director, Investment Banking, of Merrill Lynch & Co. He holds a professional director certification by Canada's Institute of Corporate Directors.

William Sheffield: Mr. Sheffield is a corporate director, who is also a member of the boards of Canada Post, a Federal Crown Corporation, Ontario Power Generation Inc., an Ontario Government-owned electricity generation company, and Houston Wire and Cable Company, an electrical products distribution company listed on NASDAQ where he holds the position of Chairman. He holds a professional director certification by Canada's Institute of Corporate Directors and a similar designation by the National Association of Corporate Directors in the US. From May 2001 to May 2003, he was the Chief Executive of Sappi Fine Paper Division of Sappi Ltd., a coated paper manufacturer, and, prior to August 2000, was the Executive Vice-President of Abitibi-Consolidated Inc., a newsprint manufacturer.

Ms. Martini and Messrs. MacKinnon and Sheffield all have the ability to read and understand financial statements that present a breadth and complexity of accounting issues comparable to the breadth and complexity of the issues raised by the Company's own financial statements, understand the accounting principles the Company uses to prepare its financial statements and have the ability to assess the general application of such accounting principles in connection with the accounting for estimates, accruals and reserves.

All members of the Audit Committee have an understanding of internal controls and procedures for financial reporting.

Pre-Approval Policies and Procedures

The Company's Audit Committee pre-approves every engagement by PricewaterhouseCoopers LLP ("PwC") to render audit or non-audit services. The Audit Committee has given approval to the CFO to engage non-audit services from PwC, without prior approval from the Audit Committee, up to a limit of 5% of annual audit fees. All of the services described below were approved by the Audit Committee.

External Auditor Services Fees

PwC, the Company's external auditors provided services and billed the Company, the following fees in each of the last two fiscal periods:

Audit Fees

The following sets forth the aggregate fees billed by PwC (including non PwC firms, reporting to PwC) for the audit of the annual financial statements and for services normally provided by the external auditor, such as services in connection with statutory and regulatory filings or prospectus.

Fiscal year ended February 28, 2013	\$706,700
Fiscal year ended February 29, 2012	\$850,000

Audit Related Fees

The following sets forth the aggregate fees billed for assurance and related services by PwC that are reasonably related to the performance of the audit or review of the financial statements, and are not reported under "Audit Fees", such as consultations related to accounting and reporting matters:

Fiscal year ended February 28, 2013	\$ -
Fiscal year ended February 29, 2012	\$212,000

Tax Fees and other Non-Audit Fees

The following sets forth the aggregate fees billed in each of the last two fiscal periods for professional services rendered by PwC (including non PwC firms, reporting to PwC) for assistance with other matters such as tax compliance and advice:

Fiscal year ended February 28, 2013	\$80,600
Fiscal year ended February 29, 2012	\$60,900

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Velan Valve Corp., a subsidiary of the Company, has been named as one of the defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defence related to certain products that may have contained an internal component containing asbestos. There were 764 claims outstanding at the end of the year (2012 - 671), filed in the States of Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Missouri, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, Washington and West Virginia. During the year, the Company resolved 330 claims (2012 - 262). The Company was the subject of 423 new claims during the year (2012 - 262). Because of the many uncertainties inherent in predicting the outcome of these proceedings, as well as the course of asbestos litigation in the United States, management believes that it is not possible to make an estimate of the Company's asbestos liability. Accordingly, no provision has been set up in the accounts. Settlement costs and legal fees related to these asbestos claims amounted to \$8,763,000 (2012 - \$6,920,000).

In the fiscal year ended February 28, 2013, the Company was not subject to any penalties or sanctions imposed by a court pursuant to securities legislation or securities regulatory authority, or any penalties or

sanctions that a reasonable investor would consider significant and imposed by a court or regulatory body or any other settlements pertaining to such penalties or sanctions.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Company deals with certain related parties to management and others as disclosed herein.

PDK Machine Shop Ltd. (“PDK”) is a company owned by Peter Velan’s children. PDK is a supplier of machined material components for use in Velan’s plants. During the 2013 fiscal year, the Company purchased material components from PDK in the amount of \$1,909,000 (2012 -\$2,030,000) and sold raw materials to PDK in the amount of \$168,000 (2012 -\$131,000).

The Company is also a party to an agreement with PDK shareholders providing it with a right to purchase the shares or assets thereof under certain circumstances. The Company also has the obligation to purchase PDK’s inventory under certain circumstances. The maximum obligation of the Company pursuant to such put right is \$200,000.

The Company leases a property from Velan Holding Co. Ltd., the Controlling Shareholder of the Company, which charges weekly rates based on usage. The aggregate rentals and expense reimbursements for fiscal 2013 amounted to \$25,000 (2012 -\$29,000).

Messrs. A.K., Ivan, Peter and Thomas Velan reside in Montreal, Quebec.

TRANSFER AGENTS AND REGISTRARS

The registrar and transfer agent for the Subordinate Voting Shares is Canadian Stock Transfer Company Inc., as agent for CIBC Mellon Trust Company, at its principal offices in Montreal and Toronto.

INTEREST OF EXPERTS

The Company’s auditors are PricewaterhouseCoopers LLP, Chartered Professional Accountants, who have prepared an independent auditors’ report dated May 28, 2013 in respect of the Company’s consolidated financial statements with accompanying notes as at and for the fiscal years ended February 28, 2013 and February 29, 2012. PricewaterhouseCoopers LLP, Chartered Professional Accountants has advised that they are independent with respect to the Company within the meaning of the Code of Ethics of the *Ordre des comptables professionnels agréés du Québec*.

ADDITIONAL INFORMATION

Additional information relating to Velan may be found on Sedar at www.sedar.com.

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of Velan’s securities and securities authorized for issuance under equity compensation plans, if applicable, will be contained in Velan’s information circular for its annual meeting of shareholders to be held on July 11, 2013.

Additional financial information is provided in the Company’s financial statements and management discussion and analysis for its most recently completed financial year.

SCHEDULE A

VELAN INC.

AUDIT COMMITTEE CHARTER

1. ESTABLISHMENT OF THE COMMITTEE

1.1 Establishment of Audit Committee Confirmed – The establishment of the audit committee of the Board is hereby confirmed with the purpose, constitution and responsibilities set forth herein.

1.2 Certain Definitions – In this Charter:

- (a) "Board" means the Board of Directors of the Corporation;
- (b) "Chair" means the Chairperson of the Committee;
- (c) "Charter" means this written charter of the Committee and any such charter for the Committee that the Board resolves from time to time shall be the charter of the Committee, as amended from time to time;
- (d) "Committee" means the Audit Committee of the Board;
- (e) "Corporation" means Velan Inc.;
- (f) "Director" means a member of the Board;
- (g) "MD&A" means Management's Discussion & Analysis as contemplated in National Instrument 51-102; and
- (h) "External Auditor" means the Corporation's Independent Auditor.

1.3 Interpretation – The provisions of this Charter are subject to the provisions of the by-laws of the Corporation and to the applicable provisions of applicable legislation.

2. PURPOSE

2.1 Purpose – The primary purpose of the Committee is to assist Board oversight of:

- (a) the integrity of the Corporation's financial statements;
- (b) the Corporation's compliance with legal and regulatory requirements;
- (c) the External Auditor's qualifications and independence; and
- (d) the performance of the External Auditor.

3. CONSTITUTION AND FUNCTIONING OF THE COMMITTEE

3.1 Number of Members – The Committee shall consist of not fewer than three members, each of whom shall be a Director.

3.2 Appointment and Removal of Members of the Committee

- (a) *Board Appointed Members.* The members of the Committee shall be appointed by the Board, having considered the recommendation of the Nominating Committee of the Board.
- (b) *Annual Appointments.* The appointment of members of the Committee shall take place annually at the first meeting of the Board after a meeting of the shareholders at which Directors are elected, provided that if the appointment of members of the Committee is not so made, the Directors who are then serving as members of the Committee shall continue as members of the Committee until their successors are appointed.
- (c) *Vacancies.* The Board may appoint a member to fill a vacancy that occurs in the Committee between annual elections of Directors.
- (d) *Removal of Member.* Any member of the Committee may be removed from the Committee by a resolution of the Board.

3.3 Independence of Members – Except as provided in the applicable regulatory requirements, each member of the Committee shall be independent for the purposes of all applicable regulatory requirements.

3.4 Financial Literacy

- (a) *Financial Literacy Requirement.* Each member of the Committee shall be financially literate or must become financially literate within a reasonable period of time after his or her appointment to the Committee.
- (b) *Definition of Financial Literacy.* "Financially literate" means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Corporation's financial statements.

3.5 Audit Committee Financial Expert

- (a) *Attributes of an Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee Directors who as a group have the following attributes:
 - (i) an understanding of Canadian generally accepted accounting principles and financial statements;

- (ii) ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
 - (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Corporation's financial statements, or experience actively supervising one or more persons engaged in such activities;
 - (iv) an understanding of internal controls and procedures for financial reporting; and
 - (v) an understanding of Audit Committee functions.
- (b) *Experience of the Audit Committee Financial Expert.* To the extent possible, the Board will appoint to the Committee at least one Director who acquired the attributes in (a) above through:
- (i) education and experience as a principal financial officer, principal accounting officer, controller, public accountant or auditor or experience in one or more positions that involve the performance of similar functions (or such other qualification as the Board interprets such qualification in its business judgment);
 - (ii) experience actively supervising a principal financial officer, principal accounting officer, controller, public accountant, auditor or person performing similar functions;
 - (iii) experience overseeing or assessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or
 - (iv) other relevant experience.

4. **COMMITTEE CHAIR**

4.1 Board to Appoint Chair – The Board shall appoint the Chair from the members of the Committee (or, if it fails to do so, the members of the Committee shall appoint the Chair of the Committee from among its members).

4.2 Chair to be Appointed Annually – The designation of the Committee's Chair shall take place annually at the first meeting of the Board after a meeting of the members at which Directors are elected, provided that if the designation of Chair is not so made, the Director who is then serving as Chair shall continue as Chair until his or her successor is appointed.

5. **COMMITTEE MEETINGS**

5.1 Quorum – A quorum of the Committee shall be a majority of its members.

5.2 Secretary – Subject to the by-laws of the Corporation, the Chair shall designate from time to time a person who may, but need not, be a member of the Committee, to be Secretary of the Committee.

5.3 Time and Place of Meetings - The time and place of the meetings of the Committee and the calling of meetings and the procedure in all things at such meetings shall be determined by the Committee; provided, however, the Committee shall meet at least quarterly.

5.4 In Camera Meetings – As part of each meeting of the Committee at which the Committee recommends that the Board approve the annual audited financial statements or at which the Committee approves the quarterly financial statements, the Committee shall meet separately with each of:

- (a) management; and
- (b) the External Auditor.

5.5 Right to Vote – Each member of the Committee shall have the right to vote on matters that come before the Committee.

5.6 Invitees – The Committee may invite Directors, officers and employees of the Corporation or any other person to attend meetings of the Committee to assist in the discussion and examination of the matters under consideration by the Committee.

6. **AUTHORITY OF COMMITTEE**

6.1 Retaining and Compensating Advisors - The Committee shall have the authority to engage independent counsel and other advisors as the Committee may deem appropriate in its sole discretion and to set and pay the compensation for any such advisors. The Committee shall not be required to obtain the approval of the Board in order to retain or compensate such counsel or advisors.

6.2 Recommendations to the Board – The Committee shall have the authority to make recommendations to the Board, but shall have no decision-making authority other than as specifically contemplated in this Charter.

7. **REMUNERATION OF COMMITTEE MEMBERS**

7.1 Remuneration of Committee Members – Members of the Committee and the Chair shall receive such remuneration for their service on the Committee as the Board may determine from time to time.

7.2 Directors' Fees – No member of the Committee may earn fees from the Corporation or any of its subsidiaries other than directors' fees (which fees may include cash and/or shares or

options or other in-kind consideration ordinarily available to directors, as well as all of the regular benefits that other directors receive). For greater certainty, no member of the Committee shall accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation other than as remuneration for acting in his or her capacity as a member of the Board or any committee, or as a part-time Chair or Vice-Chair of the Board or any Committee.

8. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

8.1 Review and Approval of Financial Information

- (a) *Annual Financial Statements.* The Committee shall review and discuss with management and the External Auditor, the Corporation's audited annual financial statements and related MD&A together with the report of the External Auditor thereon and, if appropriate, recommends to the Board that it approves the audited annual financial statements.
- (b) *Interim Financial Statements.* The Committee shall review and discuss with management and the External Auditor and, if appropriate, recommends to the Board that it approves, the Corporation's interim unaudited financial statements and related MD&A.
- (c) *Material Public Financial Disclosure.* The Committee shall, to the extent practicable, discuss and examine with management and the External Auditor:
 - (i) the types of information to be disclosed and the type of presentation to be made in connection with earnings press releases;
 - (ii) financial information and earnings guidance (if any) provided to analysts and rating agencies; and
 - (iii) press releases containing financial information.
- (d) *Disclosure Procedures for Review.* The Committee shall satisfy itself that adequate procedures are in place for the review of the Corporation's disclosure of financial information extracted or derived from the Corporation's financial statements (other than financial statements, MD&A and earnings press releases, which are dealt with elsewhere in this Charter) and shall periodically assess the adequacy of those procedures.
- (e) *Accounting Treatment.* The Committee shall review and discuss with management and the External Auditor:
 - (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Corporation's selection or application of accounting principles and major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;

- (ii) analyses prepared by management and/or the External Auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
- (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the Corporation's financial statements;
- (iv) the management certifications of the financial statements as required under applicable securities laws in Canada or otherwise; and
- (v) pension plan financial statements, if any.

8.2 External Auditor

- (a) *Authority with Respect to External Auditor.* The External Auditor shall report directly to the Committee. The Committee shall be directly responsible for the oversight of the work of the External Auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation. In the discharge of this responsibility, the Committee shall:
 - (i) have responsibility for recommending to the Board the person or firm to be proposed to the Corporation's shareholders for appointment as External Auditor for the above-described purposes as well as the responsibility for recommending such External Auditor's compensation and determining at any time whether the Board should recommend to the Corporation's shareholders whether the incumbent External Auditor should be removed from office;
 - (ii) review the terms of the External Auditor's engagement, discuss the audit fees with the External Auditor and be responsible for approving such audit fees; and
 - (iii) require the External Auditor to confirm in its engagement letter each year that the External Auditor is accountable to the Board and the Committee as representatives of shareholders.
- (b) *Independence.* The Committee shall satisfy itself as to the independence of the External Auditor. As part of this process the Committee shall:
 - (i) unless and until the Committee adopts pre-approval policies and procedures and subject to subsection , approve any non-audit services to be provided by the External Auditor; and

- (ii) review and approve the policy setting out the restrictions on the Corporation hiring partners, employees and former partners and employees of the Corporation's current or former External Auditor.
- (c) *Issues Between External Auditor and Management.* The Committee shall:
 - (i) review any problems or concerns experienced by the External Auditor in conducting the audit, including any restrictions on the scope of the External Auditor's activities or an access to requested information;
 - (ii) review any significant disagreements with management and, to the extent possible, resolve any disagreements between management and the External Auditor; and
 - (iii) review with the External Auditor:
 - (A) any accounting adjustments that were proposed by the External Auditor, but were not made by management;
 - (B) any communications between the audit team and audit firm's national office respecting auditing or accounting issues presented by the engagement; and
 - (C) any management or internal control letter issued, or proposed to be issued by the External Auditor to the Corporation.
- (d) *Non-Audit Services.*
 - (i) The Committee shall either:
 - (A) approve any non-audit services provided by the External Auditor or the external auditor of any subsidiary of the Corporation to the Corporation (including its subsidiaries); or
 - (B) adopt specific policies and procedures for the engagement of non-audit services, provided that such pre-approval policies and procedures are detailed as to the particular service, the audit committee is informed of each non-audit service and the procedures do not include delegation of the audit committee's responsibilities to management.
 - (ii) The Committee may delegate to one or more members of the Committee or the Chief Financial Officer the authority to pre-approve non-audit services in satisfaction of the requirement in the previous section, provided that such member or members must present any non-audit services so approved to the full Committee at its first scheduled meeting following such pre-approval.

- (iii) The Committee shall instruct management to promptly bring to its attention any services performed by the External Auditor that were not recognized by the Corporation at the time of the engagement as being non-audit services.
- (e) *Evaluation of External Auditor.* The Committee shall evaluate the External Auditor each year, and present its conclusions to the Board. In connection with this evaluation, the Committee shall:
 - (i) review and evaluate the performance of the lead partner of the External Auditor;
 - (ii) obtain the opinions of management with respect to the performance of the External Auditor; and
- (f) *Review of Management's Evaluation and Response.* The Committee shall:
 - (i) review management's evaluation of the External Auditor's audit performance;
 - (ii) review the External Auditor's recommendations, and review management's response to and subsequent follow-up on any identified weaknesses;
 - (iii) review management's response to significant internal control recommendations of the External Auditor;
 - (iv) receive regular reports from management and receive comments from the External Auditor, if any, on:
 - (A) the Corporation's principal financial risks;
 - (B) the systems implemented to monitor those risks; and
 - (C) the strategies (including hedging strategies) in place to manage those risks; and
 - (v) recommend to the Board whether any new material strategies presented by management should be considered appropriate and approved.

8.3 Related Party Transactions – The Committee shall review the fees or other payments with respect to related party transactions in which the Corporation is involved on an annual basis. The approval of such transactions is within the mandate of the Corporate Governance and Human Resources Committee.

8.4 Whistle Blowing – The Committee shall put in place procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and

- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

8.5 Special Outside Advisors – The Committee shall consider and, if determined to be appropriate, approve requests from Directors or committees of the Board for the engagement of special outside advisors from time to time (in addition to any right that a Director or committee of the Board may have to engage outside advisors under general corporate law).

9. **SUBCOMMITTEES**

9.1 Delegation to Subcommittees – The Committee may form and delegate authority to subcommittees if deemed appropriate by the Committee.

10. **REPORTING TO THE BOARD**

10.1 Regular Reporting - The Committee shall report to the Board following each meeting of the Committee and at such other times as the Chair may determine to be appropriate.

11. **PERFORMANCE EVALUATION**

11.1 Performance Evaluation – The Committee shall follow the process established by the Corporate Governance Committee for all committees of the Board for assessing the performance and effectiveness of the Committee.

12. **CHARTER REVIEW**

12.1 Charter Review – The Committee shall review and assess the adequacy of this Charter on a regular basis and recommend to the Board any changes it deems appropriate.