



Consolidated Statements of Changes in Equity

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

	Equity attributable to the Subordinate and Multiple Voting shareholders						Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net loss for the period	-	-	-	(58)	(58)	(312)	(370)
Other comprehensive loss	-	-	(3,390)	-	(3,390)	(32)	(3,422)
Comprehensive loss	-	-	(3,390)	(58)	(3,448)	(344)	(3,792)
Balance - August 31, 2021	72,695	6,260	(24,397)	239,078	293,636	2,793	296,429
Balance - February 28, 2022	72,695	6,260	(32,223)	218,092	264,824	686	265,510
Net income (loss) for the period	-	-	-	(11,028)	(11,028)	20	(11,008)
Other comprehensive loss	-	-	(13,591)	-	(13,591)	-	(13,591)
Comprehensive income (loss)	-	-	(13,591)	(11,028)	(24,619)	20	(24,599)
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
Balance - August 31, 2022	72,695	6,260	(45,814)	206,567	239,708	706	240,414

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



Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended		Six-month periods ended	
	August 31,	August 31,	August 31,	August 31,
	2022	2021	2022	2021
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	(3,665)	4,696	(11,008)	(370)
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities (note 10)	6,072	3,645	4,317	6,057
Changes in non-cash working capital items (note 11)	(13,931)	(6,808)	(7,898)	(3,259)
Cash provided (used) by operating activities	(11,524)	1,533	(14,589)	2,428
Investing activities				
Short-term investments	107	(1,232)	(1,181)	(1,418)
Additions to property, plant and equipment	(616)	(1,830)	(1,536)	(3,569)
Additions to intangible assets	(1,200)	(522)	(1,209)	(810)
Proceeds on disposal of property, plant and equipment	24	-	40	3,132
Net change in other assets	14	(15)	28	(27)
Cash used by investing activities	(1,671)	(3,599)	(3,858)	(2,692)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(497)	-	(497)	-
Net change in revolving credit facility	16	(3,378)	16	6,248
Increase in long-term debt	-	5,889	2,160	5,889
Repayment of long-term debt	(2,108)	(1,379)	(2,677)	(4,546)
Repayment of long-term lease liabilities	(362)	(444)	(732)	(857)
Cash provided (used) by financing activities	(2,951)	688	(1,730)	6,734
Effect of exchange rate differences on cash	(1,781)	(1,728)	(3,563)	(1,292)
Net change in cash during the period	(17,927)	(3,106)	(23,740)	5,178
Net cash – Beginning of the period	47,652	71,237	53,465	62,953
Net cash – End of the period	29,725	68,131	29,725	68,131
Net cash is composed of:				
Cash and cash equivalents	32,938	76,448	32,938	76,448
Bank indebtedness	(3,213)	(8,317)	(3,213)	(8,317)
Net cash – End of the period	29,725	68,131	29,725	68,131
Supplementary information				
Interest paid	15	(484)	(208)	(834)
Income taxes paid	(2,180)	(463)	(3,997)	(1,584)

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



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended August 31, 2022

1 General information

These unaudited condensed interim financial statements represent the consolidation of the accounts of Velan Inc. (the "Company") and its subsidiaries. The Company is an international manufacturer of industrial valves and is a public company listed on the Toronto Stock Exchange under the symbol "VLN". It was incorporated under the name Velan Engineering Ltd. on December 12, 1952 and continued under the *Canada Business Corporations Act* on February 11, 1977. It changed its name to Velan Inc. on February 20, 1981. Velan Inc. maintains its registered head office at 7007 Cote de Liesse, Montreal, Quebec, Canada, H4T 1G2. The Company's ultimate parent company is Velan Holdings Co. Ltd.

These unaudited condensed interim consolidated financial statements were approved for issue by the Company's Board of Directors on October 14, 2022.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and six-month periods ended August 31, 2022 have been prepared in accordance with International Financial Reporting Standards ("IFRS") in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*. These unaudited condensed interim consolidated financial statements have been prepared using the same basis of presentation, accounting policies, and methods of computation as outlined in Note 2, *Summary of significant accounting policies*, in the Company's annual consolidated financial statements for the year ended February 28, 2022, which have also been prepared in accordance with IFRS. Accordingly, these unaudited condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended February 28, 2022.

3 New accounting standards and amendments issued but not yet adopted

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

4 Estimates

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

In preparing these unaudited condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended February 28, 2022.



Since December 2019, the coronavirus (“COVID-19”) global pandemic has caused temporary disruptions in the Company’s production and supply chain which have materially adversely affected its business and financial results. The economic slowdown triggered by the global pandemic, mainly in the oil and gas sector at the beginning of the previous fiscal year, also translated in lower non-project valve sales for the Company. More specifically, during the period of the ongoing pandemic, the Maintenance, Repair & Overhaul (“MRO”) business segment of the group was most impacted. By the second half of the fiscal year-ended February 28, 2022, however, sales started to pick-up at the midpoint of the year and reached pre-covid levels by year-end.

For the three-month and six-month periods ended August 31, 2022, consolidated sales are lower than the previous year for various reasons such as supply chain and customer related issues as well as the timing of delivery dates on open orders which should be recovered in subsequent periods. However, the Company notes that MRO sales for both periods have improved compared to the prior fiscal year, therefore hinting at a recovery from the pandemic.

Although the Company has implemented proactive measures to protect its global workforce and mitigate the numerous effects of the pandemic, given the ongoing dynamic nature of circumstances surrounding COVID-19, it is not possible to reliably estimate the length, severity and long-term impact the global pandemic may have on the Company’s results, conditions and cash flows. Therefore, the COVID-19 global pandemic should still be considered a risk factor.

During the three-month and six-month periods ended August 31, 2022, no wage subsidies were available to the Company which would have helped lower payroll costs. For the three-month period ended August 31, 2021, the company did apply for such subsidies which provided a reduction in salaries of \$543 in Cost of sales and \$450 in Administration costs. For the six-month period ended August 31, 2021, the company applied for such subsidies which provided a reduction in salaries of \$1,121 in Cost of sales and \$889 in Administration costs.

5 Seasonality

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

6 Inventories

	As at	
	August 31, 2022	February 28, 2022
<i>(thousands)</i>	\$	\$
Raw materials	39,586	48,381
Work in process and finished parts	132,380	136,221
Finished goods	44,700	38,596
	216,666	223,198

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the three-month period ended August 31, 2022 of \$348 (August 31, 2021 - \$ 1,975), including reversals of \$92 (August 31, 2021 - \$718). The Company recognized a net additional inventory provision for the six-month period ended August 31, 2022 of \$1,104 (August 31, 2021 – \$3,992), including reversals of \$1,613 (August 31, 2021 - \$1,420).



7 Long-term debt

	As at	
<i>(thousands)</i>	August 31, 2022 \$	February 28, 2022 \$
Revolving credit facility	16	-
Canadian subsidiary		
Secured bank loan (\$CAD 21,469; February 28, 2022 - \$CAD 22,500)	16,176	17,134
French subsidiaries		
Unsecured bank loan (€2,375; February 28, 2022 - €2,943)	2,388	3,302
Italian subsidiary		
Unsecured bank loan (€4,719; February 28, 2022 - €2,869)	4,745	3,219
Unsecured state bank loan (€575; February 28, 2022 - €690)	578	774
Other	5,821	6,609
	29,724	31,038
Less: current portion	7,744	8,111
	21,980	22,927

As at August 31, 2022, the Company had drawn down \$16 (February 28, 2022 – nil) on the revolving credit facility and had \$4,364 (February 28, 2022 – \$3,980) in the form of outstanding letters of credit and letters of guarantee on a total \$51,717 (February 28, 2022 – \$49,365) borrowing availability. Furthermore, as at August 31, 2022, the Company was in compliance with all of its covenants.

8 Fair value of financial instruments

The fair value hierarchy has the following levels:

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



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

As at August 31, 2022				
<i>(thousands)</i>	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	694	-	694	-
Liabilities				
Derivative liabilities	284	-	284	-

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

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



9 Segment reporting

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

Three-month period ended August 31, 2022							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	4,838	26,934	10,905	-	2,443	-	45,120
Export	13,312	(638)	5,373	14,948	6,939	-	39,934
Intercompany (export)	18,343	2,356	15	2,161	11,993	(34,868)	-
	36,493	28,652	16,293	17,109	21,375	(34,868)	85,054

Three-month period ended August 31, 2021							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	4,114	20,416	8,949	126	6,866	-	40,471
Export	14,691	3,960	10,933	22,156	9,682	-	61,422
Intercompany (export)	13,947	2,192	6	6,958	9,260	(32,363)	-
	32,752	26,568	19,888	29,240	25,808	(32,363)	101,893

Six-month period ended August 31, 2022							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	10,188	48,232	20,355	35	6,715	-	85,525
Export	17,097	330	13,435	32,509	11,163	-	74,534
Intercompany (export)	24,668	4,854	44	2,537	25,941	(58,044)	-
	51,953	53,416	33,834	35,081	43,819	(58,044)	160,059

Six-month period ended August 31, 2021							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	9,020	41,767	19,914	130	11,369	-	82,200
Export	26,920	3,960	21,156	30,513	11,673	-	94,222
Intercompany (export)	22,338	4,374	12	7,032	21,362	(55,118)	-
	58,278	50,101	41,082	37,675	44,404	(55,118)	176,422



10 Adjustments to reconcile net income (loss) to cash provided (used) by operating activities

	Three-months period ended		Six-month periods ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<i>(thousands)</i>	\$	\$	\$	\$
Depreciation of property, plant and equipment	2,023	2,394	4,184	4,808
Amortization of intangible assets	556	451	1,124	1,009
Deferred income taxes	934	756	1,251	510
Loss (gain) on disposal of property, plant and equipment	212	10	266	(176)
Net change in long-term provisions and customer deposits	2,560	-	(1,573)	-
Net change in derivative assets and liabilities	89	57	(415)	(172)
Net change in other liabilities	(302)	(23)	(520)	78
	6,072	3,645	4,317	6,057

11 Changes in non-cash working capital items

	Three-months period ended		Six-month periods ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<i>(thousands)</i>	\$	\$	\$	\$
Accounts receivable	(14,666)	(7,797)	(604)	7,188
Inventories	6,273	(7,281)	(3,900)	(38,488)
Income taxes recoverable	(2,129)	1,099	(2,690)	189
Deposits and prepaid expenses	671	981	369	(1,474)
Accounts payable and accrued liabilities	(6,836)	(2,489)	(6,423)	12,341
Income taxes payable	(689)	(144)	(1,787)	(296)
Customer deposits	5,717	10,206	9,507	18,953
Provisions	(2,272)	(1,383)	(2,370)	(1,672)
	(13,931)	(6,808)	(7,898)	(3,259)

A world leader in industrial valve manufacturing supplying to:

- Fossil, nuclear, and cogeneration power
- Oil and gas
- Refining and petrochemicals
- Chemicals
- Pulp and paper
- Subsea
- LNG and cryogenics
- Marine
- Mining
- HVAC
- Water and wastewater

Pour une version française de ce rapport intermédiaire, adressez-vous à :

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

Visit us on the Web: <http://www.velan.com>

Velan inc.
7007 chemin de la Côte-de-Liesse,
Montréal, (Québec) H4T 1G2 Canada
Tél : +1 514 748 7743
Télec : +1 514 748 8635