



**UNAUDITED CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS**

For the three-month and six-month periods ended August 31, 2023



## **NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PricewaterhouseCoopers LLP have not reviewed the unaudited condensed interim consolidated financial statements for the three-month and six-month periods ended August 31, 2023.



## Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	August 31, 2023 \$	February 28, 2023 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	41,474	50,513
Short-term investments	17	37
Accounts receivable	99,280	121,053
Income taxes recoverable	6,343	6,195
Inventories (note 6)	225,868	202,649
Deposits and prepaid expenses	9,051	7,559
Derivative assets (note 8)	141	107
	382,174	388,113
<b>Non-current assets</b>		
Property, plant and equipment	70,095	68,205
Intangible assets and goodwill	16,253	16,153
Deferred income taxes	4,849	4,663
Other assets	653	723
	91,850	89,744
<b>Total assets</b>	474,024	477,857
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	2,102	260
Accounts payable and accrued liabilities	74,925	79,408
Income taxes payable	1,562	2,832
Customer deposits	30,163	28,201
Provisions	18,495	16,485
Derivative liabilities (note 8)	31	299
Current portion of long-term lease liabilities	1,643	1,298
Current portion of long-term debt (note 7)	13,353	8,177
	142,274	136,960
<b>Non-current liabilities</b>		
Long-term lease liabilities	11,450	9,458
Long-term debt (note 7)	20,029	21,719
Income taxes payable	519	933
Deferred income taxes	4,172	3,966
Customer deposits	31,420	27,937
Provisions	66,041	70,924
Other liabilities	5,084	5,125
	138,715	140,062
<b>Total liabilities</b>	280,989	277,022
<b>Total equity</b>	193,035	200,835
<b>Total liabilities and equity</b>	474,024	477,857

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



## Consolidated Statements of Loss

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

	Three-month periods ended		Six-month periods ended	
	August 31, 2023 \$	August 31, 2022 \$	August 31, 2023 \$	August 31, 2022 \$
<b>Sales (note 9)</b>	80,318	85,054	147,977	160,059
<b>Cost of sales (notes 6)</b>	56,933	61,572	109,540	116,504
<b>Gross profit</b>	23,385	23,482	38,437	43,555
Administration costs	22,571	24,678	44,070	50,490
Other expense (income)	525	7	512	(134)
<b>Operating income (loss)</b>	289	(1,203)	(6,145)	(6,801)
Finance income	136	78	271	168
Finance costs	(1,527)	(456)	(2,867)	(782)
Finance costs – net	(1,391)	(378)	(2,596)	(614)
<b>Loss before income taxes</b>	(1,102)	(1,581)	(8,741)	(7,415)
Income tax expense	1,021	2,084	1,672	3,593
<b>Net loss for the period</b>	(2,123)	(3,665)	(10,413)	(11,008)
<b>Net income (loss) attributable to:</b>				
<b>Subordinate Voting Shares and Multiple Voting Shares</b>	<b>(2,120)</b>	<b>(3,676)</b>	<b>(10,404)</b>	<b>(11,028)</b>
Non-controlling interest	(3)	11	(9)	20
<b>Net loss for the period</b>	<b>(2,123)</b>	<b>(3,665)</b>	<b>(10,413)</b>	<b>(11,008)</b>
<b>Net loss per Subordinate and Multiple Voting Share</b>				
Basic and diluted	(0.10)	(0.17)	(0.48)	(0.51)
<b>Dividends declared per Subordinate and Multiple Voting Share</b>				
	- (CA\$ -)	- (CA\$ -)	0.02 (CA\$0.03)	0.02 (CA\$0.03)
<b>Total weighted average number of Subordinate and Multiple Voting Shares</b>				
Basic and diluted	21,585,635	21,585,635	21,585,635	21,585,635

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



## Consolidated Statements of Comprehensive Loss

(in thousands of U.S. dollars)

	Three-month periods ended		Six-month periods ended	
	August 31, 2023 \$	August 31, 2022 \$	August 31, 2023 \$	August 31, 2022 \$
<b>Comprehensive loss</b>				
<b>Net loss for the period</b>	(2,123)	(3,665)	(10,413)	(11,008)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation	1,696	(7,760)	3,104	(13,591)
<b>Comprehensive loss</b>	(427)	(11,425)	(7,309)	(24,599)
<b>Comprehensive income (loss) attributable to:</b>				
Subordinate Voting Shares and Multiple Voting Shares	(424)	(11,437)	(7,300)	(24,619)
Non-controlling interest	(3)	12	(9)	20
<b>Comprehensive loss</b>	(427)	(11,425)	(7,309)	(24,599)

Other comprehensive loss is composed solely of items that may be reclassified subsequently to the consolidated statement of loss.

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



## Consolidated Statements of Changes in Equity

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

	Equity attributable to the Subordinate and Multiple Voting shareholders					Non-controlling interest	Total equity
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total		
<b>Balance - February 28, 2022</b>	72,695	6,260	(32,126)	217,995	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)
Other	-	-	(97)	97	-	-	-
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
<b>Balance - August 31, 2022</b>	72,695	6,260	(45,814)	206,567	239,708	706	240,414
<b>Balance - February 28, 2023</b>	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(10,404)	(10,404)	(9)	(10,413)
Other comprehensive income	-	-	3,104	-	3,104	-	3,104
Comprehensive income (loss)	-	-	3,104	(10,404)	(7,300)	(9)	(7,309)
Dividends							
Multiple Voting Shares	-	-	-	(354)	(354)	-	(354)
Subordinate Voting Shares	-	-	-	(137)	(137)	-	(137)
<b>Balance - August 31, 2023</b>	72,695	6,260	(38,104)	151,247	192,098	937	193,035

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,
	2023	2022	2023	2022
	\$	\$	\$	\$
<b>Cash flows from</b>				
<b>Operating activities</b>				
Net loss for the period	(2,123)	(3,665)	(10,413)	(11,008)
Adjustments to reconcile net loss to cash used by operating activities (note 10)	2,246	6,072	3,080	4,317
Changes in non-cash working capital items (note 11)	(21,283)	(13,931)	(3,133)	(7,898)
<b>Cash used by operating activities</b>	<b>(21,160)</b>	<b>(11,524)</b>	<b>(10,466)</b>	<b>(14,589)</b>
<b>Investing activities</b>				
Short-term investments	1	107	20	(1,181)
Additions to property, plant and equipment	(1,605)	(616)	(2,714)	(1,536)
Additions to intangible assets	(390)	(1,200)	(774)	(1,209)
Proceeds on disposal of property, plant and equipment, and intangible assets	39	24	53	40
Net change in other assets	5	14	33	28
<b>Cash used by investing activities</b>	<b>(1,950)</b>	<b>(1,671)</b>	<b>(3,382)</b>	<b>(3,858)</b>
<b>Financing activities</b>				
Dividends paid to Subordinate and Multiple Voting shareholders	(491)	(497)	(491)	(497)
Net change in revolving credit facility	5,000	16	5,000	16
Increase in long-term debt	-	-	-	2,160
Repayment of long-term debt	(778)	(2,108)	(1,704)	(2,677)
Repayment of long-term lease liabilities	(390)	(362)	(752)	(732)
<b>Cash provided (used) by financing activities</b>	<b>3,341</b>	<b>(2,951)</b>	<b>2,053</b>	<b>(1,730)</b>
<b>Effect of exchange rate differences on cash</b>	<b>511</b>	<b>(1,781)</b>	<b>914</b>	<b>(3,563)</b>
<b>Net change in cash during the period</b>	<b>(19,258)</b>	<b>(17,927)</b>	<b>(10,881)</b>	<b>(23,740)</b>
<b>Net cash – Beginning of the period</b>	<b>58,630</b>	<b>47,652</b>	<b>50,253</b>	<b>53,465</b>
<b>Net cash – End of the period</b>	<b>39,372</b>	<b>29,725</b>	<b>39,372</b>	<b>29,725</b>
Net cash is composed of:				
Cash and cash equivalents	41,474	32,938	41,474	32,938
Bank indebtedness	(2,102)	(3,213)	(2,102)	(3,213)
<b>Net cash – End of the period</b>	<b>39,372</b>	<b>29,725</b>	<b>39,372</b>	<b>29,725</b>
<b>Supplementary information</b>				
Interest received (paid)	(53)	15	(102)	(208)
Income taxes paid	(939)	(2,180)	(3,549)	(3,997)

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, 2023

### 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 5, 2023.

### 2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and six-month periods ended August 31, 2023 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, 2023, 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, 2023.

### 3 New 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.

#### 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, 2023.

#### 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, 2023	February 28, 2023
<i>(thousands)</i>	\$	\$
Raw materials	38,255	36,223
Work in process and finished parts	141,887	128,670
Finished goods	45,726	37,756
	<b>225,868</b>	<b>202,649</b>

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, 2023 of \$1,678 (August 31, 2022 - \$ 348). The Company recognized a net additional inventory provision for the six-month period ended August 31, 2023 of \$2,932 (August 31, 2022 – \$1,104).



## 7 Long-term debt

	As at	
<i>(thousands)</i>	August 31, 2023 \$	February 28, 2023 \$
Revolving credit facility	5,000	-
Canadian subsidiary		
Secured bank loan (\$CAD 20,110; February 28, 2023 - \$CAD 20,906)	14,863	15,181
French subsidiaries		
Unsecured bank loan (€2,493; February 28, 2023 - €3,183)	2,702	3,366
Italian subsidiary		
Unsecured bank loan (€3,551; February 28, 2023 - €4,186)	3,850	4,427
Unsecured state bank loan (€345; February 28, 2023 - €460)	374	487
Other	6,593	6,435
	<b>33,382</b>	<b>29,896</b>
Less: current portion	13,353	8,177
	<b>20,029</b>	<b>21,719</b>

As at August 31, 2023, the Company had drawn down \$5,000 (February 28, 2023 – nil) on the revolving credit facility and had \$10,834 (February 28, 2023 – \$5,148) in the form of outstanding letters of credit and letters of guarantee on a total \$44,903 (February 28, 2023 – \$49,511) borrowing availability. Furthermore, as at August 31, 2023, 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, 2023				
<i>(thousands)</i>	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
<b>Financial position classification and nature</b>				
Assets				
<b>Derivative assets</b>	141	-	141	-
Liabilities				
<b>Derivative liabilities</b>	31	-	31	-

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

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, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	3,896	26,407	10,427	4,500	1,908	-	47,138
Export	12,511	111	6,361	8,430	5,767	-	33,180
Intercompany (export)	10,176	2,427	249	-	14,527	(27,379)	-
	<b>26,583</b>	<b>28,945</b>	<b>17,037</b>	<b>12,930</b>	<b>22,202</b>	<b>(27,379)</b>	<b>80,318</b>

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)	-
	<b>36,493</b>	<b>28,652</b>	<b>16,293</b>	<b>17,109</b>	<b>21,375</b>	<b>(34,868)</b>	<b>85,054</b>

Six-month period ended August 31, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	9,081	51,104	19,317	4,551	4,221	-	88,274
Export	17,612	273	13,363	17,971	10,484	-	59,703
Intercompany (export)	20,802	4,274	334	-	25,973	(51,383)	-
	<b>47,495</b>	<b>55,651</b>	<b>33,014</b>	<b>22,522</b>	<b>40,678</b>	<b>(51,383)</b>	<b>147,977</b>

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)	-
	<b>51,953</b>	<b>53,416</b>	<b>33,834</b>	<b>35,081</b>	<b>43,819</b>	<b>(58,044)</b>	<b>160,059</b>



## 10 Adjustments to reconcile net loss to cash used by operating activities

	Three-months period ended		Six-month periods ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
<i>(thousands)</i>	\$	\$	\$	\$
Depreciation of property, plant and equipment	2,154	2,023	4,220	4,184
Amortization of intangible assets	502	493	1,003	997
Amortization of financing costs	12	63	74	127
Deferred income taxes	14	934	(17)	1,251
Loss (gain) on disposal of property, plant and equipment	(10)	212	(24)	266
Net change in long-term provisions and customer deposits	(717)	2,560	(1,805)	(1,573)
Net change in derivative assets and liabilities	(10)	89	(302)	(415)
Net change in other liabilities	301	(302)	(69)	(520)
	<b>2,246</b>	<b>6,072</b>	<b>3,080</b>	<b>4,317</b>

## 11 Changes in non-cash working capital items

	Three-months period ended		Six-month periods ended	
	August 31, 2023	August 31, 2022	August 31, 2023	August 31, 2022
<i>(thousands)</i>	\$	\$	\$	\$
Accounts receivable	(7,690)	(14,666)	23,530	(604)
Inventories	(7,664)	6,273	(21,156)	(3,900)
Income taxes recoverable	378	(2,129)	(111)	(2,690)
Deposits and prepaid expenses	(1,063)	671	(1,377)	369
Accounts payable and accrued liabilities	(4,351)	(6,836)	(5,543)	(6,423)
Income taxes payable	(1,243)	(689)	(1,709)	(1,787)
Customer deposits	(638)	5,717	1,399	9,507
Provisions	988	(2,272)	1,834	(2,370)
	<b>(21,283)</b>	<b>(13,931)</b>	<b>(3,133)</b>	<b>(7,898)</b>

## 12 Subsequent event

On September 18, 2023, the Company completed the previously announced purchase of the 25% minority stake of Segault S.A.S. for €4,683 (\$5,077). The Company now owns 100% of all of the outstanding equity of Segault S.A.S.