



**UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three-month period ended May 31, 2024



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 period ended May 31, 2024.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2024 \$	February 29, 2024 \$
Assets		
Current assets		
Cash and cash equivalents	35,798	36,445
Short-term investments	5,735	5,271
Accounts receivable	105,661	119,914
Income taxes recoverable	6,374	6,132
Inventories	220,235	208,702
Deposits and prepaid expenses	9,443	10,421
Derivative assets	202	125
	383,448	387,010
Non-current assets		
Property, plant and equipment	69,978	69,918
Intangible assets and goodwill	16,960	16,543
Deferred income taxes	6,021	5,193
Other assets	729	729
	93,688	92,383
Total assets	477,136	479,393
Liabilities		
Current liabilities		
Bank indebtedness	1,779	-
Accounts payable and accrued liabilities	86,149	88,230
Income taxes payable	1,453	1,568
Customer deposits	35,649	30,396
Provisions	13,909	14,129
Derivative liabilities	-	26
Current portion of long-term lease liabilities	1,568	1,607
Current portion of long-term debt	5,317	24,431
	145,823	160,387
Non-current liabilities		
Long-term lease liabilities	11,115	11,036
Long-term debt	19,494	4,346
Income taxes payable	1,912	2,325
Deferred income taxes	3,938	3,462
Customer deposits	34,364	35,082
Provisions	72,929	74,058
Other liabilities	5,216	5,438
	148,968	135,747
Total liabilities	294,791	296,134
Total equity	182,345	183,259
Total liabilities and equity	477,136	479,393

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 number of shares and per share amounts)

	Three-month periods ended	
	May 31, 2024 \$	May 31, 2023 \$
Sales	77,500	67,659
Cost of sales	53,688	52,607
Gross profit	23,812	15,052
Administration costs	21,807	21,499
Other expense (income)	776	(13)
Operating income (loss)	1,229	(6,434)
Finance income	111	135
Finance costs	(1,452)	(1,340)
Finance costs – net	(1,341)	(1,205)
Income (loss) before income taxes	(112)	(7,639)
Income tax expense	1,048	651
Net loss for the period	(1,160)	(8,290)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(1,104)	(8,284)
Non-controlling interest	(56)	(6)
Net loss for the period	(1,160)	(8,290)
Net loss per Subordinate and Multiple Voting Share		
Basic and diluted	(0.05)	(0.38)
Dividends declared per Subordinate and Multiple Voting Share		
	- (CA\$ -)	0.02 (CA\$ 0.03)
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic and diluted	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	
	May 31, 2024 \$	May 31, 2023 \$
Comprehensive loss		
Net loss for the period	(1,160)	(8,290)
Other comprehensive income		
Foreign currency translation	246	1,408
Comprehensive loss	(914)	(6,882)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(858)	(6,876)
Non-controlling interest	(56)	(6)
Comprehensive loss	(914)	(6,882)

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		
Balance - February 28, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(8,284)	(8,284)	(6)	(8,290)
Other comprehensive loss	-	-	1,408	-	1,408	-	1,408
Comprehensive loss	-	-	1,408	(8,284)	(6,876)	(6)	(6,882)
Dividends							
Multiple Voting Shares	-	-	-	(346)	(346)	-	(346)
Subordinate Voting Shares	-	-	-	(134)	(134)	-	(134)
Balance - May 31, 2023	72,695	6,260	(39,800)	153,378	192,533	940	193,473
Balance - February 29, 2024	72,695	6,260	(38,692)	141,914	182,177	1,082	183,259
Net loss for the period	-	-	-	(1,104)	(1,104)	(56)	(1,160)
Other comprehensive income	-	-	246	-	246	-	246
Comprehensive income (loss)	-	-	246	(1,104)	(858)	(56)	(914)
Balance - May 31, 2024	72,695	6,260	(38,446)	140,810	181,319	1,026	182,345

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	
	May 31,	May 31,
	2024	2023
	\$	\$
Cash flows from		
Operating activities		
Net income (loss) for the period	(1,160)	(8,290)
Adjustments to reconcile net income (loss) to cash provided by operating activities	(175)	834
Changes in non-cash working capital items	6,235	18,150
Cash provided by operating activities	4,900	10,694
Investing activities		
Short-term investments	(456)	19
Additions to property, plant and equipment	(1,673)	(1,109)
Additions to intangible assets	(952)	(384)
Proceeds on disposal of property, plant and equipment, and intangible assets	8	14
Net change in other assets	5	28
Cash provided (used) by investing activities	(3,068)	(1,432)
Financing activities		
Short-term bank loans	(1)	-
Repayment of long-term debt	(3,816)	(926)
Repayment of long-term lease liabilities	(383)	(362)
Cash used by financing activities	(4,200)	(1,288)
Effect of exchange rate differences on cash	(58)	403
Net change in cash during the period	(2,426)	8,377
Net cash – Beginning of the period	36,445	50,253
Net cash – End of the period	34,019	58,630
Net cash is composed of:		
Cash and cash equivalents	35,798	58,842
Bank indebtedness	(1,779)	(212)
Net cash – End of the period	34,019	58,630
Supplementary information		
Interest paid	30	(49)
Income taxes paid	(1,744)	(2,610)

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



NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended May 31, 2024

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 July 11, 2024.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month period ended May 31, 2024 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 29, 2024, 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 29, 2024.

3 New accounting standards and amendments issued and 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 29, 2024.

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	
	May 31, 2024	February 29, 2024
<i>(thousands)</i>	\$	\$
Raw materials	32,829	33,208
Work in process and finished parts	147,729	134,678
Finished goods	39,677	40,816
	220,235	208,702

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 May 31, 2024 of \$1,091 (February 29, 2024 – \$2,030), including reversals of \$1,927 (February 29, 2024 - \$9,723).



7 Long-term debt

	As at	
<i>(thousands)</i>	May 31, 2024 \$	February 29, 2024 \$
Revolving credit facility	2,000	5,000
Canadian subsidiary		
Secured bank loan (\$CAD 19,286; February 29, 2024 - \$CAD 19,561)	14,142	14,415
French subsidiaries		
Unsecured bank loan (€2,995; February 29, 2024 - €3,240)	3,247	3,500
Italian subsidiary		
Unsecured bank loan (€2,594; February 29, 2024 - €2,914)	2,812	3,148
Unsecured state bank loan (€230; February 29, 2024 - €230)	249	248
Other	2,361	2,466
	24,811	28,777
Less: current portion	5,317	24,431
	19,494	4,346

As at May 31, 2024, the Company had drawn down \$2,000 (2024 - \$5,000) on the revolving credit facility and had \$3,810 (February 29, 2024 - \$5,148) in the form of outstanding letters of credit and letters of guarantee on a total of \$42,432 (February 29, 2024 - \$49,511) borrowing availability. As at May 31, 2024 and as at February 29, 2024, the Company was in breach of one of its financial covenants ratios for which, in May 2024, the lender renounced its right to demand repayment of the loan until March 1, 2026 provided that the breach relates solely to asbestos costs. Accordingly, the secured mortgage bank loan which was classified as short-term debt as at February 29, 2024 was re-classified as long-term debt on May 31, 2024. The next calculation for compliance of the covenant will be in February 2025.

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 Company does not have any financial instruments measured and recognized at fair value that are material. For other financial instruments not recognized at fair value, their fair value is approximately the carrying amount as at May 31, 2024.



9 Segment reporting

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

Three-month period ended May 31, 2024							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	6,789	28,915	8,208	193	2,934	-	47,039
Export	6,376	423	8,394	10,904	4,364	-	30,461
Intercompany (export)	11,211	2,360	1	9	12,227	(25,808)	-
	24,376	31,698	16,603	11,106	19,525	(25,808)	77,500

Three-month period ended May 31, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	5,184	24,696	8,890	51	2,313	-	41,134
Export	5,102	163	7,002	9,541	4,717	-	26,525
Intercompany (export)	10,626	1,847	85	-	11,446	(24,004)	-
	20,912	26,706	15,977	9,592	18,476	(24,004)	67,659

The sales distribution by customer geographic location is as follows:

Three-month period ended May 31, 2024						
(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	7,978	18,357	37,635	12,487	1,043	77,500

Three-month period ended May 31, 2023						
(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	6,065	12,941	34,683	12,880	1,090	67,659



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

	Three-month periods ended	
	May 31, 2024	May 31, 2023
<i>(thousands)</i>	\$	\$
Depreciation of property, plant and equipment	1,685	2,066
Amortization of intangible assets	766	501
Amortization of financing costs	5	62
Deferred income taxes	(357)	(31)
Loss (gain) on disposal of property, plant and equipment	-	(14)
Net change in long-term provisions and customer deposits	(1,947)	(1,088)
Net change in derivative assets and liabilities	(101)	(292)
Net change in other liabilities	(226)	(370)
	(175)	834

11 Changes in non-cash working capital items

	Three-month periods ended	
	May 31, 2024	May 31, 2023
<i>(thousands)</i>	\$	\$
Accounts receivable	14,440	31,220
Inventories	(11,160)	(13,492)
Income taxes recoverable	(259)	(489)
Deposits and prepaid expenses	1,005	(314)
Accounts payable and accrued liabilities	(2,206)	(1,192)
Income taxes payable	(511)	(466)
Customer deposits	5,172	2,037
Provisions	(246)	846
	6,235	18,150