



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and six-month periods ended August 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 and six-month periods ended August 31, 2024.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	August 31, 2024 \$	February 29, 2024 \$
Assets		
Current assets		
Cash and cash equivalents	44,480	36,445
Short-term investments	4,791	5,271
Accounts receivable	114,869	119,914
Income taxes recoverable	7,017	6,132
Inventories (note 6)	225,325	208,702
Deposits and prepaid expenses	9,035	10,421
Derivative assets (note 8)	431	125
	405,948	387,010
Non-current assets		
Property, plant and equipment	69,590	69,918
Intangible assets and goodwill	15,851	16,543
Deferred income taxes	5,860	5,193
Other assets	752	729
	92,053	92,383
Total assets	498,001	479,393
Liabilities		
Current liabilities		
Bank indebtedness	3,213	-
Accounts payable and accrued liabilities	94,954	88,230
Income taxes payable	1,094	1,568
Customer deposits	38,692	30,396
Provisions	16,595	14,129
Derivative liabilities (note 8)	2	26
Current portion of long-term lease liabilities	1,606	1,607
Current portion of long-term debt (note 7)	3,234	24,431
	159,390	160,387
Non-current liabilities		
Long-term lease liabilities	10,965	11,036
Long-term debt (note 7)	19,329	4,346
Income taxes payable	1,252	2,325
Deferred income taxes	4,314	3,462
Customer deposits	43,187	35,082
Provisions	71,700	74,058
Other liabilities	5,433	5,438
	156,180	135,747
Total liabilities	315,570	296,134
Total equity	182,431	183,259
Total liabilities and equity	498,001	479,393

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



Consolidated Statements of Income (loss)

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

	Three-month periods ended		Six-month periods ended	
	August 31, 2024 \$	August 31, 2023 \$	August 31, 2024 \$	August 31, 2023 \$
Sales (note 9)	98,647	80,318	176,147	147,977
Cost of sales (notes 6)	71,979	56,933	125,667	109,540
Gross profit	26,668	23,385	50,480	38,437
Administration costs	24,760	22,571	46,567	44,070
Other expense	(322)	525	453	512
Operating income (loss)	2,230	289	3,460	(6,145)
Finance income	151	136	262	271
Finance costs	(1,623)	(1,527)	(3,075)	(2,867)
Finance costs – net	(1,472)	(1,391)	(2,813)	(2,596)
Income (loss) before income taxes	758	(1,102)	647	(8,741)
Income tax expense	672	1,021	1,721	1,672
Net income (loss) for the period	86	(2,123)	(1,074)	(10,413)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	121	(2,120)	(983)	(10,404)
Non-controlling interest	(35)	(3)	(91)	(9)
Net income (loss) for the period	86	(2,123)	(1,074)	(10,413)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	0.01	(0.10)	(0.05)	(0.48)
Dividends declared per Subordinate and Multiple Voting Share	- (CA\$ -)	- (CA\$ -)	- (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	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, 2024 \$	August 31, 2023 \$	August 31, 2024 \$	August 31, 2023 \$
Comprehensive loss				
Net income (loss) for the period	86	(2,123)	(1,074)	(10,413)
Other comprehensive income				
Foreign currency translation	(2,270)	1,696	246	3,104
Comprehensive loss	(2,184)	(427)	(828)	(7,309)
Comprehensive loss attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(2,149)	(424)	(737)	(7,300)
Non-controlling interest	(35)	(3)	(91)	(9)
Comprehensive loss	(2,184)	(427)	(828)	(7,309)

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	-	-	-	(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)
Balance - August 31, 2023	72,695	6,260	(38,104)	151,247	192,098	937	193,035
Balance - February 29, 2024	72,695	6,260	(38,692)	141,914	182,177	1,082	183,259
Net loss for the period	-	-	-	(983)	(983)	(91)	(1,074)
Other comprehensive income	-	-	246	-	246	-	246
Comprehensive Income (loss)	-	-	246	(983)	(737)	(91)	(828)
Balance - August 31, 2024	72,695	6,260	(38,446)	140,931	181,440	991	182,431

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,
	2024	2023	2024	2023
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	86	(2,123)	(1,074)	(10,413)
Adjustments to reconcile net loss to cash provided by operating activities (note 10)	11,011	2,246	10,836	3,080
Changes in non-cash working capital items (note 11)	(952)	(21,283)	5,283	(3,133)
Cash provided (used) by operating activities	10,145	(21,160)	15,045	(10,466)
Investing activities				
Short-term investments	1,023	1	567	20
Additions to property, plant and equipment	(1,796)	(1,605)	(3,469)	(2,714)
Additions to intangible assets	658	(390)	(294)	(774)
Proceeds on disposal of property, plant and equipment, and intangible assets	138	39	146	53
Net change in other assets	(298)	5	(293)	33
Cash used by investing activities	(275)	(1,950)	(3,343)	(3,382)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	(491)	-	(491)
Net change in revolving credit facility	-	5,000	-	5,000
Increase in long-term debt	584	-	584	-
Repayment of long-term debt (note 7)	(3,120)	(778)	(6,936)	(1,704)
Repayment of long-term lease liabilities	90	(390)	(293)	(752)
Cash provided (used) by financing activities	(2,446)	3,341	(6,645)	2,053
Effect of exchange rate differences on cash	(176)	511	(235)	914
Net change in cash during the period	7,248	(19,258)	4,822	(10,881)
Net cash – Beginning of the period	34,019	58,630	36,445	50,253
Net cash – End of the period	41,267	39,372	41,267	39,372
Net cash is composed of:				
Cash and cash equivalents	44,480	41,474	44,480	41,474
Bank indebtedness	(3,213)	(2,102)	(3,213)	(2,102)
Net cash – End of the period	41,267	39,372	41,267	39,372
Supplementary information				
Interest received (paid)	901	(53)	56	(102)
Income taxes paid	(623)	(939)	(3,146)	(3,549)

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, 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 October 10, 2024.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and six-month periods ended August 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
	August 31, 2024	February 29, 2024
(thousands)	\$	\$
Raw materials	35,844	33,208
Work in process and finished parts	157,039	134,678
Finished goods	32,442	40,816
	225,325	208,702

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the six-month periods ended August 31, 2024 of \$7,936 (February 29, 2024 – \$2,030), including reversals of \$2,220 (February 29, 2024 - \$9,723).

7 Long-term debt

	As at	
	August 31, 2024	February 29, 2024
(thousands)	\$	\$
Revolving credit facility	-	5,000
Canadian subsidiary		
Secured bank loan (\$CAD 19,011; February 29, 2024 - \$CAD 19,561)	14,091	14,415
French subsidiaries		
Unsecured bank loan (€2,784; February 29, 2024 - €3,240)	3,075	3,500
Italian subsidiary		
Unsecured bank loan (€2,273; February 29, 2024 - €2,914)	2,512	3,148
Unsecured state bank loan (€115; February 29, 2024 - €230)	127	248
Other	2,758	2,466
	22,563	28,777
Less: current portion	3,234	24,431
	19,329	4,346

As at August 31, 2024, the Company had nothing drawn down (2024 - \$5,000) on the revolving credit facility and had \$4,115 (2024 - \$3,810) in the form of outstanding letters of credit and letters of guarantee on a total of \$17,307 (2024 - \$49,046) borrowing availability. As at August 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 as at August 31, 2024.

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, 2024				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	431	-	431	-
Liabilities				
Derivative liabilities	2	-	2	-

As at February 29, 2024				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	125	-	125	-
Liabilities				
Derivative liabilities	26	-	26	-

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 by origination country is as follows:

Three-month period ended August 31, 2024							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	4,419	32,458	12,950	321	9,238	-	59,386
Export	5,537	154	8,001	19,291	6,278	-	39,261
Intercompany (export)	14,407	3,120	10	103	12,830	(30,470)	-
	24,363	35,732	20,961	19,715	28,346	(30,470)	98,647



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)	-
	26,583	28,945	17,037	12,930	22,202	(27,379)	80,318

Six-month period ended August 31, 2024							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	11,208	61,372	21,158	514	12,172	-	106,424
Export	11,913	578	16,395	30,195	10,642	-	69,723
Intercompany (export)	25,618	5,480	11	112	25,057	(56,278)	-
	48,739	67,430	37,564	30,821	47,871	(56,278)	176,147

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)	-
	47,495	55,651	33,014	22,522	40,678	(51,383)	147,977

The sales distribution by customer geographic location is as follows:

Three-month period ended August 31, 2024						
(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	13,002	29,109	39,748	16,328	460	98,647



Three-month period ended August 31, 2023

(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	4,361	21,012	36,750	17,339	856	80,318

Six-month period ended August 31, 2024

(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	20,980	47,466	77,383	28,815	1,503	176,147

Six-month period ended August 31, 2023

(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	10,426	33,953	71,814	30,218	1,566	147,977

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

	Three-month period ended		Six-month period ended	
(thousands)	August 31, 2024 \$	August 31, 2023 \$	August 31, 2024 \$	August 31, 2023 \$
Depreciation of property, plant and equipment	2,612	2,154	4,297	4,220
Amortization of intangible assets	250	502	1,021	1,003
Amortization of financing costs	-	12	-	74
Deferred income taxes	520	14	163	(17)
Loss (gain) on disposal of property, plant and equipment	132	(10)	132	(24)
Net change in long-term provisions	(691)	(3,124)	(1,820)	(4,883)
Net change in customer deposits	8,144	2,407	7,326	3,078
Net change in derivative assets and liabilities	(242)	(10)	(343)	(302)
Net change in other liabilities	286	301	60	(69)
	11,011	2,246	10,836	3,080



11 Changes in non-cash working capital items

	Three-month period ended		Six-month period ended	
	August 31, 2024 \$	August 31, 2023 \$	August 31, 2024 \$	August 31, 2023 \$
<i>(thousands)</i>				
Accounts receivable	(7,749)	(7,690)	6,691	23,530
Inventories	(3,011)	(7,664)	(14,171)	(21,156)
Income taxes recoverable	(523)	378	(782)	(111)
Deposits and prepaid expenses	545	(1,063)	1,550	(1,377)
Accounts payable and accrued liabilities	5,876	(4,351)	3,670	(5,543)
Income taxes payable	(1,137)	(1,243)	(1,648)	(1,709)
Customer deposits	2,521	(638)	7,693	1,399
Provisions	2,526	988	2,280	1,834
	(952)	(21,283)	5,283	(3,133)