



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month and nine-month periods ended November 30, 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 nine-month periods ended November 30, 2023.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	November 30, 2023 \$	February 28, 2023 \$
Assets		
Current assets		
Cash and cash equivalents	30,295	50,513
Short-term investments	15	37
Accounts receivable	97,432	121,053
Income taxes recoverable	7,066	6,195
Inventories (note 6)	227,295	202,649
Deposits and prepaid expenses	8,926	7,559
Derivative assets (note 8)	135	107
	371,164	388,113
Non-current assets		
Property, plant and equipment	69,122	68,205
Intangible assets and goodwill	16,118	16,153
Deferred income taxes	5,320	4,663
Other assets	654	723
	91,214	89,744
Total assets	462,378	477,857
Liabilities		
Current liabilities		
Bank indebtedness	3,933	260
Accounts payable and accrued liabilities	74,879	79,408
Income taxes payable	1,599	2,832
Customer deposits	29,329	28,201
Provisions	18,348	16,485
Derivative liabilities (note 8)	27	299
Current portion of long-term lease liabilities	1,551	1,298
Current portion of long-term debt (note 7)	8,191	8,177
	137,857	136,960
Non-current liabilities		
Long-term lease liabilities	11,098	9,458
Long-term debt (note 7)	19,292	21,719
Income taxes payable	519	933
Deferred income taxes	4,209	3,966
Customer deposits	32,986	27,937
Provisions	65,056	70,924
Other liabilities	5,295	5,125
	138,455	140,062
Total liabilities	276,312	277,022
Total equity	186,066	200,835
Total liabilities and equity	462,378	477,857

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		Nine-month periods ended	
	November 30, 2023 \$	November 30, 2022 \$	November 30, 2023 \$	November 30, 2022 \$
Sales (note 9)	80,945	95,229	228,922	255,288
Cost of sales (notes 6)	64,559	66,264	174,099	182,768
Gross profit	16,386	28,965	54,823	72,520
Administration costs	21,553	25,428	65,623	75,918
Other expense (income)	27	2	539	(132)
Operating income (loss)	(5,194)	3,535	(11,339)	(3,266)
Finance income	124	59	395	227
Finance costs	(1,519)	(479)	(4,386)	(1,261)
Finance costs – net	(1,395)	(420)	(3,991)	(1,034)
Income (loss) before income taxes	(6,589)	3,115	(15,330)	(4,300)
Income tax expense	711	350	2,383	3,943
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(7,250)	2,739	(17,654)	(8,289)
Non-controlling interest	(50)	26	(59)	46
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	(0.34)	0.13	(0.82)	(0.38)
Dividends declared per Subordinate and Multiple Voting Share	- (CA\$ -)	- (CA\$ -)	0.02 (CA\$0.03)	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 Income (Loss)

(in thousands of U.S. dollars)

	Three-month periods ended		Nine-month periods ended	
	November 30, 2023 \$	November 30, 2022 \$	November 30, 2023 \$	November 30, 2022 \$
Comprehensive income (loss)				
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Other comprehensive income (loss)				
Foreign currency translation	131	3,183	3,235	(10,408)
Comprehensive income (loss)	(7,169)	5,948	(14,478)	(18,651)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(7,119)	5,922	(14,419)	(18,697)
Non-controlling interest	(50)	26	(59)	46
Comprehensive income (loss)	(7,169)	5,948	(14,478)	(18,651)

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of income (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, 2022	72,695	6,260	(32,126)	217,995	264,824	686	265,510
Net income (loss) for the period	-	-	-	(8,289)	(8,289)	46	(8,243)
Other comprehensive loss	-	-	(10,408)	-	(10,408)	-	(10,408)
Comprehensive income (loss)	-	-	(10,408)	(8,289)	(18,697)	46	(18,651)
Other	-	-	(97)	97	-	-	-
Dividends							
Multiple Voting Shares	-	-	-	(366)	(366)	-	(366)
Subordinate Voting Shares	-	-	-	(131)	(131)	-	(131)
Balance - November 30, 2022	72,695	6,260	(42,631)	209,306	245,630	732	246,362
Balance - February 28, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(17,654)	(17,654)	(59)	(17,713)
Other comprehensive income	-	-	3,235	-	3,235	-	3,235
Comprehensive income (loss)	-	-	3,235	(17,654)	(14,419)	(59)	(14,478)
Acquisition of non-controlling interests	-	-	-	-	-	200	200
Dividends							
Multiple Voting Shares	-	-	-	(354)	(354)	-	(354)
Subordinate Voting Shares	-	-	-	(137)	(137)	-	(137)
Balance - November 30, 2023	72,695	6,260	(37,973)	143,997	184,979	1,087	186,066

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		Nine-month periods ended	
	November 30,	November 30,	November 30,	November 30,
	2023	2022	2023	2022
	\$	\$	\$	\$
Cash flows from				
Operating activities				
Net income (loss) for the period	(7,300)	2,765	(17,713)	(8,243)
Adjustments to reconcile net income (loss) to cash used by operating activities (note 10)	1,618	2,857	1,620	11,850
Changes in non-cash working capital items (note 11)	800	(9,000)	745	(21,574)
Cash used by operating activities	(4,882)	(3,378)	(15,348)	(17,967)
Investing activities				
Short-term investments	2	64	22	(1,117)
Additions to property, plant and equipment	(1,190)	(1,449)	(3,904)	(2,985)
Additions to intangible assets	(385)	(107)	(1,159)	(1,316)
Proceeds on disposal of property, plant and equipment, and intangible assets	29	4	82	44
Net change in other assets	(3)	2	30	30
Cash used by investing activities	(1,547)	(1,486)	(4,929)	(5,344)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	-	(491)	(497)
Acquisition of non-controlling interests	200	-	200	-
Net change in revolving credit facility	-	5,357	5,000	5,373
Increase in long-term debt	-	-	-	2,160
Repayment of long-term debt (note 7)	(5,989)	(1,038)	(7,693)	(3,715)
Repayment of long-term lease liabilities	(540)	(359)	(1,292)	(1,091)
Cash provided (used) by financing activities	(6,329)	3,960	(4,276)	2,230
Effect of exchange rate differences on cash	(252)	490	662	(3,073)
Net change in cash during the period	(13,010)	(414)	(23,891)	(24,154)
Net cash – Beginning of the period	39,372	29,725	50,253	53,465
Net cash – End of the period	26,362	29,311	26,362	29,311
Net cash is composed of:				
Cash and cash equivalents	30,295	31,354	30,295	31,354
Bank indebtedness	(3,933)	(2,043)	(3,933)	(2,043)
Net cash – End of the period	26,362	29,311	26,362	29,311
Supplementary information				
Interest paid	(327)	(242)	(429)	(450)
Income taxes paid	(636)	(2,802)	(4,185)	(6,799)

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 nine-month periods ended November 30, 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 January 11, 2024.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month and nine-month periods ended November 30, 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	
	November 30, 2023	February 28, 2023
(thousands)	\$	\$
Raw materials	34,554	36,223
Work in process and finished parts	151,610	128,670
Finished goods	41,131	37,756
	227,295	202,649

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 November 30, 2023 of \$2,329 (November 30, 2022 - \$ 3,354). The Company recognized a net additional inventory provision for the nine-month period ended November 30, 2023 of \$5,239 (November 30, 2022 – \$4,453).

7 Long-term debt

	As at	
	November 30, 2023	February 28, 2023
(thousands)	\$	\$
Revolving credit facility	5,000	-
Canadian subsidiary		
Secured bank loan (\$CAD 19,836; February 28, 2023 - \$CAD 20,906)	14,604	15,181
French subsidiaries		
Unsecured bank loan (€2,242; February 28, 2023 - €3,183)	2,441	3,366
Italian subsidiary		
Unsecured bank loan (€3,232; February 28, 2023 - €4,186)	3,519	4,427
Unsecured state bank loan (€345; February 28, 2023 - €460)	376	487
Other	1,543	6,435
	27,483	29,896
Less: current portion	8,191	8,177
	19,292	21,719

As at November 30, 2023, the Company had drawn down \$5,000 (February 28, 2023 – nil) on the revolving credit facility and had \$10,194 (February 28, 2023 – \$5,148) in the form of outstanding letters of credit and letters of guarantee on a total \$38,360 (February 28, 2023 – \$49,511) borrowing availability. Furthermore, as at November 30, 2023, the Company was in compliance with all of its covenants.

The current revolving credit facility matures in February 2024 and management is actively working on refinancing solutions.

On September 18, 2023, the Company completed the previously announced purchase of the 25% minority stake of Segault S.A.S. for €4,683 (\$5,006). The Company now owns 100% of all of the outstanding equity of Segault S.A.S. The unconditional put option held by the minority shareholder of Segault S.A.S. was previously included in the “Other” section of the above table.



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 November 30, 2023				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	135	-	135	-
Liabilities				
Derivative liabilities	27	-	27	-

As at February 28, 2023				
(thousands)	Total \$	Level 1 \$	Level 2 \$	Level 3 \$
Financial position classification and nature				
Assets				
Derivative assets	107	-	107	-
Liabilities				
Derivative liabilities	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 November 30, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	10,373	24,733	12,258	349	2,050	-	49,763
Export	10,161	363	6,179	8,444	6,035	-	31,182
Intercompany (export)	10,933	2,170	13	-	14,651	(27,767)	-
	31,467	27,266	18,450	8,793	22,736	(27,767)	80,945

Three-month period ended November 30, 2022							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	6,918	46,416	9,187	16	1,605	-	64,142
Export	8,635	98	11,709	7,041	3,604	-	31,087
Intercompany (export)	14,469	3,861	23	358	16,521	(35,232)	-
	30,022	50,375	20,919	7,415	21,730	(35,232)	95,229

Nine-month period ended November 30, 2023							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	19,453	75,836	31,575	4,900	6,271	-	138,035
Export	27,774	637	19,542	26,415	16,519	-	90,887
Intercompany (export)	31,735	6,444	347	-	40,624	(79,150)	-
	78,962	82,917	51,464	31,315	63,414	(79,150)	228,922

Nine-month period ended November 30, 2022							
(thousands)	Canada \$	United States \$	France \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales							
Customers -							
Domestic	17,106	94,648	29,542	51	8,320	-	149,667
Export	25,732	428	25,144	39,550	14,767	-	105,621
Intercompany (export)	39,137	8,715	67	2,895	42,462	(93,276)	-
	81,975	103,791	54,753	42,496	65,549	(93,276)	255,288



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

	Three-months period ended		Nine-month periods ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
<i>(thousands)</i>	\$	\$	\$	\$
Depreciation of property, plant and equipment	2,238	2,086	6,458	6,270
Amortization of intangible assets	565	478	1,568	1,475
Amortization of financing costs	4	62	78	189
Deferred income taxes	(415)	(1,042)	(432)	209
Loss (gain) on disposal of property, plant and equipment	-	12	(24)	278
Net change in long-term provisions	(983)	422	(5,866)	3,525
Net change in derivative assets and liabilities	3	368	(299)	(47)
Net change in other liabilities	206	471	137	(49)
	1,618	2,857	1,620	11,850

11 Changes in non-cash working capital items

	Three-months period ended		Nine-month periods ended	
	November 30, 2023	November 30, 2022	November 30, 2023	November 30, 2022
<i>(thousands)</i>	\$	\$	\$	\$
Accounts receivable	1,999	(3,483)	25,529	(4,087)
Inventories	(904)	1,762	(22,060)	(2,138)
Income taxes recoverable	(721)	(1,753)	(832)	(4,443)
Deposits and prepaid expenses	168	(1,145)	(1,209)	(776)
Accounts payable and accrued liabilities	(135)	8,324	(5,678)	1,901
Income taxes payable	40	(192)	(1,669)	(1,979)
Customer deposits	524	(12,012)	5,001	(7,181)
Provisions	(171)	(501)	1,663	(2,871)
	800	(9,000)	745	(21,574)