



REPORT TO SHAREHOLDERS

Second quarter

Six-month period ended August 31, 2022



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended August 31, 2022

HIGHLIGHTS¹

- As the volatility across various macro economic factors continues across the globe, the Company has managed to improve performance over its first quarter by prudently managing the business while facing headwinds in logistics, operations and their related impact on deliveries.
- Sales for the quarter amounted to \$85.1 million, an improvement of \$10.1 million or 13.4% compared to the first quarter of the current fiscal year, but a decrease of \$16.8 million or 16.5% compared to the second quarter of the previous fiscal year. The decrease in sales for the quarter compared to the prior year is partly due to the continued weakening of the euro average rate against the U.S. dollar, stronger shipments in the prior year related to one major contract and the timing of the delivery schedule on open orders in the current quarter.
- During the second quarter of the current fiscal year, the company shipped a large order which was expected to reach its destination prior to the closing of the quarter. As a result of logistics delays, the final acceptance of this shipment will be completed in the third quarter. The impact of this delayed shipment on the quarter was \$10.9 million.
- Gross profit for the quarter amounted to \$23.5 million or 27.6%, an improvement of \$3.4 million or 80 basis points compared to the first quarter of the current fiscal year, but a decrease compared to last year's \$31.4 million or 30.8%. The decrease in gross profit percentage for the quarter was primarily due to the previously explained lower sales volume which impacted the absorption of fixed production overhead costs. The decrease was also due to the unfavourable effect of the product mix. Finally, the gross profit was lower compared to last year by \$0.5 million as the Company did not receive funds from the Canada Emergency Wage Subsidies ("CEWS") program.
- Net loss² of \$3.7 million and EBITDA³ of \$1.4 million for the quarter compared to a net income¹ of \$5.0 million and EBITDA³ of \$10.7 million last year. The decrease in EBITDA³ is primarily attributable to the previously mentioned reduction in gross profit combined with an increase in administration costs in the quarter.
- Order backlog³ remains strong at \$477.6 million, a decrease of \$23.6 million or 4.7% since the beginning of the year which is primarily attributable to the weakening of the euro spot rate against the U.S. dollar and lower upstream oil and gas net new orders ("bookings")³ for the half year. The portion of the current backlog³ deliverable in the next twelve months increased to \$347.2 million primarily due to the shipment delays encountered in the quarter.
- Bookings³ of \$73.5 million for the quarter, a decrease of \$8.1 million or 9.9% compared to last year. The decrease in bookings³ compared to last year resulted mainly from the current geo-political uncertainties which created slower project awards. The Company nonetheless continues to observe a strong amount of activity ongoing. The Company's book-to-bill ratio³ for the half-year remains favorable at 1.04.
- The Company's net cash amounted to \$29.7 million at the end of the quarter, a decrease of \$23.7 million since the beginning of the fiscal year. The decrease in net cash for the quarter is primarily attributable to the lower EBITDA³, combined with unfavorable non-cash working capital items. The overall available liquidity remains strong with \$137.8 million of available cash-on-hand and facilities, which allowed for the repayment of \$2.6 million of long-term debt in the current quarter.

¹ All dollar amounts are denominated in U.S. dollars.

² Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

³ Non-IFRS and supplementary financial measures – additional specifications at the end of this report

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the quarter ended August 31, 2022. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2022 and 2021. The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). The significant accounting policies upon which these consolidated financial statements have been prepared are detailed in Note 2 of the Company's audited consolidated financial statements. All foreign currency transactions, balances and overseas operations have been converted to U.S. dollars, the Company's reporting currency. This MD&A was approved by the Board of Directors of the Company on October 14, 2022. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at www.sedar.com.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Reconciliations of these amounts can be found at the end of this report. The Company has also presented supplementary financial measures which are defined at the end of this report.

FORWARD-LOOKING INFORMATION

This MD&A may include forward-looking statements, which generally contain words like "should", "believe", "anticipate", "plan", "may", "will", "expect", "intend", "continue" or "estimate" or the negatives of these terms or variations of them or similar expressions, all of which are subject to risks and uncertainties. These risks and uncertainties are disclosed in the Company's filings with the appropriate securities commissions. While these statements are based on management's assumptions regarding historical trends, current conditions and expected future developments, as well as other factors that it believes are reasonable and appropriate in the circumstances, no forward-looking statement can be guaranteed and actual future results may differ materially from those expressed herein. The Company disclaims any intention or obligation to update or revise any forward-looking statements contained herein whether as a result of new information, future events or otherwise, except as required by the applicable securities laws. The forward-looking statements contained in this report are expressly qualified by this cautionary statement.

ABOUT VELAN

The Company designs, manufactures and markets on a worldwide basis a broad range of industrial valves for use in most industry applications including power generation, oil and gas, refining and petrochemicals, chemicals, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with 1,656 employees. The Company's head office is located in Montreal, Canada. The Company's business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life. The Company's strategic goals include, but are not limited to, customer-driven operational excellence and margin improvements, accelerated growth through increased focus on key target markets where the Company has distinct competitive advantages and continuously improving and modernizing its systems and processes.

The consolidated financial statements of the Company include the North American operations comprising two manufacturing plants in Canada, as well as one manufacturing plant and one distribution facility in the U.S. Significant overseas operations include manufacturing plants in France, Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a sales operation in Germany.

RESULTS OF OPERATIONS

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the second quarter of the last fiscal year)

(thousands)	Three-month periods ended			Six-month periods ended		
	August 31, 2022	August 31, 2021	Variance	August 31, 2022	August 31, 2021	Variance
Sales	\$85,054	\$101,893	(16,839)	\$160,059	\$176,422	(16,363)
Gross profit	23,482	31,391	(7,909)	43,555	51,385	(7,830)
Administration costs	24,678	23,977	701	50,490	47,756	2,734
Income taxes	2,084	2,271	(187)	3,593	2,902	691
Net income (loss) ¹	(3,676)	5,015	(8,691)	(11,028)	(58)	(10,970)
EBITDA ²	1,365	10,657	(9,292)	(1,513)	9,716	(11,229)
Bookings ²	73,495	81,550	(8,055)	166,941	197,924	(30,983)
Period ending backlog ² of orders				477,596	575,826	(98,230)
(as a percentage of sales)						
Gross profit	27.6%	30.8%	-320 bpts	27.2%	29.1%	-190 bpts
(in dollars per share)						
Net income (loss) ¹ per share – basic and diluted	(0.17)	0.23	(0.40)	(0.51)	(0.00)	(0.51)
EBITDA ² per share – basic and diluted	0.06	0.49	(0.43)	(0.07)	0.45	(0.52)

Backlog²

(thousands)	As at		
	August 31, 2022	February 28, 2022	August 31, 2021
Backlog ²	477,596	501,224	575,826
For delivery within the next twelve months	347,213	321,860	346,586
For delivery beyond the next twelve months	130,383	179,364	229,240
Percentage – beyond the next twelve months	27.3%	35.8%	39.8%

The total backlog² decreased by \$23.6 million or 4.7% since the beginning of the fiscal year, settling at \$477.6 million at the end of the quarter. The decrease in backlog² is primarily attributable to the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented \$30.5 million for the six-month period. The decrease since the beginning of the fiscal year was partially offset by a positive book-to-bill ratio² of 1.04 as a result of bookings² outpacing sales for the half year.

¹ Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

² Non-IFRS and supplementary financial measures – more information at the end of this report

Bookings¹

Bookings¹ for the quarter amounted to \$73.5 million, a decrease of \$8.1 million or 9.9% compared to the second quarter of last year. Bookings¹ for the half year amounted to \$166.9 million, a decrease of \$31.0 million or 15.7% compared to the prior fiscal year. The weakening of the euro average rate against the U.S. dollar on order bookings¹ for the Company's European operations resulted in a negative impact of \$4.5 million in the second quarter and \$7.8 million on the half year compared to the prior year. Additionally, the decrease for the quarter is primarily attributable to lower orders recorded in the Company's Italian and German operations. This decrease for the half year is primarily attributable to lower upstream oil and gas and marine orders recorded in the Company's Italian and North American operations. The current geo-political uncertainties have created slower project awards resulting in lower bookings¹ for the Company in the half-year. The Company nonetheless continues to observe a strong amount of activity ongoing. The decrease for both periods is also attributable to the disposal of the Company's Korean foundry at the end of the previous fiscal year. The Korean foundry had recorded \$1.5 million of bookings¹ in the second quarter of the previous fiscal year and \$4.3 million for the six-month period of the same year. Finally, the decrease for the quarter was partially offset by an increase in the Company's MRO bookings¹ compared to last year.

Sales

Sales amounted to \$85.1 million for the quarter, decreasing by \$16.8 million or 16.5% compared to the same quarter last year. Sales for the half year totaled \$160.1 million, a decrease of \$16.3 or 9.3% compared to the last fiscal year. The negative effect of the weakening of the euro average rate against the U.S. dollar on sales for the quarter amounted to \$6.0 million, and \$10.5 million for the half year compared to the second quarter and first half year of last fiscal year. The decrease in sales for the quarter is primarily attributable to the delivery of significant orders by the Company's Italian operations destined to the upstream oil and gas sector in the prior fiscal year. The decrease for both periods is also attributable to the timing of delivery dates on open orders caused by lower bookings¹ recorded in the second half of the previous year. The Company still faced, in the current quarter, supply chain delays as well as customer related issues which had a negative effect on sales for the half year.

Gross profit

Gross profit for the quarter amounted to \$23.5 million, a decrease of \$7.9 million or 25.2%. Gross profit for the half year amounted to \$43.6 million, a decrease of \$7.8 million or 15.2%. The gross profit percentage for the quarter of 27.6% was a decrease of 320 basis points compared to last year's second quarter, while the gross profit percentage for the six-month period of 27.2% represented a decrease of 190 basis points compared to the same period last year. The decrease in gross profit percentage for both periods is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The decrease in gross profit percentage was also due to the unfavorable effect of the product mix delivered. Additionally, The Company's gross profit for the quarter was negatively impacted by less favorable foreign exchange movements, when compared to similar movements from the previous year, which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and Canadian dollar. These foreign exchange movements were favorable in the half year period. The gross profit in the prior year was positively impacted by the recording of \$0.5 million for the quarter and \$1.1 million for the half year of CEWS while the Company was not eligible for such subsidies in the current fiscal year. The subsidies were allocated between cost of sales and administration costs. Prior year's gross profit percentage without CEWS would have been 30.2% for the quarter and 28.5% for the half year.

¹ Non-IFRS and supplementary financial measures – more information at the end of this report

Administration cost

Administration costs for the quarter amounted to \$24.7 million, an increase of \$0.7 million or 2.9%. Administration costs for the half year amounted to \$50.5 million, an increase of \$2.7 million or 5.7%. The increase in administration costs for both periods is primarily attributable to the reassessment of the Company's long-term legal provision. The increase is also due to higher outbound freight costs caused by the current global supply chain issues which are impacting freight costs and shipping delays. The administration costs in the prior year benefited from the recording of \$0.5 million for the quarter and \$0.9 million for the half year period of CEWS while the Company was not eligible for such subsidies in the current fiscal year. The subsidies were allocated between cost of sales and administration costs. The increase for both periods was partially offset by lower sales commissions recorded on the delivery of large orders over the course of both periods, while the increase for the quarter was partially offset by a general reduction of the remaining administration costs.

EBITDA¹

EBITDA¹ for the quarter amounted to \$1.4 million or \$0.06 per share compared to \$10.7 million or \$0.49 per share last year. EBITDA¹ for the half year amounted to negative \$1.5 million or negative \$0.07 per share compared to \$9.7 million or \$0.45 per share last year. The unfavorable movements in EBITDA¹ for both periods are primarily attributable to the previously explained decrease in gross profit combined with an increase in administration costs. A portion of the effects on the EBITDA¹ caused by the weakening of the euro against the U.S. dollar were hedged by the company.

Income taxes

(thousands, excluding percentages)	Three-month periods ended			
	August 31, 2022		August 31, 2021	
	\$	%	\$	%
Income tax at statutory rate	(419)	26.5	1,846	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	48	(3.0)	65	0.9
Non-deductible foreign exchange losses	841	(53.1)	148	2.1
Unrecognized tax losses	1,545	(97.6)	158	2.3
Benefit attributable to a financing structure	(63)	4.0	(66)	(0.9)
Other differences	132	(8.4)	120	1.7
Income tax expense	2,084	(131.6)	2,271	32.6

¹ Non-IFRS and supplementary financial measures – more information at the end of this report

<i>(thousands, excluding percentages)</i>	Six-month periods ended			
	August 31, 2022		August 31, 2021	
	\$	%	\$	%
Income tax at statutory rate	(1,966)	26.5	671	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	100	(1.4)	179	7.1
Non-deductible foreign exchange losses	1,108	(14.9)	71	2.8
Unrecognized tax losses	4,400	(59.3)	2,097	82.8
Benefit attributable to a financing structure	(130)	1.8	(132)	(5.2)
Other differences	81	(1.1)	16	0.6
Income tax expense	3,593	(48.4)	2,902	114.6

Net loss¹

Net loss¹ amounted to \$3.7 million or \$0.17 per share compared to a net income¹ of \$5.0 million or \$0.23 per share last year. Net loss¹ for the half year amounted to \$11.0 million or \$0.51 per share compared to \$0.1 million or \$0.00 per share last year. The negative movement in the Company's results was primarily attributable to the same factors as explained in the EBITDA² section combined with an unfavorable movement in income taxes for the half year, partially offset by favorable movements in finance costs for both periods and in income taxes for the quarter.

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities, cash flows and proposed transactions *(unless otherwise noted, all dollar amounts are denominated in U.S. dollars)*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk by continually monitoring its future cash requirements. Cash flow forecasting is performed in the operating entities and aggregated by the Company's corporate finance team. The Company's policy is to maintain sufficient cash and cash equivalents and available credit facilities in order to meet its present and future operational needs.

On August 31, 2022, the Company's order backlog² was \$477.6 million and its net cash plus unused credit facilities amounted to \$137.8 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. The Company also believes that its unused credit facilities are sufficient to navigate through lingering COVID-19 impacts and the conflict in Ukraine. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. As at August 31, 2022, the Company is in compliance with all covenants related to its debt and credit facilities.

As part of managing its liquidity risk, the Company also monitors the financial health of its key suppliers. As at August 31, 2022, the Company does not see undue risk as a result of this assessment.

¹ Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

² Non-IFRS and supplementary financial measures – more information at the end of this report

Cash flows - quarter and six-month period ended August 31, 2022

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to same period in the prior fiscal year)

The Company's changes in net cash were as follows:

(thousands)	Three-month periods ended		Six-month periods ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Net Cash – Beginning of period	47,652	71,237	53,465	62,953
Cash provided (used) by operating activities	(11,524)	1,533	(14,589)	2,428
Cash used by investing activities	(1,671)	(3,599)	(3,858)	(2,692)
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 Cash – End of period	29,725	68,131	29,725	68,131

Operating activities

The unfavorable movement in cash used by operating activities for the quarter and the half year is primarily attributable to the decrease in EBITDA combined with unfavorable movements in non-cash working capital items.

The changes in non-cash working capital items were as follow:

(thousands)	Three-month periods ended		Six-month periods ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
Accounts receivable	(14,666)	(7,797)	(604)	7,188
Income taxes recoverable	(2,129)	1,099	(2,690)	189
Inventories	6,273	(7,281)	(3,900)	(38,488)
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)
Changes in non-cash working capital items	(13,931)	(6,808)	(7,898)	(3,259)

The negative non-cash working capital movements for the quarter ended August 31, 2022 consisted primarily of:

- An increase in accounts receivable primarily due to the higher proportion of sales that occurred at the tail end of the quarter;
- A decrease in accounts payable and accrued liabilities due to the timing of payments, primarily related to previously purchased inventory for ongoing and future production.
- A decrease in provisions, more specifically the current portion of the Company's legal provision, primarily due to settlement payments related to outstanding asbestos claims.

The positive non-cash working capital movements for the quarter ended August 31, 2022 consisted primarily of a decrease in inventories principally in reaction with the reduction of the Company's backlog combined with the timing of inventory purchases which occurred more importantly in the first quarter of the fiscal year.

The negative non-cash working capital movements for the half-year period ended August 31, 2022 consisted primarily of:

- A decrease in accounts payable and accrued liabilities due to the timing of payments.
- An increase in inventories primarily in reaction to the delivery schedule of certain large orders.
- A decrease in the Company's legal provision, primarily due to settlement payments related to outstanding asbestos claims.

The positive non-cash working capital movements for the half year period ended August 31, 2022 were primarily due to an increase in customer deposits mainly due to the reclassification of a deposit obtained on a significant order from short-term to long-term in reaction to the planned delivery of this order.

Investing activities

Cash used by investing activities for the quarter was primarily due to additions to property, plant and equipment and intangible assets. Cash used by investing activities for the half year was primarily due to an increase in short-term investments and additions to property, plant and equipment and intangible assets. The fluctuation in additions to property, plant and equipment for the current quarter is primarily attributable to the timing of the receipts of certain equipment.

Financing activities

During the current quarter, the Company continued to pay down its outstanding long-term debt without undertaking any new debt insurances. During the half year, the Company's Italian operations borrowed \$2.2 million in the form of unsecured bank loans, bearing annual interest between 0.67% and 0.71%, repayable quarterly and expiring in fiscal 2027.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on mitigating unpredictable financial market risks and their potential adverse effects on the Company's financial performance.

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Market risk

Currency risk

Currency risk on financial instruments is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Currency risk arises when future commercial

transactions and recognized assets and liabilities are denominated in a currency other than a company's functional currency. The Company has operations with different functional currencies, each of which will be exposed to currency risk based on its specific functional currency.

When possible, the Company matches cash receipts in a foreign currency with cash disbursements in that same currency. The remaining anticipated net exposure to foreign currencies is hedged. To hedge this exposure, the Company uses foreign currency derivatives, primarily foreign exchange forward contracts. These derivatives are not designated as hedges for accounting purposes.

The amounts outstanding as at August 31, 2022 and February 28, 2022 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	August 31, 2022	February 28, 2022	August 31, 2022 \$	February 28, 2022 \$	August 31, 2022	February 28, 2022
Foreign exchange forward contracts						
Sell US\$ for CA\$ - 0 to 12 months	1.27-1.28	1.27-1.28	(284)	(470)	US\$25,000	US\$50,000
Buy US\$ for CA\$ - 0 to 12 months	1.25	1.25	-	301	US\$25,000	US\$50,000
Sell € for US\$ - 0 to 12 months	1.15	1.15	-	(90)	€7,500	€15,000
Buy € for US\$ - 0 to 12 months	1.13	1.13	694	252	€7,500	€15,000

Foreign exchange forward contracts are contracts whereby the Company has the obligation to sell or buy the currencies at the strike price. The fair value of the foreign currency instruments is recorded in the consolidated statement of income and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

Interest rate risk

The Company's exposure to interest rate risk is related primarily to its credit facilities, long-term debt and cash and cash equivalents. Items at variable rates expose the Company to cash flow interest rate risk, and items at fixed rates expose the Company to fair value interest rate risk. The Company's long-term debt and credit facilities predominantly bear interest, and its cash and cash equivalents earn interest at variable rates. An assumed 0.5% change in interest rates would have no significant impact on the Company's net income or cash flows.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises primarily from the Company's trade accounts receivable.

The Company's credit risk related to its trade accounts receivable is concentrated. As at August 31, 2022, four (February 28, 2022 – three) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 17.2% (February 28, 2022 – 10.8%), and the Company's ten largest customers accounted for 70.6% (February 28, 2022 – 55.7%) of trade accounts receivable. In addition, there was two customers (August 31, 2021 – nil) that accounted for more than 10% of the Company's sales.

In order to mitigate its credit risk, the Company performs a continual evaluation of its customers' credit and performs specific evaluation procedures on all its new customers. In performing its evaluation, the Company analyzes the ageing of accounts receivable, historical payment patterns, customer creditworthiness and current economic trends. A specific credit limit is established for each customer and reviewed periodically. For some trade accounts receivable, the Company may obtain security in the form of credit insurance which can be called upon if the counterparty is in default under the terms of the agreement.

The Company applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected credit loss rates are based on the Company's historical

credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macro-economic factors affecting the Company's customers.

The Company is also exposed to credit risk relating to derivative financial instruments, cash and cash equivalents and short-term investments, which it manages by dealing with highly rated financial institutions. The Company's primary credit risk is limited to the carrying value of the trade accounts receivable and gains on derivative assets.

The table below summarizes the ageing of the trade accounts receivable as at:

	As at	
	August 31, 2022 \$	February 28, 2022 \$
<i>(thousands)</i>		
Current	53,656	64,689
Past due 0 to 30 days	17,056	17,995
Past due 31 to 90 days	11,248	9,248
Past due more than 90 days	18,592	16,285
	100,522	108,217
Less: Loss allowance	(468)	(509)
	100,084	107,708
Other receivables	9,022	8,126
Total accounts receivable	109,106	115,834

The table below summarizes the movement in the allowance for doubtful accounts:

	Six-month periods ended	
	August 31, 2022 \$	August 31, 2021 \$
<i>(thousands)</i>		
Balance – Beginning of the year	509	1,146
Loss allowance expense	5	58
Recoveries of trade accounts receivables	-	(275)
Write-off of trade accounts receivable	(16)	(8)
Foreign exchange	(30)	(78)
Balance – End of the period	468	843

Liquidity risk – see discussion in *liquidity and capital resources* section

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

The Company lists the various risks that could affect its business in the year-end version of its MD&A. The Company continuously monitors and evaluates such risks, with particular current focus on the COVID-19 pandemic, the Ukraine conflict and the ongoing labour union negotiation in Montreal and Granby. The Company has no changes to report as at August 31, 2022.

INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information presented in the Company's interim and annual reports to shareholders is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, in order for appropriate decisions to be made in regards to disclosures. Internal controls over financial reporting have also been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements in accordance with IFRS.

The Company did not make any changes to the design of internal controls over financial reporting during the three-month and six-month periods ended August 31, 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

The Company's financial statements are prepared in accordance with IFRS as issued by the IASB. The Company's significant accounting policies as described in notes 2 and 3 of the Company's audited consolidated financial statements are essential to understanding the Company's financial positions, results of operations and cash flows. Certain of these accounting policies require critical accounting estimates that involve complex and subjective judgments and the use of assumptions, some of which may be for matters that are inherently uncertain and susceptible to change. The assumptions and estimates used are based on parameters which are derived from the knowledge at the time of preparing the financial statements and believed to be reasonable under the circumstances. In particular, the circumstances prevailing at this time and assumptions as to the expected future development of the global and industry-specific environment were used to estimate the Company's future business performance. Where these conditions develop differently than assumed and beyond the control of the Company, the actual results may differ from those anticipated (see *Forward-looking information* section above). These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is changed. There were no significant changes made to critical accounting estimates during the past two fiscal years.

There have been no material changes from those identified in the annual MD&A.

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.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters are as follows:

For the quarters in months ending May, August, November and February
(in thousands of U.S. dollars, excluding per share amounts)

	Quarters ended							
	August 2022	May 2022	February 2022	November 2021	August 2021	May 2021	February 2021	November 2020
Sales	\$85,054	\$75,005	\$124,849	\$109,971	\$101,893	\$74,529	\$85,510	\$71,560
Net earnings (loss) ¹	(3,676)	(7,352)	(25,509)	4,507	5,015	(5,073)	338	9,527
Net earnings (loss) ¹ per share								
- Basic and diluted	(0.17)	(0.34)	(1.19)	0.21	0.23	(0.24)	0.02	0.44
EBITDA ²	1,365	(2,878)	16,592	13,291	10,657	(941)	1,648	13,784
EBITDA ² per share								
- Basic and diluted	0.06	(0.13)	0.77	0.62	0.49	(0.04)	0.08	0.64

¹ Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

² Non-IFRS and supplementary financial measures – more information at the end of this report

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company has presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month periods ended		Six-month periods ended	
	August 31, 2022	August 31, 2021	August 31, 2022	August 31, 2021
<i>(thousands, except amount per shares)</i>	\$	\$	\$	\$
Net income ¹	(3,676)	5,015	(11,028)	(58)
<i>Adjustments for:</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
Finance costs – net	378	526	614	1,055
Income taxes	2,084	2,271	3,593	2,902
EBITDA	1,365	10,657	(1,513)	9,716
EBITDA per share				
- Basic and diluted	0.06	0.49	(0.07)	0.45

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income taxes. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

¹ Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares



UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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



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, 2022.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	August 31, 2022 \$	February 28, 2022 \$
Assets		
Current assets		
Cash and cash equivalents	32,938	54,015
Short-term investments	9,097	8,726
Accounts receivable	109,106	115,834
Income taxes recoverable	5,570	2,955
Inventories (note 6)	216,666	223,198
Deposits and prepaid expenses	6,078	6,877
Derivative assets (note 8)	694	553
	380,149	412,158
Non-current assets		
Property, plant and equipment	68,403	73,906
Intangible assets and goodwill	15,605	16,693
Deferred income taxes	3,665	4,774
Other assets	699	897
	88,372	96,270
Total assets	468,521	508,428
Liabilities		
Current liabilities		
Bank indebtedness	3,213	550
Accounts payable and accrued liabilities	69,517	80,503
Income taxes payable	1,985	3,806
Customer deposits	47,306	41,344
Provisions	15,204	18,444
Derivative liabilities (note 8)	284	560
Current portion of long-term lease liabilities	1,274	1,360
Current portion of long-term debt (note 7)	7,744	8,111
	146,527	154,678
Non-current liabilities		
Long-term lease liabilities	9,536	11,073
Long-term debt (note 7)	21,980	22,927
Income taxes payable	1,079	1,244
Deferred income taxes	4,178	4,025
Customer deposits	23,547	30,139
Provisions	16,204	13,101
Other liabilities	5,056	5,731
	81,580	88,240
Total liabilities	228,107	242,918
Total equity	240,414	265,510
Total liabilities and equity	468,521	508,428

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, 2022 \$	August 31, 2021 \$	August 31, 2022 \$	August 31, 2021 \$
Sales (note 9)	85,054	101,893	160,059	176,422
Cost of sales (notes 6)	61,572	70,502	116,504	125,037
Gross profit	23,482	31,391	43,555	51,385
Administration costs	24,678	23,977	50,490	47,756
Other expense (income)	7	(79)	(134)	42
Operating profit (loss)	(1,203)	7,493	(6,801)	3,587
Finance income	78	118	168	290
Finance costs	(456)	(644)	(782)	(1,345)
Finance costs – net	(378)	(526)	(614)	(1,055)
Income (loss) before income taxes	(1,581)	6,967	(7,415)	2,532
Income tax expense	2,084	2,271	3,593	2,902
Net income (loss) for the period	(3,665)	4,696	(11,008)	(370)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(3,676)	5,015	(11,028)	(58)
Non-controlling interest	11	(319)	20	(312)
Net income (loss) for the period	(3,665)	4,696	(11,008)	(370)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic and diluted	(0.17)	0.23	(0.51)	(0.00)
Dividends declared per Subordinate and Multiple Voting Share	- (CA\$ -)	- (CA\$ -)	0.02 (CA\$0.03)	- (CA\$-)
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, 2022 \$	August 31, 2021 \$	August 31, 2022 \$	August 31, 2021 \$
Comprehensive loss				
Net income (loss) for the period	(3,665)	4,696	(11,008)	(370)
Other comprehensive loss				
Foreign currency translation	(7,760)	(4,817)	(13,591)	(3,422)
Comprehensive loss	(11,425)	(121)	(24,599)	(3,792)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(11,437)	254	(24,619)	(3,448)
Non-controlling interest	12	(375)	20	(344)
Comprehensive loss	(11,425)	(121)	(24,599)	(3,792)

Other comprehensive 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, 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, 2022 \$	August 31, 2021 \$	August 31, 2022 \$	August 31, 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
(thousands)	\$	\$
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	
	August 31, 2022	February 28, 2022
(thousands)	\$	\$
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				
(thousands)	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				
(thousands)	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
(thousands)	\$	\$	\$	\$
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
(thousands)	\$	\$	\$	\$
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)

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

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