



**UNAUDITED CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS**

For the three-month period ended May 31, 2025



NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors PricewaterhouseCoopers LLP have not reviewed the unaudited condensed interim consolidated financial statements for the three-month period ended May 31, 2025.



Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2025 \$	February 28, 2025 \$
Assets		
Current assets		
Cash and cash equivalents	59,102	34,872
Short-term investments	399	358
Accounts receivable	61,849	62,612
Income taxes recoverable	6,114	5,617
Inventories (note 8)	138,079	134,969
Deposits and prepaid expenses	3,829	3,689
Derivative assets	789	24
Assets held for sale (note 6)	-	176,762
	270,161	418,903
Non-current assets		
Property, plant and equipment	52,259	51,349
Intangible assets and goodwill	6,468	5,893
Deferred income taxes	5,261	25,101
Other assets	777	720
	64,765	83,063
Total assets	334,926	501,966
Liabilities		
Current liabilities		
Bank indebtedness	3,318	2,508
Accounts payable and accrued liabilities	85,392	78,776
Income taxes payable	1,826	1,818
Customer deposits	16,019	22,338
Provisions	9,739	153,957
Derivative liabilities	525	480
Current portion of long-term lease liabilities	1,514	1,437
Current portion of long-term debt (note 9)	1,692	2,096
Liabilities held for sale (note 6)	-	110,883
	120,025	374,293
Non-current liabilities		
Long-term lease liabilities	4,697	4,727
Long-term debt (note 9)	14,704	14,107
Income taxes payable	-	692
Deferred income taxes	1,255	737
Customer deposits	8,984	3,876
Other liabilities	4,999	4,796
	34,639	28,935
Total liabilities	154,664	403,228
Total equity	180,262	98,738
Total liabilities and equity	334,926	501,966

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	
	May 31, 2025 \$	May 31, 2024 \$
Sales	72,229	60,898
Cost of sales	51,603	44,070
Gross profit	20,626	16,828
Administration costs	18,313	15,368
Restructuring expenses (note 14)	5,374	2,340
Other expenses	732	762
Operating loss	(3,793)	(1,642)
Financing expenses	(390)	(195)
Loss before income taxes	(4,183)	(1,837)
Income tax expense (recovery)	(21,958)	406
Net Income (loss) for the period from continuing operations	17,775	(2,243)
Results from discontinued operations (note 6)	59,379	1,083
	77,154	(1,160)
Net Income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	77,205	(1,104)
Non-controlling interest	(51)	(56)
Net Income (loss) attributable to Shareholders for the period	77,154	(1,160)
Net Income (loss) per Subordinate and Multiple Voting Share		
Basic and diluted from continuing operations	0.83	(0.10)
Basic and diluted from discontinued operations	2.75	0.05
Basic and diluted from all operations	3.58	(0.05)
Dividends declared per Subordinate and Multiple Voting Share	0.24 (CA\$ 0.33)	- (CA\$ -)
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic and diluted common number of shares	21,585,635	21,585,635
Net Income (loss) attributable to Shareholders:		
Continuing operations	17,775	(2,243)
Discontinued operations	59,379	1,083
Net Income (loss) for the period	77,154	(1,160)

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	
	May 31, 2025 \$	May 31, 2024 \$
Comprehensive Income (loss)		
Net Income (loss) for the period	77,154	(1,160)
Other comprehensive Income (loss)		
Foreign currency translation of foreign subsidiaries	(2,872)	(91)
Foreign currency translation of foreign subsidiaries from discontinued operations	-	337
Reclassification of foreign currency translation from discontinued operations	12,456	-
Comprehensive Income (loss)	86,738	(914)
Comprehensive Income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	86,789	(1,104)
Non-controlling interest	(51)	(56)
Comprehensive Income (loss)	86,738	(1,160)

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 Income (loss)	Retained earnings	Total		
Balance - February 29, 2024	72,695	6,260	(38,692)	141,914	182,177	1,082	183,259
Net Loss for the period	-	-	-	(1,104)	(1,104)	(56)	(1,160)
Other comprehensive Income	-	-	246	-	246	-	246
Comprehensive Income (loss)	-	-	246	(1,104)	(858)	(56)	(914)
Balance - May 31, 2024	72,695	6,260	(38,446)	140,810	181,319	1,026	182,345
Balance - February 28, 2025	72,695	6,355	(47,141)	65,952	97,861	877	98,738
Net Income (loss) for the period	-	-	-	77,205	77,205	(51)	77,154
Other comprehensive income (loss)	-	-	(2,872)	-	(2,872)	-	(2,872)
Comprehensive Income (loss)	-	-	(2,872)	77,205	74,333	(51)	74,282
Reclassification of foreign currency translation to discontinued operations (note 6)	-	-	12,456	-	12,456	-	12,456
Dividends							
Multiple Voting Shares	-	-	-	(3,770)	(3,770)	-	(3,770)
Subordinate Voting Shares	-	-	-	(1,444)	(1,444)	-	(1,444)
Balance - May 31, 2025	72,695	6,355	(37,557)	137,943	179,436	826	180,262

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



Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2025 \$	May 31, 2024 \$
Cash flows from		
Operating activities		
Net income (loss) for the period	77,154	(1,160)
Less: results from discontinued operations (note 6)	(59,379)	(1,083)
Net Income (loss) for the period for continued operations	17,775	(2,243)
Adjustments to reconcile net loss to cash provided by operating activities (note 12)	(17,173)	(833)
Changes in non-cash working capital items (note 13)	(160,620)	14,994
Cash provided (used) by operating activities from continued operations	(160,018)	11,918
Investing activities		
Short-term investments	(32)	(441)
Additions to property, plant and equipment	(1,953)	(1,748)
Additions to intangible assets	-	(804)
Proceeds on disposal of property, plant and equipment	953	8
Net change in other assets	35	(52)
Cash provided (used) by investing activities from continued operations (excluding proceeds on disposal of France assets)	(997)	(3,037)
Proceeds on disposal of France assets	183,143	-
Cash provided (used) by investing activities from continued operations	182,146	(3,037)
Financing activities		
Increase in long-term debt	1,064	253
Repayment of long-term debt	(871)	(3,816)
Repayment of long-term lease liabilities	(399)	(447)
Cash used by financing activities from continued operations	(206)	(4,010)
Effect of exchange rate differences on cash and cash equivalents	1,498	(533)
Net change in cash during the period from continued operations	23,420	4,338
Net change in cash during the period from discontinuing operations (note 6)	9,525	(6,762)
Net change in cash and cash equivalents during the period	32,945	(2,424)
Net cash – Beginning of the period	32,364	27,283
Net cash – End of the period	55,784	31,621
Net cash is composed of:		
Cash and cash equivalents	59,102	33,400
Bank indebtedness	(3,318)	(1,779)
Net cash – End of the period	55,784	31,621
Supplementary information		
Interest paid	(239)	(201)
Income taxes paid	(1,427)	(850)

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 period ended May 31, 2025

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 controlling shareholder is Velan Holdings Co. Ltd.

These unaudited condensed interim consolidated financial statements were approved for issue by the Company's Board of Directors on July 10, 2025.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month period ended May 31, 2025 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, 2025, 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, 2025.

3 New accounting standards and amendments issued and adopted

In May 2024, the IASB issued amendments to *IFRS 7, Financial Instruments: Disclosures* and *IFRS 9, Financial Instruments*, following the implementation review of the requirements of *IFRS 9* and related requirements of *IFRS 7*.

The IASB amended *IFRS 9* to clarify the timing of recognition and derecognition of certain financial assets and liabilities, with a new exception for certain financial liabilities settled in cash through an electronic payment system, and to clarify and add additional guidance for assessing whether the cash flows associated with a financial asset consist solely of repayments of principal and interest payments on the outstanding principal.

The IASB amended *IFRS 7* to add new disclosures for certain instruments whose contractual terms may modify cash flows, and to improve the presentation of information about equity instruments designated at fair value through other comprehensive income.

The Company is currently evaluating the impact of adopting the amendments to *IFRS 7* and *IFRS 9*, which will be effective for fiscal years beginning on or after January 1, 2026.

In April 2024, the IASB issued *IFRS 18, Presentation and Disclosures in Financial Statements*, which will replace the current *IAS 1, Presentation of Financial Statements*.

IFRS 18 introduces three new elements designed to improve the presentation of information in financial statements. It introduces three new categories of revenue and expense (operating, investing, and financing) to improve the comparability of income statements between companies. In addition, *IFRS 18* aims to improve the transparency of



performance indicators defined by management. Finally, *IFRS 18* provides guidance on how to present information in financial statements. The Company is currently evaluating the impact of adopting *IFRS 18*, which will be applicable to fiscal years beginning on or after January 1, 2027.

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, 2025.

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 Disposal of Velan S.A.S. and Segault S.A.S.

On March 31, 2025, the Company announced the closing of the sale of its French subsidiaries Velan S.A.S. and Segault S.A.S. (the disposal group) for a total consideration of €192,500 (\$208,227), including the transfer of an intercompany loan of \$24M, for a net cash consideration of \$183,143 after related finance costs.

Based on the net book value at the closing of the transaction and the related costs, a gain of \$95,824 recorded in the current quarter of fiscal year 2026.

a) The assets and liabilities of the disposal group is as follows:

	As at
	March 31,
	2025
(thousands)	\$
Cash and cash equivalents	25,063
Short-term investments	-
Accounts receivable	47,700
Income taxes recoverable	1,042
Inventories	76,329
Deposits and prepaid expenses	2,104
Property, plant and equipment	16,319
Intangible assets and goodwill	8,960
Deferred income taxes	(51)
Assets held for sales	177,466
Accounts payable and accrued liabilities	24,057
Customer deposits	49,587
Provisions	3,707
Current portion of long-term lease liabilities	179
Current portion of long-term debt	1,129
Long-term lease liabilities	6,105



Long-term debt	2,717
Income taxes payable	861
Deferred income taxes	1,716
Other liabilities	89
Liabilities held for sales	90,147
Net Assets	87,319
Net consideration received in cash	183,143
Profit on disposal	95,824

b) The income and expenses, gains and losses relating to the discontinuation the disposal group have been subtracted from the Company's net income from continuing operations and are presented on a separate line in the consolidated statement of income. The result for the current period only covers one month due to the closing of the sale on March 31, 2025. The details of the elements making up this result are as follows:

	Three-month periods ended	
	May 31, 2025	May 31, 2024
(thousands)	\$	\$
Sales	4,764	16,602
Cost of sales	3,127	9,618
Gross profit	1,637	6,984
Administration costs	1,782	5,231
Gain on Disposal of SAS and Segault	(95,824)	-
Reclassification of foreign currency translation of foreign subsidiaries from discontinued operations	12,456	-
Other expense (income)	2	13
Operating income (loss)	83,221	1,740
Finance income	(128)	15
Finance costs	-	-
Finance costs – net	(128)	15
Income (loss) before income taxes	83,349	1,725
Income tax expense	23,970	642
Net profit (loss) for the period	59,379	1,083



c) Cash flows generated by the disposal group for the reporting periods under review until its disposal are as follows:

	Three Month period ended	
	May 31, 2025	May 31, 2024
<i>(thousands)</i>	\$	\$
Operating activities	(168)	(7,019)
Investing activities	8,912	(89)
Financing activities	781	(190)
Effect of exchange rate differences on cash and cash equivalents	-	536
Net change in cash during the period from discontinuing operations	9,525	(6,762)

7 Settlement of Asbestos liabilities

Concurrently with the disposal of Velan S.A.S. and Segault S.A.S. (the disposal, note 6), the Company entered into an agreement to sell to an affiliate of Global Risk Capital its current and future exposure to Asbestos-related litigation in the United States. Part of the proceeds received in current quarter from the Velan SAS and Segault SAS disposal was used on April 3, 2025, to pay an amount of \$143 million for the asbestos divestiture transaction.

8 Inventories

	As at	
	May 31, 2025	February 28, 2025
<i>(thousands)</i>	\$	\$
Raw materials	23,342	22,001
Work in process and finished parts	78,344	77,450
Finished goods	36,393	35,518
	138,079	134,969

As a result of variations in the ageing of its inventories, the Company recognized a net additional inventory provision for the three-month period ended May 31, 2025, of \$1,652 (February 28, 2025 – \$10,466), including reversals of \$1,923 (February 28, 2025 - \$6,180).



9 Long-term debt

	As at	
	May 31, 2025 \$	February 28, 2025 \$
<i>(thousands)</i>		
Canadian subsidiary		
Secured bank loan (\$CAD 19,286; February 29, 2025 - \$CAD 18,460)	13,239	12,760
Italian subsidiary		
Unsecured bank loan (€812; February 29, 2025 - €1,631)	921	1,692
Unsecured state bank loan (€550; February 29, 2025 - €333)	624	346
Gulf subsidiary		
Unsecured third-party loan (note f)	200	200
Other	1,412	1,205
	16,396	16,203
Less: current portion	1,692	2,096
	14,704	14,107

As at May 31, 2025, the Company had drawn down \$Nil (2025 - \$Nil) on the revolving credit facility and had \$23,136 (February 28, 2025 - \$1,789) in the form of outstanding letters of credit and letters of guarantee on a total of \$27,334 (February 28, 2025 - \$35,316) borrowing availability. As at May 31, 2025 and as at February 29, 2025, the Company was in compliance of its financial covenants ratios. The next calculation for compliance of the covenant will be in February 2026.

The Company reported that on May 21, 2025, it entered a new, \$25 million, three-year, revolving credit facility (the "Credit Agreement"), the Credit Agreement also includes a \$5M swing line and a \$5M letter of credit facility. The Credit Agreement replaces the prior ABL agreement, dated as of February 28, 2025, which matured on the closing of the French and Asbestos transactions. The revolving credit facility may be used for general corporate purposes. The credit facility was funded and operational on June 25, 2025. The credit facility matures on May 21, 2028, and may be extended at maturity, subject to lender and borrower agreement.

10 Fair value of financial instruments

The fair value hierarchy has the following levels:

- Level 1 – quoted market prices in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3 – unobservable inputs such as inputs for the asset or liability that are not based on observable market data. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

The Company does not have any financial instruments measured and recognized at fair value that are material. For other financial instruments not recognized at fair value, their fair value is approximately the carrying amount as at May 31, 2025.



11 Segment reporting

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

Three-month period ended May 31, 2025						
(thousands)	Canada \$	United States \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales						
Customers - Domestic	10,411	21,439	421	6,964	-	39,235
Export	10,020	41	16,112	6,821	-	32,994
Intercompany (export)	8,272	1,674	-	12,439	(22,385)	-
	28,703	23,154	16,533	26,224	(22,385)	72,229

Three-month period ended May 31, 2024						
(thousands)	Canada \$	United States \$	Italy \$	Other \$	Consolidation adjustment \$	Consolidated \$
Sales						
Customers - Domestic	6,789	28,915	193	2,934	-	38,831
Export	6,376	423	10,904	4,364	-	22,067
Intercompany (export)	11,211	2,361	9	12,227	(25,808)	-
	24,376	31,699	11,106	19,525	(25,808)	60,898

The sales distribution by customer geographic location is as follows:

Three-month period ended May 31, 2025						
(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	3,601	2,702	35,486	29,220	1,220	72,229

Three-month period ended May 31, 2024						
(thousands)	Africa / Middle East \$	Europe \$	North America \$	Asia / Pacific \$	South & Central America \$	Consolidated \$
Sales	7,978	6,917	37,620	7,340	1,043	60,898



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

	Three-month periods ended	
	May 31, 2025 \$	May 31, 2024 \$
<i>(thousands)</i>		
Depreciation of property, plant and equipment	1,573	1,349
Amortization of intangible assets	771	623
Amortization of financing costs	-	5
Deferred income taxes	(24,022)	(1,010)
Loss (gain) on disposal of property, plant and equipment	42	-
Net change in long-term provisions and customer deposits	5,108	(1,473)
Net change in derivative assets and liabilities	(848)	(101)
Net change in other liabilities	203	(226)
	(17,173)	(833)

13 Changes in non-cash working capital items

	Three-month periods ended	
	May 31, 2025 \$	May 31, 2024 \$
<i>(thousands)</i>		
Accounts receivable	216	11,470
Inventories	(757)	(5,829)
Income taxes recoverable	(714)	(259)
Deposits and prepaid expenses	(22)	634
Accounts payable and accrued liabilities	(6,258)	2,686
Income taxes payable	(1,344)	(50)
Customer deposits	(7,180)	6,469
Provisions	(144,561)	(127)
	(160,620)	14,994



14 Restructuring expenses

	For the years ended	
	May 31, 2025 \$	May 31, 2024 \$
<i>(thousands)</i>		
Transaction-related costs	6,128	-
Asbestos-related costs	(754)	2,340
	5,374	2,340