VELAN

UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three-month period ended May 31, 2026

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, 2026.

VELAN

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2026 $	February 28, 2026 $
Assets		
Current assets		
Cash and cash equivalents	34,565	53,354
Short-term investments	1,367	371
Accounts receivable	74,063	75,369
Income taxes recoverable	6,080	5,511
Inventories (note 6)	139,239	147,140
Deposits and prepaid expenses	3,497	3,337
Derivative assets	9	59
	258,820	285,141
Non-current assets		
Property, plant and equipment	49,709	50,935
Intangible assets and goodwill	3,904	4,477
Deferred income taxes	4,229	5,283
Other assets	768	771
	58,610	61,466
Total assets	317,430	346,607
Liabilities		
Current liabilities		
Bank indebtedness	17,587	10,663
Short-term bank loans	-	1,199
Accounts payable and accrued liabilities	64,945	85,094
Income taxes payable	1,409	1,330
Customer deposits	13,965	20,211
Provisions	9,133	10,227
Derivative liabilities	179	130
Current portion of long-term lease liabilities	1,582	1,592
Current portion of long-term debt (note 7)	2,792	3,737
	111,592	134,183
Non-current liabilities		
Long-term lease liabilities	3,640	3,968
Long-term debt (note 7)	13,998	14,488
Income taxes payable	464	-
Deferred income taxes	1,283	1,346
Customer deposits	14,586	5,584
Other liabilities	4,823	4,935
	38,794	30,321
Total liabilities	150,386	164,504
Total equity	167,044	182,103
Total liabilities and equity	317,430	346,607

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

VELAN

Consolidated Statements of Income (loss)

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

	Three-month periods ended	
	May 31, 2026 $	May 31, 2025 $
Sales	57,830	72,229
Cost of sales	46,474	51,603
Gross profit	11,356	20,626
Administration costs	15,719	18,313
Restructuring expenses (note 12)	513	5,374
Other expenses	2,855	732
Operating loss	(7,731)	(3,793)
Financing expenses	(84)	(390)
Loss before income taxes	(7,815)	(4,183)
Income tax expense (recovery)	1,687	(21,958)
Net Income (loss) for the period from continuing operations	(9,502)	17,775
Results from discontinued operations	-	59,379
	(9,502)	77,154
Net Income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(9,436)**	**77,205**
Non-controlling interest	(66)	(51)
Net Income (loss) attributable to Shareholders for the period	**(9,502)**	**77,154**
Net Income (loss) per Subordinate and Multiple Voting Share		
Basic and diluted from continuing operations	(0.44)	0.83
Basic and diluted from discontinued operations	-	2.75
Basic and diluted from all operations	(0.44)	3.58
Dividends declared per Subordinate and Multiple Voting Share	- (CA$ -)	0.24 (CA$ 0.33)
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	(9,502)	17,775
Discontinued operations	-	59,379
Net Income (loss) for the period	**(9,502)**	**77,154**

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

VELAN

Consolidated Statements of Comprehensive Income (loss)

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2026 $	May 31, 2025 $
Comprehensive Income (loss)		
Net Income (loss) for the period	(9,502)	77,154
Other comprehensive Income (loss)		
Foreign currency translation of foreign subsidiaries	(5,561)	(2,872)
Reclassification of foreign currency translation from discontinued operations	-	12,456
Comprehensive Income (loss)	(15,063)	86,738
Comprehensive Income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(14,997)	86,789
Non-controlling interest	(66)	(51)
Comprehensive Income (loss)	(15,063)	86,738

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.

VELAN

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						
	Share capital	Contributed surplus	Accumulated other comprehensive Income (loss)	Retained earnings	Total	Non-controlling interest	Total equity
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 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
Balance - February 28, 2026	72,695	6,355	(27,526)	129,957	181,481	626	182,107
Net Loss for the period	-	-	-	(9,436)	(9,436)	(66)	(9,502)
Other comprehensive loss	-	-	(5,561)	-	(5,561)	-	(5,561)
Comprehensive loss	-	-	(5,561)	(9,436)	(14,997)	(66)	(15,063)
Balance - May 31, 2026	72,695	6,355	(33,087)	120,521	166,484	560	167,044

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, 2026 $	May 31, 2025 $
Cash flows from		
Operating activities		
Net income (loss) for the period	(9,502)	77,154
Less: results from discontinued operations	-	(59,379)
Net Income (loss) for the period for continued operations	(9,502)	17,775
Adjustments to reconcile net loss to cash provided by operating activities (note 10)	10,121	(17,173)
Changes in non-cash working capital items (note 11)	(19,024)	(160,620)
Cash provided (used) by operating activities from continued operations	(18,405)	(160,018)
Investing activities		
Short-term investments	(1,012)	(32)
Additions to property, plant and equipment	(665)	(1,953)
Additions to intangible assets	(127)	-
Proceeds on disposal of property, plant and equipment	25	953
Net change in other assets	3	35
Cash provided (used) by investing activities from continued operations (excluding proceeds on disposal of France assets)	(1,776)	(997)
Proceeds on disposal of France assets	-	183,143
Cash provided (used) by investing activities from continued operations	(1,776)	182,146
Financing activities		
Increase in long-term debt	-	1,064
Repayment of long-term debt	(3,495)	(871)
Repayment of long-term lease liabilities	(420)	(399)
Cash used by financing activities from continued operations	(3,915)	(206)
Effect of exchange rate differences on cash and cash equivalents	(418)	1,498
Net change in cash during the period from continuated operations	(24,514)	23,420
Net change in cash during the period from discontinuing operations	-	9,525
Net change in cash and cash equivalents during the period	(24,514)	32,945
Net cash – Beginning of the period	41,492	32,364
Net cash – End of the period	16,978	55,784
Net cash is composed of:		
Cash and cash equivalents	34,565	59,102
Bank indebtedness	(17,587)	(3,318)
Net cash – End of the period	16,978	55,784
Supplementary information		
Interest paid	(379)	(239)
Income taxes paid	(1,199)	(1,427)

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, 2026

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 Valve Holdings Corp.

These unaudited condensed interim consolidated financial statements were approved for issue by the Company's Board of Directors on July 19, 2026.

2 Basis of preparation

These unaudited condensed interim consolidated financial statements for the three-month period ended May 31, 2026, 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, 2026, 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, 2026.

3 New accounting standards and amendments issued but not yet adopted

The following new standard has been issued by the IASB and is not yet effective for the Company's consolidated financial statements. The Company has not early adopted this standard.

IFRS 18 – Presentation and Disclosure in Financial Statements
In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements related to the presentation of financial performance, including the classification of income and expenses into defined categories and the presentation of new mandatory subtotals in the statement of profit or loss. The Standard also introduces enhanced disclosure requirements, including disclosures of management-defined performance measures, and updated principles for aggregation and disaggregation of financial information.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The Company does not plan to early adopt this Standard. The adoption of IFRS 18 is not expected to have an impact on the recognition or measurement of amounts in the consolidated financial statements but will result in changes to presentation and disclosures.

Standards and amendments effective January 1, 2026
Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures, including amendments related to the classification and measurement of financial instruments, contracts referencing nature-dependent electricity, and annual improvements to IFRS Accounting Standards, are effective for annual reporting periods

beginning on or after January 1, 2026. The Company is currently assessing these amendments and does not expect them to have a material impact on the 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, 2026.

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
(thousands)	**May 31, 2026 $**	**February 28, 2026 $**
Raw materials	19,522	17,238
Work in process and finished parts	86,492	93,898
Finished goods	33,225	36,004
	139,239	**147,140**

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, 2026, of $1,283 (February 28, 2026 – $57), including reversals of $642 (February 28, 2026 - $11,378).

VELAN

7 Long-term debt

(thousands)	As at May 31, 2026 $	February 28, 2026 $
Canadian subsidiary		
Secured bank loan ($CAD 17,082; February 28, 2026 - $CAD 17,358) (note a)	12,379	12,720
Italian subsidiary		
Unsecured bank loan (€1,491; February 28, 2026 - €2,611) (note b)	2,147	3,084
Unsecured state bank loan (€17; February 28, 2026 - €68) (note c)	20	81
Gulf subsidiary		
Unsecured third-party loan (note d)	440	440
Other (note e)	1,804	1,900
	16,790	18,225
Less: current portion	2,792	3,737
	13,998	**14,488**

a) The secured mortgage bank loan of $12,379 ($CAD 17,082) bears interest at 3.55% with principal repayments of $68 repayable over 15 years

b) The unsecured mini loans total $2,147 (€1,841) bears interest at a range of [Euribor + 0.40% - Euribor + 0.55%]. Repayments include monthly payments of $259 and quarterly payments of $120. These loans expire in 2026.

c) The unsecured bank loan of $20 (€17) bears interest of Euribor + 1% and is repayable in monthly payments of $19. The loan expires in 2026.

d) The unsecured third-party loan of $440 bears interest 3.00% and is repayable at maturity. The loan expires in 2027.

e) Included in Other is an amount of $1,804 (¥13,041) (February 28, 2026 – $1,900 (¥12,945)) related to an unconditional put option held by a minority shareholder in one of the Company's subsidiary companies. This is recognized as a liability instead of non-controlling interest.

The aggregate net book value of the assets pledged as collateral under long-term debt agreements amounted to $12,379 (2026 – $12,720)

The carrying value of long-term debt approximates its fair value.

8 Fair value of financial instruments

The fair value hierarchy has the following levels:

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

The Company does not have any financial instruments measured and recognized at fair value that are material. For other financial instruments not recognized at fair value, their fair value is approximately the carrying amount as at May 31, 2026.

9 Segment reporting

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

					Three-month period ended May 31, 2026	
(thousands)	Canada $	United States $	Italy $	Other $	Consolidation adjustment $	Consolidated $
Sales						
Customers -						
Domestic	5,067	22,331	93	5,250	-	32,741
Export	6,804	558	10,085	7,642	-	25,089
Intercompany (export)	7,037	1,059	9	12,490	(20,595)	-
	18,908	**23,948**	**10,187**	**25,382**	**(20,595)**	**57,830**

					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**

The sales distribution by customer geographic location is as follows:

						Three-month period ended May 31, 2026
(thousands)	Africa / Middle East $	Europe $	North America $	Asia / Pacific $	South & Central America $	Consolidated $
Sales	9,557	2,671	32,757	11,977	868	**57,830**

	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**

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

	Three-month periods ended	
(thousands)	**May 31, 2026 $**	**May 31, 2025 $**
Depreciation of property, plant and equipment	1,698	1,629
Amortization of intangible assets	456	519
Deferred income taxes	(1,054)	(24,022)
Loss (gain) on disposal of property, plant and equipment	26	-
Net change in long-term provisions and customer deposits	9,006	5,108
Net change in derivative assets and liabilities	100	(610)
Net change in other liabilities	(111)	203
	10,121	**(17,173)**

11 Changes in non-cash working capital items

	Three-month periods ended	
(thousands)	**May 31, 2026 $**	**May 31, 2025 $**
Accounts receivable	581	216
Inventories	7,384	(757)
Income taxes recoverable	(555)	(714)
Deposits and prepaid expenses	(174)	(22)
Accounts payable and accrued liabilities	(19,584)	(6,258)
Income taxes payable	556	(1,344)
Customer deposits	(6,180)	(7,180)
Provisions	(1,052)	(144,561)
	(19,024)	**(160,620)**

12 Restructuring expenses

(thousands)	For the years ended May 31, 2026 $	May 31, 2025 $
Transaction-related costs	513	6,128
Asbestos-related costs	-	(754)
	513	**5,374**

13 Subsequent event

On June 15, 2026, the Company announced the closing of the sale by its controlling shareholder, Velan Holding Co. Ltd., of its controlling interest in the Company to funds managed by Birch Hill Equity Partners Management Inc.

The closing created an obligation for the Company to pay conditional fees related to the transaction. These fees are estimated at $15.5 million and will be accounted for in the second quarter of fiscal 2027.

Following this event, the Company has secured a new $80 million revolving credit facility with a major chartered bank, maturing in June 2031. The facility strengthens Velan's capital structure by increasing liquidity, enhancing durability, and lowering its cost of capital. Proceeds were used to repay existing North American debt at closing, including $14.9 million of bank indebtedness and a $12.4 million secured bank loan, and to be used for general corporate purposes going forward.