MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal year ended February 29, 2024

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the fiscal year ended February 29, 2024. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 29, 2024, and February 28, 2023. 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 May 16, 2024. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR+ at **www.sedarplus.ca**.

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 and are included in this report (see *Certain Risks That Could Affect Our Business* section). 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 critical applications. Velan provides solutions to many industrial sectors including power generation, nuclear, oil and gas, chemicals, LNG and cryogenics, pulp and paper, geothermal processes, shipbuilding, defense, and carbon-neutral technologies. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with approximately 1,641 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.

THREE-YEAR FINANCIAL SUMMARY

(unless otherwise noted, all amounts are in U.S. dollars)

	For the reporting period ended on		
(thousands)	February 29, 2024	February 28, 2023	February 28, 2022
Operating data			
Sales	346,816	370,429	411,242
Gross Profit	93,207	112,465	134,969
Net loss[1]	(19,737)	(55,453)	(21,141)
Adjusted net income (loss)[2]	(7,918)	501	11,462
EBITDA[2]	5,306	(34,862)	39,599
Adjusted EBITDA[2]	17,780	21,092	39,599
Net loss[2] per share – basic and diluted	(0.91)	(2.57)	(0.98)
Adjusted net income (loss) per share – basic and diluted	(0.37)	0.02	0.53
Balance sheet data			
Cash and cash equivalents	36,445	50,513	54,015
Total assets	479,393	477,857	508,428
Long-term debt, including current portion	28,777	29,896	31,038
Cash flow data			
Cash provided by operating activities	4,301	522	17,868
Free cash flow[2]	(2,538)	(3,848)	11,724
Shareholder data			
Cash dividends per share (in CA$)			
- Multiple voting shares	0.03	0.03	-
- Subordinate voting shares	0.03	0.03	-
Outstanding Shares at reporting date			
- Multiple voting shares	15,566,567	15,566,567	15,566,567
- Subordinate voting shares	6,019,068	6,019,068	6,019,068

Backlog[2] and Bookings[2]

	As at					
	February 29, 2024		February 28, 2023		February 28, 2022	
(thousands)	$	%	$	%	$	%
Backlog[2]	491,525		464,337		501,224	
For delivery within the next 12 months	360,669	73.4%	307,991	66.3%	321,860	64.2%
For delivery between 12 and 24 months	95,483	19.4%	n/a	n/a	n/a	n/a
For delivery between 24 and 36 months	17,064	3.5%	n/a	n/a	n/a	n/a
For delivery beyond 36 months	18,309	3.7%	n/a	n/a	n/a	n/a
Bookings[2]	374,454		353,176		363,451	
Book-to-bill ratio[2]	1.08		0.95		0.88	

[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 – additional specifications at the end of this report*

FISCAL 2024 HIGHLIGHTS

- Order backlog[1] of $491.5 million at the end of fiscal 2024, of which 73.4% is deliverable within the next 12 months, up from $464.3 million a year earlier. Currency movements had a $5.6 million positive effect on backlog[1].
- Net new orders ("bookings")[1] of $374.5 million for the year, up $21.3 million or 6.0% from last year. The increase reflects strong oil and gas orders recorded by Italian operations, partially offset by lower orders for North American operations in the marine sector and for maintenance, repair and overhaul ("MRO") activity. The strengthening of the euro average rate against the U.S. dollar had a positive effect of $7.0 million on bookings[1] during the year.
- Sales for fiscal 2024 amounted to $346.8 million, a decrease of $23.6 million or 6.4% compared to the previous fiscal year. Following lower year-over-year sales in the first nine months, strong fourth quarter sales were driven by higher shipments by French and Italian operations for the defense and oil and gas markets, respectively. The strengthening of the euro against the U.S. dollar had a positive effect of $3.8 million on sales during the year.
- Gross profit for the year reached $93.2 million, versus $112.5 million last year. The decrease mainly reflects lower business volume which impacted the absorption of fixed production overhead costs and a less favourable product mix due to the execution of certain low margin projects. As a percentage of sales, gross profit was 26.9% in fiscal 2024, compared to 30.4% in fiscal 2023.
- Fiscal 2024 net loss[2] was $19.7 million, compared to $55.5 million last year. Net loss[2] for fiscal 2024 and 2023 include charges of $10.0 million and $56.0 million, respectively, to increase the Company's asbestos provision to reflect the potential settlement value of future claims not yet reported.
- Adjusted EBITDA[1] of $17.8 million in fiscal 2024 compared to $21.1 million in fiscal 2023. The decrease is primarily attributable to the reduction in gross profit, partially offset by lower administration costs.
- Cash and cash equivalents reached $36.4 million at the end of fiscal 2024, compared to $50.5 million a year earlier.

OUTLOOK

The Company aims to build on the momentum gained in the second half of fiscal 2024, concluding the year on a solid note with a growing order backlog[1] and a book-to-bill[1] ratio of 1.08. As at February 29, 2024, orders totaling $360.7 million, representing 73.4% of a total backlog[1] of $491.5 million, are expected to be delivered in the next 12 months. Given these orders, the Company expects to deliver annual sales in fiscal 2025 above the level achieved in fiscal 2024.

The Company is confident in its ability to secure future bookings[1], as business activity in its main markets remains healthy driven by solid prospects for the nuclear industry and sustained demand in the oil and gas industry, while defense activity mirrors military spending around the world. Management will continue to closely monitor the global situation, notably increased geopolitical tensions, and an uncertain macroeconomic environment in a context of higher interest rates and inflation. These factors may delay the award of certain projects.

The Company's financial position remains strong with a net cash position consisting of cash and cash equivalents of $36.4 million. The Company will continue to manage diligently its working capital and capital investments to foster free cash flow[1] generation.

Furthermore, as Management believes that the strength of its financial position would allow the Company to counter certain risks, there can be no assurance that external outside economic and geopolitical factors will not materially adversely affect the Company's results of operations or financial condition. Such factors include, but are not limited to foreign currency fluctuations, in particular the Canadian dollar and the euro against the U.S. dollar, commodity price fluctuations from both a procurement (price of steel) and sales (price of oil) perspective. See *Certain Risks That Could Affect Our Business* section for more details.

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[1] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*
[2] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*

FOURTH QUARTER RESULTS

- Bookings[1] of $132.8 million, up significantly from $87.1 million last year and $78.3 million in the third quarter;
- Book-to-bill[1] ratio of 1.13, versus 0.76 last year and 0.97 in the third quarter;
- Sales of $117.9 million, up $2.8 million or 2.4% from last year and up from $80.9 million in the third quarter;
- Gross profit of $38.4 million, or 32.6% of sales, compared to $39.9 million, or 34.7% of sales, last year;
- Net loss[2] of $2.1 million compared to a net loss[2] of $47.2 million last year, mainly due to increase the Company's asbestos provision to reflect the potential settlement value of future claims not yet reported.

FISCAL 2024 RESULTS

- Order backlog[1] of $491.5 million at the end of the year, up $27.1 million or 5.9% from the end of last year;
- Bookings[1] of $374.5 million, compared to $353.2 million in fiscal 2023;
- Book-to-bill[1] ratio of 1.08, up from 0.95 in fiscal 2023;
- Sales of $346.8 million, down $23.6 million or 6.4% compared to fiscal 2023;
- Gross profit of $93.2 million, or 26.9% of sales, compared to $112.5 million, or 30.4% of sales, last year;
- Net loss[2] of $19.7 million compared to a net loss[2] of $55.5 million last year;
- Net cash of $36.4 million at the end of fiscal 2024, versus $50.3 million a year earlier.

RESULTS OF OPERATIONS

(unless otherwise noted, all amounts are in U.S. dollars)

	Three-month periods ended			Twelve-month periods ended		
(thousands)	**February 29, 2024**	**February 28, 2023**	*Variance*	**February 29, 2024**	**February 28, 2023**	*Variance*
Sales	$117,894	$115,141	*$2,753*	$346,816	$370,429	*($23,613)*
Gross profit	38,384	39,945	*(1,561)*	93,207	112,465	*(19,258)*
Administration costs	33,121	80,841	*(47,720)*	98,744	156,759	*(58,015)*
Income taxes	5,088	4,102	*986*	7,471	8,045	*(574)*
Net income (loss)[1]	(2,083)	(47,164)	*45,081*	(19,737)	(55,453)	*35,716*
Adjusted net income (loss)[2]	8,944	8,790	*154*	(7,918)	501	*(8,419)*
EBITDA[2]	8,482	(39,486)	*47,968*	5,306	(34,864)	*40,170*
Adjusted EBITDA[2]	19,879	16,468	*3,411*	17,780	21,092	*(3,312)*
Bookings[2]	132,825	87,085	*45,740*	374,454	353,176	*21,278*
Period end order backlog[2]				491,525	464,337	*27,188*
(as a percentage of sales)						
Gross profit	32.6%	34.7%	*-210 bpts*	26.9%	30.4%	*-350 bpts*
(in dollars per share)						
Net income (loss)[1] per share – basic and diluted	(0.10)	(2.18)	*2.08*	(0.91)	(2.57)	*1.66*
Adjusted net income (loss)[2] per share – basic and diluted	0.41	0.41	-	(0.37)	0.02	*(0.39)*

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[1] Non-IFRS and supplementary financial measures – additional specifications at the end of this report
[2] Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

Backlog[1] and Bookings[1]

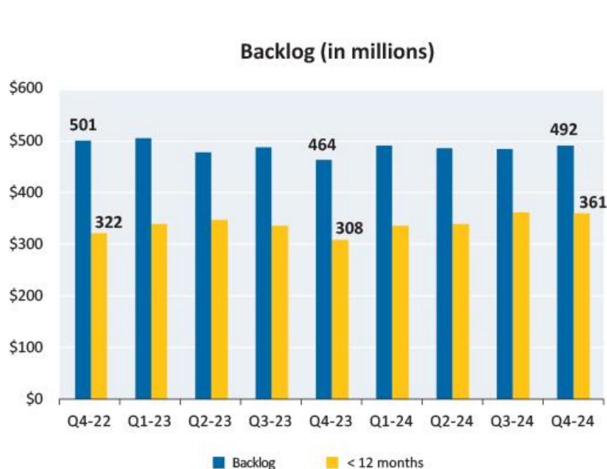
As at February 29, 2024, the backlog[1] stood at $491.5 million, up $27.2 million, or 5.9%, from $464.3 million a year earlier reflecting strong fourth quarter bookings[1]. As at February 29, 2024, 73.4% of the backlog[1], representing orders of $360.7 million, is deliverable in the next 12 months, versus 66.3% of last year's backlog[1]. Currency movements had a positive effect of $5.6 million on the backlog[1] during the year.

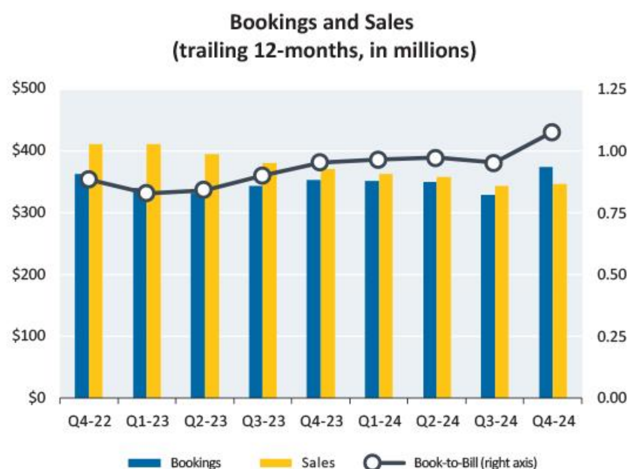
Bookings[1] for the fourth quarter of fiscal 2024 amounted to $132.8 million, up 52.5% over bookings[1] of $87.1 million in the fourth quarter of fiscal 2023. The increase is mainly attributable to strong oil and gas bookings[1] recorded by the Company's Italian operations and to higher orders recorded by North American operations, partially offset by the timing of orders for the French subsidiary following strong bookings[1] in the prior year. The strengthening of the euro average rate against the U.S. dollar had a positive effect of $3.8 million on bookings[1] during the quarter.

As a result of bookings[1] outpacing sales, the Company's book-to-bill ratio[1] was 1.13 in the fourth quarter of fiscal 2024, compared to 0.76 in the corresponding period of fiscal 2023.

Fiscal 2024 bookings[1] reached $374.5 million, an increase of $21.3 million or 6.0% compared to the previous year. The increase reflects strong oil and gas orders recorded by Italian operations, partially offset by lower orders for North American operations in the marine sector and for MRO activity. Currency movements had a positive effect of $7.0 million on bookings[1] during the year.

As a result of bookings[1] outpacing sales for the fiscal year, the Company's book-to-bill ratio[1] was 1.08 in fiscal 2024, compared with 0.95 in fiscal 2023.

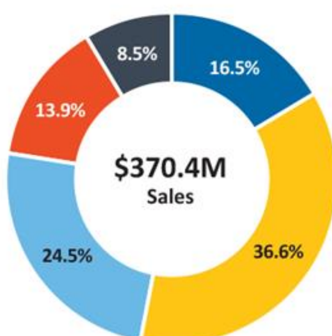




[1] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

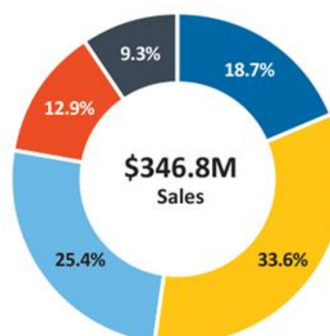
Sales

Fiscal 2023 Geographical Sales
(in millions)



Canada
United States
France
Italy
Others

Fiscal 2024 Geographical Sales
(in millions)



**Geographical third-party sales are defined as the country where the sale was recorded.*

Sales reached $117.9 million in the fourth quarter, an increase of $2.8 million or 2.4% compared to the same period last year. The variation is mostly attributable to stronger shipments from the international operations. These factors were partially offset by lower shipments from North American operations and shipping delays due to the situation in the Red Sea. The strengthening of the euro average rate against the U.S. dollar had a $1.7 million positive effect on sales for the quarter.

Sales for the fiscal year amounted to $346.8 million, a decrease of $23.6 million or 6.4% compared to last year. The variation mainly reflects lower sales in North American and Italy, essentially due to the shipment of large orders in the previous fiscal year, and to lower MRO sales in North America. These factors were partially offset by higher sales by German operations. Currency movements had a $3.8 million positive effect on sales for the year.

Gross profit

For the fourth quarter, gross profit was $38.4 million, compared with $39.9 million a year ago. The variation reflects a less favorable product mix this year compared to last due to the execution of certain low margin projects. Last year's gross profit also benefitted from a favorable revaluation of the inventory provision based on new estimates relating to changes in market demand. As a percentage of sales, gross profit was 32.6%, versus 34.7% last year.

For the fiscal year, gross profit reached $93.2 million, versus $112.5 million last year. The variation reflects a lower business volume which impacted the absorption of fixed production overhead costs and a less favorable product mix due to the execution of certain low margin projects. As a percentage of sales, gross profit was 26.9%, compared to 30.4% last year.

Administration costs

Administration costs reached $33.1 million in the fourth quarter of fiscal 2024, compared to $80.8 million last year. This year's administration costs include a $10.0 million asbestos provision adjustment and restructuring charges of $1.3 million mostly consisting of severances. Last year's costs included a $56.0 million charge to increase the Company's asbestos provision to reflect the potential settlement value of future unknown claims. Excluding these items, administration costs totaled $21.7 million, or 18.4% of sales, in the fourth quarter of fiscal 2024, versus $24.9 million, or 21.6% of sales, in the fourth quarter of fiscal 2023. The decrease is mostly due to lower expenses for the North American operations and cost reduction initiatives throughout the Company's operations.

For the fiscal year, administration costs amounted to $98.7 million, compared to $156.8 million in fiscal 2023. This year's costs include a $10.0 million asbestos provision adjustment, restructuring charges of $1.3 million, and expenses of $1.2 million related to the proposed transaction. Last year's costs included a $56.0 million charge to increase the Company's asbestos provision. Excluding these items, administration costs amounted to $86.3 million, or 24.9% of sales, in fiscal 2024, versus $100.8 million, or 27.2% of sales, in fiscal 2023. In addition to the aforementioned elements, the decrease also reflects lower sales commissions and freight costs.

Asbestos related costs

Management periodically estimates the impact of future unknown settlement costs based on current environment and yield rates. The result of this evaluation led to a non-recurring charge of $56.0 million to increase the Company's provision in the fourth quarter of fiscal 2023. In the fourth quarter of fiscal 2024, a provision adjustment resulted in a charge of $10.0 million to true-up the provision based on the latest estimate of amounts that may be paid. These charges are included in administration costs, as per the section above.

EBITDA[1] and Adjusted EBITDA[1]

EBITDA[1] for the fourth quarter of fiscal 2024 amounted to $8.5 million compared to negative EBITDA[1] of $39.5 million for the same period a year ago. Excluding asbestos, restructuring and proposed transaction related costs, adjusted EBITDA[1] was $19.9 million in the fourth quarter of fiscal 2024, compared to $16.5 million a year earlier. This increase reflects lower administration costs and a $1.7 million net reduction in other expenses, mainly related to a provision related to a commodity tax audit last year. These factors were partially offset by a lower gross profit.

For the year, EBITDA[1] amounted to $5.3 million compared to negative EBITDA[1] of $34.9 million last year. Excluding asbestos, restructuring and proposed transaction related costs, adjusted EBITDA[1] for fiscal 2024 was $17.8 million, versus $21.1 million in fiscal 2023. The decrease is primarily attributable to the previously explained decrease in gross profit, partially offset by lower administration costs and other expenses.

Finance costs (net)

For the fourth quarter of fiscal 2024, net finance costs were $2.4 million, up from $0.5 million last year. The variation reflects higher interest rates on the Company's long-term debt compared to the prior year, as well as lower cash and cash equivalents this year compared to last.

Net finance costs for the year amounted to $6.3 million ($4.5 million in implicit interest on long-term provision), versus $1.6 million a year ago. The increase mainly stems from higher interest rates on the Company's long-term debt compared to the prior year.

Income taxes

	Three-month periods ended			
(thousands, excluding percentages)	February 29, 2024		February 28, 2023	
	$	%	$	%
Income tax at statutory rate	795	26.5	(11,425)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	111	3.7	436	(1.0)
Non-deductible (taxable) foreign exchange losses (gains)	(216)	(26.2)	40	(0.1)
Losses not tax effected	3,159	105.3	14,290	(33.1)
Other differences	1,239	60.4	761	(1.8)
Income tax expense	**5,088**	**169.7**	**4,102**	**(9.5)**

[1] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

The movement in the Company's income tax expense in the current quarter and fiscal year is primarily attributable to the derecognition of deferred tax assets approach in the fourth quarter of the previous fiscal year.

	Fiscal years ended			
(thousands, excluding percentages)	February 29, 2024		February 28, 2023	
	$	%	$	%
Income tax at statutory rate	(3,268)	26.5	(12,565)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	378	(3.1)	486	(1.0)
Non-deductible (taxable) foreign exchange losses (gains)	(455)	3.7	754	(1.6)
Losses not tax effected	9,428	(76.5)	18,996	(40.1)
Other differences	1,388	(11.2)	374	(0.8)
Income tax expense	**7,471**	**(60.6)**	**8,045**	**(17.0)**

Net income (loss)[1] and Adjusted net income (loss)[2]

Net loss[1] for the quarter amounted to $2.1 million, or $0.10 per share, compared to a net loss[1] of $47.2 million, or $2.18 per share last year. Excluding the after-tax effect of asbestos, restructuring and proposed transaction related costs, adjusted net income[2] stood at $8.9 million, or $0.41 per share, compared to $8.8 million, or $0.41 per share, last year. The variation is attributable to higher adjusted EBITDA[2] partially offset by higher net finance costs and income tax expense.

The net loss[1] for the fiscal year amounted to $19.7 million or $0.91 per share compared to $55.5 million or $2.57 per share last year. Excluding the after-tax effect of asbestos, restructuring and proposed transaction related costs, adjusted net loss[2] was $7.9 million, or $0.37 per share, in fiscal 2024, versus adjusted net income[2] of $0.5 million, or $0.02 per share, in fiscal 2023. The variation is due to lower adjusted EBITDA[2] and higher net finance costs partially offset by a lower income tax expense.

[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 – additional specifications at the end of this report*

SUMMARY OF QUARTERLY RESULTS

(unless otherwise noted, all amounts are in U.S. dollars)

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

								Quarters ended
(in thousands, excluding per share amounts)	**February 2024**	**November 2023**	**August 2023**	**May 2023**	**February 2023**	**November 2022**	**August 2022**	**May 2022**
Sales	$117,894	$80,945	$80,318	$67,659	$115,141	$95,229	$85,054	$75,005
Net income (loss)[1]	(2,083)	(7,250)	(2,120)	(8,284)	(47,164)	2,739	(3,676)	(7,352)
per share – basic and diluted	(0.10)	(0.34)	(0.10)	(0.38)	(2.18)	0.13	(0.17)	(0.34)
Adjusted net income (loss)[2]	8,944	(7,074)	(1,878)	(7,910)	8,790	2,739	(3,676)	(7,352)
per share – basic and diluted	0.41	(0.33)	(0.09)	(0.37)	0.41	0.13	(0.17)	(0.34)
EBITDA[2]	8,482	(2,337)	2,958	(3,799)	(39,486)	6,135	1,365	(2,878)
Adjusted EBITDA[2]	19,879	(2,098)	3,289	(3,290)	16,468	6,135	1,365	(2,878)

FINANCIAL POSITION

Assets

As at February 29, 2024, total assets stood at $479.4 million, up slightly from $477.9 million as at February 28, 2023.

Current assets amounted to $387.0 million as at February 29, 2024, down slightly from $388.1 million a year earlier. The variation mainly reflects a $14.1 million decrease in cash and cash equivalents and a $1.1 million decrease in accounts receivable. These factors were partially offset by a $6.1 million increase in inventories, a $5.2 million increase in short-term investments and a $2.9 million increase in deposits and prepaid expenses.

Non-current assets totalled $92.4 million as at February 29, 2024, up from $89.7 million last year. The variation stems from a $1.7 million increase in the value of property plant and equipment, a $0.5 million increase in deferred income taxes and a $0.4 million increase in the value of intangible assets and goodwill.

Liabilities

As at February 29, 2024, total liabilities amounted to $296.1 million, up from $277.0 million as at February 28, 2023.

Current liabilities stood at $160.4 million, up from $137.0 million. This variation is mainly attributable to a $16.2 million increase in the current portion of the long-term debt (see liquidity and capital resources section below), a $8.8 million increase in accounts payable and accrued liabilities, and a $2.2 million increase in customer deposits. These factors were partially offset by a $2.4 million decrease in provisions and a $1.3 million decrease in income taxes payable.

The value of non-current liabilities decreased by $4.4 million to $151.8 million mainly reflecting diminution of long-term debt by $17.4 million ($16.1 million of this diminution is a reclass from long-term to short-term) and increases of $7.1 million and $3.1 million, respectively, in customer deposits and provisions.

Equity

As at February 29, 2024, total equity was $183.3 million, versus $200.8 million as at February 28, 2023. The variation is attributable to a $20.2 million reduction in retained earnings, essentially mirroring the Company's net loss for fiscal 2024, partially offset by a $2.5 million reduction in accumulated other comprehensive loss.

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities and cash flows *(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.

	As at February 29, 2024					
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	28,777	29,601	3,405	1,112	-	34,118
Long-term lease liabilities	12,643	1,929	3,141	2,202	11,310	18,582
Accounts payable and accrued liabilities	88,230	88,230	-	-	-	88,230
Customer deposits	65,478	30,396	16,369	2,145	16,568	65,478
Derivative liabilities	26	26	-	-	-	26

As at February 29, 2024, the Company was in breach of one of its financial covenants ratio. The secured mortgage bank loan is presented in current portion of long-term debt.

Subsequent to year-end, and prior to the release of these financial statements, the lender renounced its right to demand repayment of the loan for the fiscal year ended February 29, 2024 and for the fiscal year ended February 28, 2025 until March 1, 2026, inclusively, provided the breach is solely due to the payment of asbestos claims and related legal fees.

Accordingly, the secured mortgage bank loan will be re-classified as long-term debt on May 31, 2024.

At the end of the current fiscal year, the Company did not have any outstanding purchase commitments with foreign suppliers due within one year which were covered by letters of credit.

On February 29, 2024, the Company's order backlog[1] was $491.5 million and its net cash, subject to certain local exchange control restrictions, 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. 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.

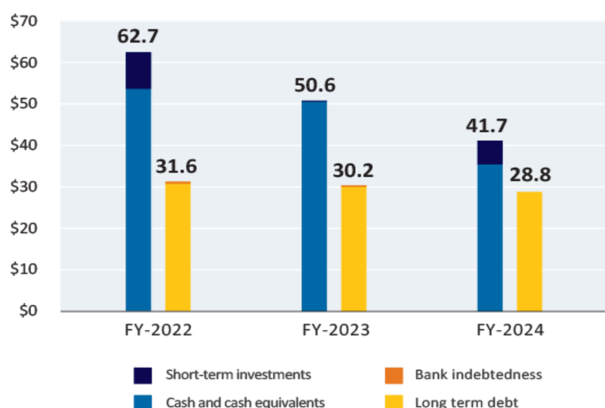
As part of managing its liquidity risk, the Company also monitors the financial health of its key suppliers.

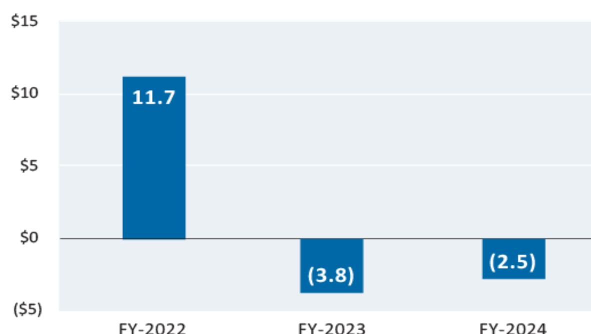
Cash flows - quarter and fiscal year ended February 29, 2024

(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:

	Three-month periods ended		Fiscal years ended	
(thousands)	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Net Cash – Beginning of period	26,362	29,311	50,253	53,465
Cash provided by operating activities	19,649	18,489	4,301	522
Cash provided (used) by investing activities	(9,198)	7,103	(14,127)	1,759
Cash used by financing activities	(385)	(4,850)	(4,661)	(2,620)
Effect of exchange rate differences on cash	17	200	679	(2,873)
Net Cash – End of period	**36,445**	**50,253**	**36,445**	**50,253**





Operating activities

For the three-month period ended February 29, 2024, cash provided by operating activities reached $19.6 million, up from $18.5 million in the corresponding period a year earlier. The favorable movement in cash is attributable to higher EBITDA[1] and positive changes in non-cash working capital movements, partially offset by an unfavourable movement in long-term provisions.

For the fiscal year ended February 29, 2024, cash provided by operating activities amounted to $4.3 million, compared to $0.5 million in the previous year. The favorable movement in cash essentially reflects the factors mentioned above.

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

	Three-month periods ended		Fiscal years ended	
(thousands)	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Accounts receivable	(22,933)	(5,750)	2,596	(9,837)
Inventories	17,806	16,373	(4,254)	14,235
Income tax recoverable	944	1,189	112	(3,254)
Deposits and prepaid expenses	(1,545)	(140)	(2,754)	(916)
Accounts payable and accrued liabilities	13,636	(56)	7,958	1,845
Income tax payable	1,769	879	100	(1,100)
Customer deposits	3,555	(12,997)	8,556	(11,087)
Provisions	(4,163)	1,413	(2,500)	(1,458)
Changes in non-cash working capital items	**9,069**	**911**	**9,814**	**(11,572)**

For the quarter ended February 29, 2024, positive non-cash working capital movements were principally due to higher fourth quarter sales which led to a decrease in inventories and an increase in accounts payable and accrued liabilities, while higher bookings[1] resulted in an increase in customer deposits. These factors were partially offset by an increase in accounts receivable also attributable to higher fourth quarter sales.

For the fiscal year ended February 29, 2024, positive non-cash working capital movements reflected higher accounts payable and accrued liabilities, as well as customer deposits for the reasons mentioned above. These factors were partially offset by higher deposits and prepaid expenses, accounts receivable and inventories.

Investing activities

Cash used in investing activities for the quarter ended February 29, 2024, reached $9.2 million reflecting a $5.3 million increase in short-term investments, additions to property, plant and equipment of $2.9 million, and additions to intangible assets totalling $1.2 million. For the quarter ended February 28, 2023, cash provided by investing activities stood at $7.1 million as a $9.4 million increase in short-term investments was partially offset by additions to property, plant and equipment of $1.4 million and additions to intangible assets of $0.9 million.

For the fiscal year ended February 29, 2024, cash used in investing activities amounted to $14.1 million as a result of additions to property, plant and equipment of $6.8 million, an increase of $5.2 million in short-term investments, as well as additions to intangible assets of $2.4 million. For the fiscal year ended February 28, 2023, cash provided by investing activities stood at $1.8 million reflecting a $8.3 million increase in short-term investments partially offset by additions to property, plant and equipment of $4.4 million and additions to intangible assets of $2.2 million.

Financing activities

During the fourth quarter of fiscal 2024, cash used by financing activities was $0.4 million as repayments of long-term debt and lease liabilities of $1.1 million and $0.6 million, respectively, were offset by a $1.3 million increase in long-term debt. In the fourth quarter of fiscal 2023, cash used by financing activities was $4.9 million essentially due to a $5.4 million reduction in the revolving credit facility.

In fiscal 2024, cash used by financing activities was $4.7 million as repayments of long-term debt and lease liabilities of $8.8 million and $1.9 million, respectively, were partially offset by increases in the revolving credit facility and long-term debt of $5.0 million and $1.3 million, respectively. The reduction in long-term debt includes the purchase of the 25% minority interest in Segault S.A.S. on September 18, 2023 for $5.0 million (€4.7 million). The Company now owns 100% of all the outstanding equity of Segault S.A.S. The unconditional put option held by the minority

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

shareholder was previously included in the current portion of long-term debt of the statement of financial position. In fiscal 2023, cash used by financing activities stood at $2.6 million as repayments of long-term debt and lease liabilities of $4.4 million and $1.7 million, respectively, were partially offset by a $3.7 million increase in long-term debt.

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 February 29, 2024 and February 28, 2023 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023	February 29, 2024	February 28, 2023
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 15 months	-	1.32	-	107	-	US$40,000
Buy US$ for CA$ - 0 to 15 months	-	1.28	-	(299)	-	US$40,000
Sell € for US$ - 0 to 12 months	-	-	-	-	-	-
Buy € for US$ - 0 to 12 months	1.08 to 1.10	-	40	-	US$6,518	-

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 loss 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.

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, provision for performance guarantees and

long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 29, 2024, and February 28, 2023:

	Net income (loss)	
(thousands)	February 29, 2024 $	February 28, 2023 $
Canadian dollar strengthening against the U.S. dollar	(868)	(847)
Euro strengthening against the U.S dollar	(772)	(327)
Indian rupee strengthening against the U.S dollar	875	346

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years.

For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

Cash flow and fair value 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 February 29, 2024, two (2023 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 7.6% (2023 – 15.0%) and the Company's ten largest customers accounted for 41.3% (2023 – 60.4%) of trade accounts receivable. In addition, one customer accounted for 8.9% of the Company's sales (2023 – 13.4%).

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 macroeconomic factors affecting the Company's customers.

The lifetime expected loss allowance for trade receivables was determined as follows:

					As at February 29, 2024
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.056%	0.071%	0.081%	1.814%	
Gross carrying amount	81,030	12,600	7,426	9,041	110,097
Loss allowance	**45**	**9**	**6**	**164**	**224**

					As at February 28, 2023
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.130%	0.141%	0.169%	2.399%	
Gross carrying amount	83,118	9,961	5,902	14,458	113,529
Loss allowance	**108**	**14**	**10**	**349**	**481**

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
(thousands)	February 29, 2024 $	February 28, 2023 $
Current	81,030	83,118
Past due 0 to 30 days	12,600	9,961
Past due 31 to 90 days	7,426	5,902
Past due more than 90 days	9,041	14,548
	110,097	113,529
Less: Loss allowance	(224)	(481)
	109,873	113,048
Other receivables	10,041	8,005
Total accounts receivable	**119,914**	**121,053**

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

		Fiscal years ended
(thousands)	February 29, 2024 $	February 28, 2023 $
Balance – Beginning of the year	481	509
Loss allowance expense	68	46
Recoveries of trade accounts receivables	(228)	(47)
Write-off of trade accounts receivable	(98)	-
Foreign exchange	1	(27)
Balance – End of the period	**224**	**481**

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

INTERNAL CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), in a timely manner so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52 109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at February 29, 2024 and have concluded that such disclosure controls and procedures were designed and operating effectively.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the *"Internal Control-Integrated Framework (2013)"* issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO")*. This evaluation was performed by the CEO and the CFO of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the CEO and the CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively as at February 29, 2024.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company did not make any material changes to the design of internal control over financial reporting during the year ended February 29, 2024 that have materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & ASSUMPTIONS

The Company's significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions 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. 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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below:

Inventories

Inventories must be valued at the lower of cost and net realizable value. A write-down of inventory will occur when its estimated net realisable value (which is the estimated selling price minus costs necessary to make the sell) is below its carrying amount. This involves significant management judgment and is based on the Company’s assessment of market conditions for its products determined by historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

Provisions

Provisions must be established for possible product warranty expenses. The Company estimates its warranty exposure by taking into account past experience as well as any known technical problems and estimates of costs to resolve these issues. The Company estimates its exposure under these obligations based on an analysis of all identified or expected claims. Any change in the assumptions used could impact the value of the provision on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

Asbestos provision estimates the liability related to all settlement costs on outstanding open and future cases in relations with the Company’s ongoing litigations. With the assistance of an actuary, the Company calculated the provision using the closed with indemnity (CWI) claim decay method and a 6.0% discount rate with the following significant assumptions:

- Expected number of future claims. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from $1,100 to $1,400.
- Projected average CWI severity. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from $1,100 to $1,400.
- Decay rate represents the rate at which the number of claims will decrease. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from $7,800 to $14,300.
- The inflation rate. Based on the different scenarios analyzed by the Company, a change of 1% in this assumption has an estimated impact on the total liability from $7,300 to $12,900.

The Company’s estimate of the provision takes into consideration historical experience in settling those claims and projects them in the future using three different methods of valuation. Any change in the assumptions used could impact the value of the provision on the consolidated statement of financial position with a corresponding impact made to administration costs on the consolidated statement of loss.

Impairment of non-financial assets

Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization (“EBITDA”) margin, revenue growth or the recoverable amount of each individual assets. Any change in the assumptions used could impact the carrying amount of the CGU.

Income taxes

The Company must estimate its income taxes in each jurisdiction in which it operates. This involves assessing the probability of using net operating losses against future taxable income as well as evaluating positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. In the event these assessments are changed, there would be an adjustment to income tax expense with a corresponding adjustment to income tax balances on the consolidated statement of financial position.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical judgements in applying the Company's material policies

Deferred tax assets

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. The Company estimates that future taxable profits will be sufficient to realize this asset.

Going concern

The assessment of the Company's ability to execute its future working capital requirements involves judgment. Estimate and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting standards and amendments issued but not yet adopted

IAS 1 Presentation of financial statements requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In January 2020, the Board issued the amendments *Classification of liabilities as current or non-current to IAS 1* (2020 amendments). The 2020 amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 amendments, an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

a) the carrying amount of the liability;
b) information about the covenants;
c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period

The *amendments to IAS 1* are effective for annual reporting periods beginning on or after January 1, 2024 with earlier adoption permitted and should be applied retrospectively. The Company continues its analysis but does not expect the amendment to have a significant impact on its consolidated financial statements.

Accounting standards and amendments issued and adopted

An IASB amendments has resulted in modifications to some paragraphs of the standard IAS 1, Presentation of financial statements. These changes include the requirement for the entities to provide disclosures about their material accounting policies rather than their significant accounting policies. The amendments to the standard have been adopted by the Company as of March 1, 2023.

CERTAIN RISKS THAT COULD AFFECT THE COMPANY'S BUSINESS

Cyclical nature of end user markets, commodity price volatility and other macroeconomic factors

The demand for the Company's products in any particular industry or market can vary significantly according to the level of economic activity in that industry or market. These potential variations may be mitigated by the fact that the Company's sales are diversified geographically as well as by end user market. There can be no assurance that an economic recession or downturns in certain industries or geographic locations, such as the current downturn in the oil and gas industry, will not have a significant adverse effect on the Company's sales.

The Company's financial condition and results of operations may also be adversely affected by commodity price volatility. Crude oil and natural gas prices have fluctuated widely in the recent past and are subject to fluctuations in response to relatively minor changes in supply, demand, market uncertainty and other factors that are beyond the Company's control. Crude oil and natural gas prices are impacted by a number of factors including, but not limited to: the global supply of and demand for crude oil and natural gas; global economic conditions; the actions of the Organization of Petroleum Exporting Countries ("OPEC") and OPEC+; government regulation; political stability and geopolitical factors; the ability to transport crude to markets; developments related to the market for liquefied natural gas; the availability and prices of alternate fuel sources; and weather conditions.

In 2020 and 2021, global oil prices weakened materially as a result of the global outbreak of coronavirus ("COVID-19"), compounded by OPEC+, led by Saudi Arabia and Russia, failing to reach an agreement on constraining output. Recently, global oil prices have increased, namely as a result of the military conflict in Ukraine and the related international economic sanctions imposed on Russia. Concerns over global economic conditions, fluctuations in interest rates and foreign exchange rates, stock market volatility, energy costs, geopolitical issues, OPEC+ actions, inflation, the availability and cost of credit, the deceleration of economic growth in China, trade disputes between the United States and China, civil unrest in Venezuela and Iran and the Middle east tensions and war have contributed to increased economic uncertainty and diminished expectations for the global economy. Rapid variations of commodity prices could have a material adverse effect on the Company's business, financial condition and results of operations. The Company is exposed to the risk of inflation fluctuation.

Asbestos litigation

Two of the Company's U.S. subsidiaries have been named as defendants in a number of pending lawsuits that seek to recover damages for personal injury allegedly caused by exposure to asbestos-containing products manufactured and sold in the past. Management believes it has a strong defense related to certain products that may have contained an internal component containing asbestos which were placed in accordance with customer's specifications. Although the Company is defending these allegations vigorously, there can be no assurance that it will prevail. Unfavorable rulings, judgments or settlement terms could have a material adverse impact on the Company's business, financial condition, results of operations and cash flows.

Competition

Competitive pressures in the Company's markets could lead to a loss of market share, which could negatively impact revenues, margins and net income. The Company also competes with manufacturers based in low wage countries that offer valves at lower prices. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's results of operations and financial condition.

Backlog

The Company's order backlog consists of sales orders that are considered firm. It is also an indication of future sales revenues. However, there can be no assurance that subsequent cancellations or scope adjustments will not occur, that the order backlog will ultimately result in earnings, or when the related revenues and earnings from such order backlog will be recognized.

Dependence upon key personnel

The Company is dependent upon the abilities and experience of its executive officers and other key employees. There can be no assurance that the Company can retain the services of such executive officers and key employees. If several executive officers or other key employees were to leave the employ of the Company, its operations could be adversely affected.

Foreign currency exchange risks

Due to the geographic mix of the Company's customers and its operations, the Company is exposed to foreign currency exchange risk. The Company enters into foreign currency forward contracts in order to manage a portion of its net exposure to foreign currencies. Such forward contracts contain an inherent credit risk related to default on obligations by the counterparty, which the company mitigates by entering into contracts with sound financial institutions that it anticipates will satisfy their obligations. Risk related to currency fluctuations could have a material adverse effect on the Company's results of operations and its financial position.

Debt restrictions

The Company's operations are restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Company's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, under certain conditions, the Company's ability to:

- incur debt;
- pay dividends on stock or redeem subordinated debt;
- make investments;
- sell assets, including capital stock in subsidiaries;
- guarantee other indebtedness;
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates;
- create or assume liens securing debt;
- sell or transfer and leaseback transactions;
- engage in mergers or consolidations; and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Company's ability to plan for or react to market conditions or to meet its capital needs. The Company's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Company's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance. The restrictive covenants contained in the Company's senior note indenture, along with the Company's credit facility, do not apply to its joint ventures, minority investments and unrestricted subsidiaries.

Interest rate risk and debt financing

A portion of the Company's liabilities consist of debt instruments that bear interest at variable rates. As such, the Company is exposed to the risk of interest rate fluctuations. This risk could have an adverse effect on the Company's results of operations. At maturity of such instruments, the Company may also not be able to refinance such instruments at terms favorable to the Company, or at all. In addition, the terms of the Company`s indebtedness

provide that, upon an event of default, such indebtedness becomes immediately due and payable. Failure to refinance existing indebtedness on favorable terms or to comply with the terms of such indebtedness could have a material adverse effect on the Company's results of operations and its financial position.

Availability and prices of raw materials

The price of raw materials, principally steel, represents a substantial portion of the cost of manufacturing the Company's products. Historically, there have been fluctuations in these raw material prices and, in some instances, price movements have been volatile. There can be no certainty that the Company will be able to pass on increases resulting from higher costs of raw materials to its customers through increases in selling prices, or otherwise absorb such cost increases without negatively affecting its margins.

In addition, certain raw materials become, from time to time, in short supply for periods of time. Typically, these shortages do not last long and the Company is usually able to ensure that its needs are met. However, there can be no assurances that its sources of supply will be adequate to supply all of its needs on a timely basis, particularly in the context of the global supply chain disruptions related to the Ukraine conflict.

Labour relations

A substantial portion of the Company's workforce is covered by union agreements. Some collective agreements of the Company expires in 2024 and 2025. Although the Company has been successful in the past in negotiating renewals, there can be no assurance that this will continue. Failure to renegotiate these agreements could lead to work disruptions or higher labour costs, which could negatively impact results.

Reliance on key suppliers

The Company has several key suppliers with whom it has invested in forging dies and casting patterns. While the Company has alternate sources for most material purchases, the loss of a key supplier could impact negatively on the Company.

Reliance on distributors and sales agents

The Company is directly affected by the ability of independent third-party distributors and sales agents retained by the Company to sell its products in their respective markets. The Company's continued success is thus dependent on its ability to attract and retain the distributors and sales agents it requires to support its existing business and to continue to grow.

Project undertakings

In competing for the sale of valves, the Company may enter into contracts that provide for the production of valves at specified prices and in accordance with certain time schedules. These contracts may involve greater risks as a result of unforeseen increases in costs due to more stringent terms and conditions. Although contract terms may vary from customer to customer, production delays and other performance issues may call for liquidated damages or other penalties in case of non-performance or warranty issues due to the more stringent terms and conditions of such contracts.

Political and economic risks associated with international sales and operations

Since the Company sells and manufactures its products worldwide, the business is subject to risks associated with doing business internationally, including changed in the political and regulatory environment in the markets in which the Company operates, which, among other things, result from changing priorities of governments and supranational agencies. For example, the adoption of and/or continued support for protectionist trade policies could negatively impact the movement of goods, services, and people across borders, including within North America and consequently, the sales and profitability of the Company.

The Company's business and operating results could also be adversely impacted by changes in tax laws from time to time, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

Ukraine conflict

In February 2022, a military conflict began between Russia and Ukraine. Since the conflict has started, there have been significant tensions between Russia and a number of countries including Canada, its NATO allies and other European countries. These countries have been imposing and will likely continue to impose a number of international economic sanctions on Russia and its allies. The conflict has resulted in international instability with significant economical and political impacts. Further deterioration of the conflict could have economic and geopolitical impacts on the Company, its customers and its suppliers, and particularly on the Company's numerous cross-border transactions. The Company fully supports the current sanctions imposed on Russia and has strictly complied with them by stopping the orders that were affected by such sanctions. If the conflict persists, this will likely result in an increase in global market volatility, global supply chain disruptions and inflation, which may have material adverse impact on the Company's business.

Force majeure events

Force majeure events are unforeseeable events or circumstances that occur beyond the control of the Company. Such events include but are not limited to political unrest, war, terrorism, strikes, riots, and crime, as well as seismic or severe weather-related events such as earthquakes, hurricanes, tsunamis, tornadoes, ice storms, flooding and volcanic eruptions. The risk of occurrence of a force majeure event is unpredictable and may result in delays or cancellations of orders and deliveries to customers, delays in the receipt of materials from suppliers, damage to facilities or equipment, personal injury or fatality, and possible legal liability.

Product liability and other lawsuits

The Company, like other worldwide manufacturing companies, has been, and will continue to be, subject to a variety of potential liability claims or other lawsuits connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures. While the Company maintains comprehensive general liability insurance coverage which it considers to generally be in accordance with industry practice, such insurance does not cover certain categories of claims (such as ongoing asbestos claims) to which the Company is subject. Comprehensive general liability premiums have also increased significantly during the last several years. Accordingly, the Company cannot be certain that comprehensive general liability insurance coverage will continue to be available to it at a reasonable cost, or, if available, would be adequate to cover its liabilities.

Health and safety risk

The Company is committed to providing all employees, contractors, and visitors to its premises with a healthy and safe work environment. The Company has implemented a program throughout its operations with policies and procedures that must be followed to ensure that it meets all applicable health and safety laws, regulations, and standards.

Environmental compliance matters

The Company's operations and properties are subject to increasingly stringent laws and regulations relating to environmental protection, including air and water discharges, waste management and disposal and employee safety. Such laws and regulations both impose substantial fines for violations and mandate cessation of operations in certain circumstances, the installation of costly pollution control equipment, or the undertaking of costly site remediation activities. Furthermore, new laws and regulations, or stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean up requirements could require the Company to incur additional costs which could be significant.

Controls over disclosures and financial reporting

In accordance with National Instrument 52-109, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing, maintaining, and evaluating the effectiveness of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer are also responsible for the effective design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. A system of controls is subject to

certain inherent limitations and is partially based on the possibility or probability of future events. Accordingly, a system of internal controls can provide only reasonable, and not absolute, assurance of reaching the desired objectives.

Control of the Company

Velan Holding Co. Ltd. (the "Controlling Shareholder") owns 15,566,567 Multiple Voting Shares representing, in the aggregate, approximately 92.8% of the voting interests in the Company. Voting control enables the Controlling Shareholder to determine all matters requiring shareholder approval. The Controlling Shareholder has advised the Company that the disposition of the shares requires the consent of certain Velan family members and controlled entities.

The Controlling Shareholder effectively has sufficient voting power to prevent a change in control of the Company, which may negatively affect the price and liquidity of the Subordinate Voting Shares (as such term is defined herein). The sale of a significant number of Subordinate Voting Shares by the Controlling Shareholder pursuant to the exercise of the conversion right attached to the Multiple Voting Shares may negatively impact upon the market price and liquidity of the Subordinate Voting Shares.

Income and other tax risks

The Company operates in a number of different tax jurisdictions and has a significant amount of cross-border purchase and sale transactions. The tax rules and regulations in various countries are becoming more complex. There is a risk that one or more tax authorities could disagree with the tax treatment adopted by the Company, resulting in defense costs and possible tax assessments.

Compliance with international laws

Due to the international nature of its operations, the Company is subject to differing systems of laws and regulations which are often complex and differ from one country to the next. Such laws and regulations include but are not limited to anti-bribery legislation, export and customs controls, foreign currency exchange controls, transfer pricing regulations and economic sanctions imposed by governmental authorities. Failure to comply with such laws could negatively impact earnings and may result in criminal, civil and administrative legal sanctions. The Company has implemented policies and procedures to effect compliance with these laws by its employees and representatives.

Non-controlling interest

The Company's operations in China and Taiwan, and certain of its operations in France are undertaken with partners that are classified as non-controlling interest. The success of these operations depends on the satisfactory performance of such partners in their obligations. The failure of such partners to perform their obligations could impose additional financial and performance obligations on the Company that could negatively impact its earnings and financial condition.

Cybersecurity

The Company's information technology networks are critical to the day-to-day operation of its business, and include information about its finances, employees, products, customers and suppliers. Cybersecurity risks are becoming increasingly sophisticated, varied and numerous. The potential consequences of a material cybersecurity breach could include loss of key information, reputational damage and disruption of operations, with consequential material negative financial consequences. While the Company devotes substantial resources to maintaining and securing its information technology networks, there can be no assurance that the Company will be able to prevent, detect or respond to a potential breach of its information technology networks because of, among other things, the evolving nature of cybersecurity threats, the difficulty in anticipating such threats and the difficulty in immediately detecting all such threats. The failure to prevent, detect or respond to a breach in the Company's information technology networks could have a material adverse impact on the Company's business, financial condition, result of operations and cash flows.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

In this MD&A, the Company 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. The Company has also presented supplementary financial measures, reconciliations and definitions can be found below.

Adjusted net income, Adjusted net income per share, Earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA

	Three-month periods en		Fiscal years ended	
(thousands, except amount per shares)	**February 29, 2024 $**	**February 28, 2023 $**	**February 29, 2024 $**	**February 28, 2023 $**
Reconciliation of net income (loss)[1] to adjusted net income (loss)[1] & adjusted net income (loss) [1] per share				
Net income (loss)[1]	(2,083)	(47,164)	(19,737)	(55,453)
Adjustment for:				
Proposed transaction related costs	108	-	900	-
Restructuring costs	919	-	919	-
Adjustment to asbestos provision	10,000	55,954	10,000	55,954
Adjusted net income (loss)[1]	**8,944**	**8,790**	**(7,918)**	**501**
per share - basic and diluted	0.41	0.41	(0.37)	0.02
Reconciliation of net income (loss)[1] to Adjusted EBITDA				
Net income (loss)[1]	(2,083)	(47,164)	(19,737)	(55,453)
Adjustments for:				
Depreciation of property, plant and equipment	2,472	2,452	8,930	8,722
Amortization of intangible assets and financing costs	650	608	2,296	2,272
Finance costs – net	2,355	516	6,346	1,552
Income taxes	5,088	4,102	7,471	8,045
EBITDA	**8,482**	**(39,486)**	**5,306**	**(34,862)**
Adjustments for:				
Proposed transaction related costs	147	-	1,224	-
Restructuring costs	1,250	-	1,250	-
Adjustment to asbestos provision	10,000	55,954	10,000	55,954
Adjusted EBITDA	**19,879**	**16,468**	**17,780**	**21,092**

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

Free cash flow

	Three-month periods ended		Fiscal years ended	
(thousands, except amount per shares)	February 29, 2024 $	February 28, 2023 $	February 29, 2024 $	February 28, 2023 $
Cash provided by operating activities	19,649	18,489	4,301	522
Additions to property, plant and equipment	(2,935)	(1,385)	(6,839)	(4,370)
Free cash flow	**16,714**	**17,104**	**(2,538)**	**(3,848)**

The term "Adjusted net income (loss)" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus adjustment, net of income taxes, for costs related to the proposed transaction, restructuring, and asbestos provision. The terms "Adjusted net income (loss) per share" is obtained by dividing Adjusted net income (loss) 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.

The term "EBITDA" is defined as adjusted net income plus depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs, plus income tax provision. The term "Adjusted EBITDA" is defined as EBITDA plus adjustment for costs related to the proposed transaction, restructuring, and asbestos provision. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

The term "Free cash flow" is defined as cash provided by operating activities less additions to property, plant and equipment. Free cash flow reflects the amount available to pay dividends to shareholders and debt service, including the lease liabilities. 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 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 ratio" 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.