MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended August 31, 2024

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the second quarter ended August 31, 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 October 10, 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. 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 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 1,618 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.

SECOND QUARTER RESULTS[1]

- Strong order backlog[2] of $548.1 million, up $56.6 million or 11.5% since the beginning of the year.
- Bookings[2] of $116.6 million for the quarter, up significantly from $71.5 million last year, representing a book-to-bill ratio[2] of 1.18.
- Sales of $98.6 million, up $18.3 million or 22.8% compared to the same quarter last year.
- Gross profit of $26.7 million or 27.0% of sales, up from $23.4 million, or 29.1% of sales, last year.
- Improvement of $2.2 million in net profitability, resulting in net income[3] of $0.1 million.
- Solid cash flows from operating activities of $10.1 million, versus negative $21.2 million last year.
- Net cash of $41.3 million at the end of the quarter, versus $36.4 million at the beginning of the fiscal year.

SIX MONTHS RESULTS

- Bookings of $226.4 million for the period, versus $163.4 million last year, representing a book-to-bill ratio of 1.29.
- Sales of $176.1 million, up $28.2 million or 19.0% compared to the same period last year.
- Gross profit of $50.5 million or 28.7% of sales, up from $38.4 million, or 26.0% of sales, last year.
- Improvement of $9.4 million in net profitability, reducing the net loss to $1.0 million.
- Cash flows from operating activities of $15.0 million, versus negative $10.5 million last year.

RESULTS OF OPERATIONS

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

	Three-month periods ended			Six-month periods ended		
(thousands)	**August 31, 2024**	**August 31, 2023**	*Variance*	**August 31, 2024**	**August 31, 2023**	*Variance*
Sales	$98,647	$80,318	*$18,329*	$176,147	$147,977	*$28,170*
Gross profit	26,668	23,385	*3,283*	50,480	38,437	*12,043*
Administration costs	24,760	22,571	*2,189*	46,567	44,070	*2,497*
Income taxes	672	1,021	*(349)*	1,721	1,672	*49*
Net income (loss)[3]	121	(2,120)	*2,241*	(983)	(10,404)	*9,421*
Adjusted net income (loss)[2]	121	(1,878)	*1,999*	(894)	(9,788)	*8,894*
EBITDA[2]	5,127	2,960	*2,167*	8,869	(839)	*9,708*
Adjusted EBITDA[2]	5,127	3,289	*1,838*	8,990	(1)	*8,991*
(as a percentage of sales)						
Gross profit	27.0%	29.1%	*-210 bps*	28.7%	26.0%	*270 bps*
(in dollars per share)						
Net income (loss)[3] per share – basic and diluted	0.01	(0.10)	*0.11*	(0.05)	(0.48)	*0.43*
Adjusted net income (loss)[2] per share – basic and diluted	0.01	(0.09)	*0.10*	(0.04)	(0.45)	*0.41*

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[1] *All dollar amounts are denominated in U.S. dollars.*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report.*
[3] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares.*

Backlog

	As at					
	August 31, 2024		February 29, 2024		August 31, 2023	
(in thousands)	$	%	$	%	$	%
Backlog	548,116		491,525		485,659	
For delivery within the next 12 months	395,873	72.2%	360,669	73.4%	339,430	69.9%
For delivery between 12 and 24 months	58,129	10.6%	95,483	19.4%	n/a	n/a
For delivery between 24 and 36 months	25,963	4.7%	17,064	3.5%	n/a	n/a
For delivery beyond 36 months	68,151	12.4%	18,309	3.7%	n/a	n/a

As at August 31, 2024, the backlog stood at $548.1 million, up $56.6 million, or 11.5%, since the beginning of the fiscal year. The increase is primarily due to solid bookings recorded during the first half of the year. As at August 31, 2024, 72.2% of the backlog, representing orders of $395.9 million, is deliverable in the next 12 months, versus 73.4% of the backlog at the end of the previous fiscal year. Currency movements had a $7.4 million positive effect on the value of the backlog for the first six months of fiscal 2025 compared to the same period last year.

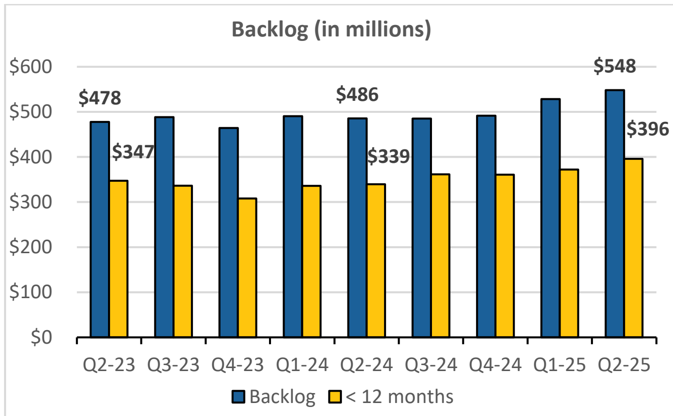
Bookings

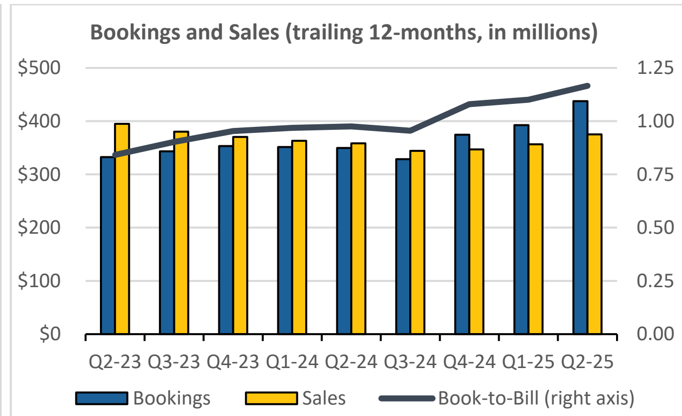
	Three-month periods ended		Six-month periods ended	
(in thousands, excluding ratio)	August 31, 2024	August 31, 2023	August 31, 2024	August 31, 2023
Bookings	$116,596	$71,545	$226,364	$163,356
Book-to-bill ratio	1.18	0.89	1.29	1.10

Bookings for the second quarter of fiscal 2025 were $116.6 million, versus $71.5 million for the same period last year. This increase reflects higher bookings in North America driven by new projects for the nuclear power market, including the strategic Main Services Agreement with GEH SMR Technologies Canada Ltd. announced on September 2, and MRO business. The variation is also due to higher bookings in Germany for oil refinery projects and in France for the nuclear power and defense markets. These factors were partially offset by lower oil and gas bookings in Italy due to large orders recorded in the corresponding period of fiscal 2024. Currency movements had a $0.7 million positive effect on the value of bookings for the quarter.

For the first six months of fiscal 2025, bookings reached $226.4 million, up from $163.4 million in the first six months of fiscal 2024. The increase is attributable to higher bookings in North America, Germany and France, partially offset by reduced bookings in Italy. Currency movements had a $1.9 million positive effect on the value of bookings for the period.

As a result of bookings outpacing sales, the Company's book-to-bill ratio was 1.18 and 1.29, respectively, for the three- and six-month periods ended August 31, 2024.





Sales

Sales distribution by customer geographic location

Q2-F25

0.5%
13.2%
16.6%
$98.6M Sales
40.3%
29.5%

- North America
- Europe
- Asia Pacific
- Africa & Middle East
- South & Central America

Q2-F24

1.1%
5.4%
21.6%
$80.3M Sales
45.8%
26.2%

YTD-F25

0.9%
11.9%
16.4%
$176.1M Sales
43.9%
26.9%

- North America
- Europe
- Asia Pacific
- Africa & Middle East
- South & Central America

YTD-F24

1.1%
7.0%
20.4%
$148.0M Sales
48.5%
22.9%

Sales for the second quarter of fiscal 2025 reached $98.6 million, up $18.3 million or 22.8% from the same period last year. The increase is mainly attributable to higher shipments from Italian operations for the oil and gas market, from French operations for the nuclear power market and from North American operations for the defense market.

The variation also reflects non-recurring revenue of $5.2 million related to a cancelled agreement with a customer on which no gross profit was recognized in the second quarter of fiscal 2025. These factors were partially offset by lower MRO shipments in North America. Currency movements had a $0.6 million negative effect on sales for the quarter.

For the six-month period ended August 31, 2024, sales totaled $176.1 million, compared to $148.0 million for the same period last year. The increase mainly reflects higher shipments from Italian and North American operations, as well as the non-recurring revenue noted above, partially offset by lower sales in other international markets. Currency movements had a $1.2 million negative effect on sales for the period.

Gross profit

Gross profit for the second quarter of fiscal 2025, totaled $26.7 million, up from $23.4 million last year. The increase in gross profit is primarily attributable to higher sales which positively impacted the absorption of fixed production overhead costs, and a more favorable product mix this year compared to last, partially offset by higher inventory provisions and a learning curve effect in the early phase of certain projects for the nuclear power market. Currency movements had a $0.1 million negative effect on gross profit in the second quarter of fiscal 2025 compared to the same period last year. As a percentage of sales, gross profit was 27.0%, compared to 29.1% last year. Excluding the effect of non-recurring revenue of which no gross profit was recognized, this year's gross profit as a percentage of sales was 28.5%.

For the six-month period ended August 31, 2024, gross profit reached $50.5 million, compared to $38.4 million a year ago. The favorable variation reflects higher sales which positively impacted the absorption of fixed production overhead costs, a more favorable product mix, and production efficiency gains. Currency movements had a $0.2 million negative effect on gross profit in the first half of fiscal 2025 compared to the same period last year. As a percentage of sales, gross profit was 28.7%, compared to 23.0% last year. Excluding the effect of non-recurring revenue, this year's gross profit as a percentage of sales was 29.5%.

Administration costs

Administration costs totaled $24.8 million, or 25.1% of sales, versus $22.6 million, or 28.1% of sales a year ago. Last year's costs included $0.3 million in expenses related to the proposed transaction with Flowserve Corporation. The year-over-year increase is mainly attributable to higher sales commissions due to higher business volume.

In the first half of fiscal 2025, administration costs totaled $46.6 million, or 26.4% of sales, compared to $44.1 million, or 29.8% of sales, in the first half of fiscal 2024. This year's costs include $0.1 million in restructuring costs, while last year's costs included $0.8 million in expenses related to the proposed transaction. The increase is mostly due to the factor noted above.

EBITDA and Adjusted EBITDA

EBITDA amounted to $5.1 million, compared to $3.0 million last year. Excluding expenses related to the proposed transaction, last year's second quarter adjusted EBITDA was $3.3 million. The year-over-year increase is essentially attributable to higher volume and higher gross profit, partially offset by higher administration costs.

For the first six months of fiscal 2025, EBITDA was $8.9 million, compared to negative $0.8 million last year. Excluding this year's restructuring costs and last year's expenses related to the proposed transaction, adjusted EBITDA for the first half of fiscal 2025 stood at $9.0 million, up from breakeven in the first half of fiscal 2024. The increase reflects the aforementioned factors.

Finance costs (net)

For the three-month period ended August 31, 2024, finance costs totaled $1.5 million, compared to $1.4 million for the three-month period ended August 31, 2023. The variation reflects higher interest rates on the Company's long-term debt, partially offset by a lower debt level this year compared to last.

For the six-month period ended August 31, 2024, finance costs amounted to $2.8 million, versus $2.6 million for the same period a year ago essentially reflecting the same factors.

Income taxes

	Three-month periods ended			
(in thousands, excluding percentages)	August 31, 2024		August 31, 2023	
	$	%	$	%
Income tax at statutory rate	201	26.5	(292)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	131	17. 3	148	(13.4)
Non-deductible foreign exchange losses	(294)	(38.8)	(104)	9.4
Unrecognized tax losses	607	80.0	1,276	(115.8)
Benefit attributable to a financing structure	(69)	(9.2)	(67)	6.1
Other differences	96	12.7	60	(5.5)
Income tax expense	**672**	**88.6**	**1,021**	**(92.7)**

	Six-month periods ended			
(in thousands, excluding percentages)	August 31, 2024		August 31, 2023	
	$	%	$	%
Income tax at statutory rate	171	26.5	(2,316)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	203	31.4	171	(1.9)
Non-deductible foreign exchange losses	(555)	(85.8)	7	(0.1)
Unrecognized tax losses	1,915	296.0	3,678	(42.1)
Benefit attributable to a financing structure	(135)	(20.9)	(134)	1.5
Other differences	122	18.8	266	(3.0)
Income tax expense	**1,721**	**266.0**	**1,672**	**(19.1)**

Net income (loss) and Adjusted net income (loss)

For the second quarter of fiscal 2025, net income amounted to $0.1 million, or $0.01 per share, compared to a net loss of $2.1 million or $0.10 per share last year. Excluding the after-tax effect of expenses related to the proposed transaction, last year's adjusted net loss for the second quarter was $1.9 million, or $0.09 per share. The variation is primarily attributable to higher adjusted EBITDA.

For the first half of fiscal 2025, net loss amounted to $1.0 million, or $0.05 per share, compared to a net loss of $10.4 million or $0.48 per share last year. Excluding the after-tax effect of restructuring costs and expenses related to the proposed transaction, this year's adjusted net loss was $0.9 million, or $0.04 per share, versus an adjusted net loss of $9.8 million, or $0.45 per share, last year. The variation is primarily attributable to higher adjusted EBITDA.

SUMMARY OF QUARTERLY RESULTS

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

								Quarters ended
(in thousands, excluding per share amounts)	**August 2024**	**May 2024**	**February 2024**	**November 2023**	**August 2023**	**May 2023**	**February 2023**	**November 2022**
Sales	$98,647	$77,500	$117,894	$80,945	$80,318	$67,659	$115,141	$95,229
Net income (loss)	121	(1,104)	(2,083)	(7,250)	(2,120)	(8,284)	(47,164)	2,739
per share – basic and diluted	0.01	(0.05)	(0.10)	(0.34)	(0.10)	(0.38)	(2.18)	0.13
Adjusted net income (loss)	121	(1,015)	8,944	(7,074)	(1,878)	(7,910)	8,790	2,739
per share – basic and diluted	0.01	(0.05)	0.41	(0.33)	(0.09)	(0.37)	0.41	0.13
EBITDA	5,127	3,741	8,482	(2,337)	2,960	(3,799)	(39,486)	6,135
Adjusted EBITDA	5,127	3,862	19,879	(2,098)	3,289	(3,290)	16,468	6,135

FINANCIAL POSITION

Assets

As at August 31, 2024, total assets stood at $498.0 million, up from $479.4 million as at February 29, 2024.

Current assets amounted to $405.9 million as at August 31, 2024, up from $387.0 million as at February 29, 2024. The variation mainly reflects a $16.6 million increase in inventories to support a growing order backlog and a $8.0 million increase in cash and cash equivalent stemming from a strong cash flow generation. These factors were partially offset by a $5.0 million decrease in accounts receivable due to lower business activity in the second quarter of fiscal 2025 compared to the fourth quarter of fiscal 2024.

Non-current assets totalled $92.1 million as at August 31, 2024, versus $92.4 million as at February 29, 2024. The variation is mainly attributable to decreases of $0.7 million and $0.3 million, respectively, in intangible assets and property, plant and equipment, partially offset by a $0.7 million increase in deferred income taxes.

Liabilities

As at August 31, 2024, total liabilities amounted to $315.6 million, up from $296.1 million as at February 29, 2024.

Current liabilities stood at $159.4 million, versus $160.4 million as at February 29, 2024. This variation is mainly due to a $21.2 million decrease in the current portion of the long-term debt related to a reclass from short-term to long-term (see liquidity and capital resources section below). This factor was offset by increases of $8.3 million and $6.7 million, respectively, in customer deposits, as well as in accounts payable and accrued liabilities reflecting higher business activity. Bank indebtedness and provisions also increased by $3.2 million and $2.5 million, respectively.

Non-current liabilities increased by $20.4 million to $156.2 million mainly due to a $15.0 million rise in long-term debt related to a reclass from short-term to long-term noted above, and a $8.1 million increase in customer deposits reflecting higher business activity. These factors were partially offset by a $2.4 million reduction in provisions.

Equity

As at August 31, 2024, total equity was $182.4 million, versus $183.3 million as at February 29, 2024. The variation essentially mirrors the Company's net loss for the first six months of fiscal 2025.

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

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

					As at August 31, 2024	
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	22,563	3,234	5,792	3,161	15,210	27,397
Long-term lease liabilities	12,571	1,606	3,348	2,177	11,603	18,734
Accounts payable and accrued liabilities	94,963	94,963	-	-	-	94,963
Customer deposits	81,879	38,692	17,465	2,253	23,469	81,879

As at August 31, 2024 and as at February 29, 2024, the Company was in breach of one of its financial covenants ratios for which, in May 2024, the lender renounced its right to demand repayment of the loan until March 1, 2026, provided that the breach relates solely to asbestos costs. Accordingly, the secured mortgage bank loan which was classified as short-term debt as at February 29, 2024, was re-classified as long-term debt as at August 31, 2024.

On August 31, 2024, the Company's order backlog was $548.1 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 six months ended August 31, 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		Six-month periods ended	
(in thousands)	August 31, 2024	August 31, 2023	August 31, 2024	August 31, 2023
Net cash – Beginning of period	34,019	58,630	36,445	50,253
Cash provided (used) by operating activities	10,145	(21,160)	15,045	(10,466)
Cash used by investing activities	(275)	(1,950)	(3,343)	(3,382)
Cash provided (used) by financing activities	(2,446)	3,341	(6,645)	2,053
Effect of exchange rate differences on cash	(176)	511	(235)	914
Net cash – End of period	**41,267**	**39,372**	**41,267**	**39,372**

Operating activities

For the three-month period ended August 31, 2024, cash provided by operating activities reached $10.1 million, versus cash used by operating activities of $21.2 million in the corresponding period a year earlier. The favorable movement in cash for the quarter is primarily attributable to more favourable changes in non-cash working capital movements and higher EBITDA.

For the first six months of fiscal 2025, cash provided by operating activities amounted to $15.0 million, versus cash used by operating activities of $10.5 million last year. The variation mainly reflects the factors noted above.

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

	Three-month periods ended		Six-month periods ended	
(in thousands)	**August 31, 2024**	**August 31, 2023**	**August 31, 2024**	**August 31, 2023**
Accounts receivable	(7,749)	(7,690)	6,691	23,530
Inventories	(3,011)	(7,664)	(14,171)	(21,156)
Income taxes recoverable	(523)	378	(782)	(111)
Deposits and prepaid expenses	545	(1,063)	1,550	(1,377)
Accounts payable and accrued liabilities	5,876	(4,351)	3,670	(5,543)
Income taxes payable	(1,137)	(1,243)	(1,648)	(1,709)
Customer deposits	2,521	(638)	7,693	1,399
Provisions	2,526	988	2,280	1,834
Changes in non-cash working capital items	**(952)**	(21,283)	**5,283**	**(3,133)**

Investing activities

Cash used by investing activities for the quarter ended August 31, 2024, reached $0.3 million reflecting additions to property, plant and equipment of $1.8 million, partially offset by a decrease of $1.0 million in short-term investments. For the quarter ended August 31, 2023, cash used by investing activities totaled $2.0 million due to additions to property, plant and equipment and intangible assets.

For the six-month period ended August 31, 2024, cash used by investing activities totaled $3.3 million, mostly related to additions to property, plant and equipment. For the six-month period ended August 31, 2023, cash used by investing activities was $3.4 million reflecting additions to property, plant and equipment and intangible assets.

Financing activities

During the second quarter of fiscal 2025, cash used by financing activities amounted to $2.4 million essentially due to the repayment of long-term debt of $2.5 million. During the second quarter of fiscal 2024, cash provided by financing activities reached $3.3 million mainly reflecting borrowings of $5.0 million on the revolving credit facility to fund temporary non-cash working capital requirements.

For the first half of fiscal 2025, cash used by financing activities reached $6.6 million mainly reflecting the repayment of long-term debt of $6.4 million. For the first half of fiscal 2024, cash provided by financing activities stood at $2.1 million, as borrowings of $5.0 million on the revolving credit facility were partially offset by repayments of $1.7 million and $0.8 million, respectively, on long-term debt and long-term lease liabilities.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Market risk

Currency risk

Currency risk on financial instruments is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Currency risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency other than a company's functional currency. The Company has operations with different functional currencies, each of which will be exposed to currency risk based on its specific functional currency.

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

The amounts outstanding as at August 31, 2024 and February 29, 2024 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	August 31, 2024	February 29, 2024	August 31, 2024	February 29, 2024	August 31, 2024	February 29, 2024
Foreign exchange forward contracts						
Buy € for US$ – 0 to 12 months	1.08 to 1.10	1.08 to 1.10	326	40	US$16,271	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 income and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

Interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at August 31, 2024, five (February 29, 2024 – two) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 8.8% (February 29, 2024 – 7.6%), and the Company's ten largest customers accounted for 48.0% (February 29, 2024 – 41.3%) of trade accounts receivable. In addition, there was no customer (August 31, 2023 – one) that accounted for more than 10% of the Company's sales.

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

The Company applies the IFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit loss allowance for trade receivables. The expected credit loss rates are based on the Company's historical credit losses experienced over the last fiscal year prior to period end. The historical rates are then adjusted for current and forward-looking information on macro-economic factors affecting the Company's customers.

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

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

	As at	
(in thousands)	**August 31, 2024** **$**	**February 29, 2024** **$**
Current	73,059	81,030
Past due 0 to 30 days	12,108	12,600
Past due 31 to 90 days	7,367	7,426
Past due more than 90 days	12,105	9,041
	104,639	110,097
Less: Loss allowance	(223)	(224)
	104,416	109,873
Other receivables	10,453	10,041
Total accounts receivable	**114,869**	**119,914**

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

	Six-month periods ended	
(thousands)	**August 31, 2024** **$**	**August 31, 2023** **$**
Balance – Beginning of the year	224	481
Loss allowance expense	-	59
Recoveries of trade accounts receivable	-	(214)
Write-off of trade accounts receivable	-	-
Foreign exchange	(1)	1
Balance – End of the period	**223**	**327**

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

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

The Company lists the various risks that could affect its business in the MD&A for the fiscal year ended February 29, 2024. The Company has no changes to report as at August 31, 2024.

INTERNAL CONTROLS AND PROCEDURES

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

The Company did not make any changes to the design of internal controls over financial reporting during the three-month period ended August 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

CRITICAL ACCOUNTING ESTIMATES & JUDGEMENTS

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

There have been no material changes from those identified in the MD&A for the fiscal year ended February 29, 2024.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED AND ADOPTED

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

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

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

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

a) the carrying amount of the liability;

b) information about the covenants;

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

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

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 which are defined at the end of this report. Reconciliation and definition can be found below.

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

	Three-month periods ended		Six-month periods ended	
(in thousands, except amount per shares)	August 31, 2024 $	August 31, 2023 $	August 31, 2024 $	August 31, 2023 $
Reconciliation of net income (loss) to adjusted net income (loss) and adjusted net income (loss) per share				
Net income (loss)	121	(2,120)	(983)	(10,404)
Adjustments for:				
Restructuring costs	-	-	89	-
Proposed transaction related costs	-	242	-	616
Adjusted net income (loss)	**121**	**(1,878)**	**(894)**	**(9,788)**
per share – basic and diluted	0.01	(0.09)	(0.04)	(0.45)
Reconciliation of net income (loss) to Adjusted EBITDA				
Net income (loss)	121	(2,120)	(983)	(10,404)
Adjustments for:				
Depreciation of property, plant and equipment	2,612	2,154	4,297	4,220
Amortization of intangible assets and financing costs	250	514	1,021	1,077
Finance costs – net	1,472	1,391	2,813	2,596
Income taxes	672	1,021	1,721	1,672
EBITDA	**5,127**	**2,960**	**8,869**	**(839)**
Adjustments for:				
Restructuring costs	-	-	121	-
Proposed transaction related costs	-	329	-	838
Adjusted EBITDA	**5,127**	**3,289**	**8,990**	**(1)**

Free cash flow

	Three-month periods ended		Six-month periods ended	
(in thousands)	August 31, 2024 $	August 31, 2023 $	August 31, 2024 $	August 31, 2023 $
Cash provided by operating activities	10,145	(21,160)	15,045	(10,466)
Addition to property, plant and equipment	(1,796)	(1,605)	(3,469)	(2,714)
Free cash flow	**8,349**	**(22,765)**	**11,576**	**(13,180)**

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 restructuring and to the proposed transaction. 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 restructuring and to the proposed transaction. 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 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.