VELAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended November 30, 2024

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the third quarter ended November 30, 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 January 14, 2025. 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 (2 plants in France) with 1,617 employees (382 in France). 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 (discontinued operations), Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a sales operation in Germany.

SIGNIFICANT TRANSACTIONS

On January 14, 2025, the Company announced that it has entered into an agreement (the "Asbestos Divestiture Agreement") with an affiliate of Global Risk Capital (the "Buyer") to permanently divest its asbestos-related liabilities (the "Asbestos Divestiture Transaction"). Global Risk Capital is a long-term liability management company specializing in the acquisition and management of legacy corporate liabilities. The Asbestos Divestiture Transaction will be achieved by Velan Inc. transferring its assets and liabilities into a new subsidiary and selling its existing U.S. subsidiary, Velan Valve Corp, which will have been capitalized with $143 million (subject to certain adjustments) from Velan Inc. and $7 million from the Buyer. The Asbestos Divestiture Transaction will permanently remove all asbestos-related liabilities and obligations from Velan Inc.'s balance sheet and will indemnify Velan for all legacy asbestos liabilities.

The Company also announced that its wholly-owned subsidiary, Velan UK, has entered into a memorandum of understanding (the "Memorandum of Understanding") relating to the sale of 100% of the share capital and voting rights of its French subsidiaries, Segault SAS ("Segault") and Velan SAS ("Velan France"), to Framatome SAS ("Framatome"), a world leader in nuclear energy, for a total consideration of US$198.4 million (€192.5 million) (the "France Transaction").

The sale of the French businesses met the criteria, at November 30, 2024 of assets held for sale and discontinued operations. As a result, the consolidated balance sheet as at November 30, 2024 has been adjusted to present the disposal group as asset held for sale, and the consolidated income statement and cash flows have been retrospectively adjusted to present only the results from continuing operations.

Apart from a change in presentation, these transactions had accounting impacts as follows (and further described in this MD&A):

1. The results from continuing operations include an expense of $69.1 million related to Asbestos-related costs. This expense mainly represents the accelerated accretion of interest of $49.9 million and an additional provision of $16.8 million in order to account for the expected settlement of $143 million. The tax benefits of these adjustments are not recognized in the United States.
2. The results from continuing operations include the recognition of a deferred tax asset in an amount of $16.7 million, representing previously unrecognized tax attributes that the Company expect to use to offset the resulting tax liability from the disposal of the French subsidiaries. While the final tax liability associated with the sale of the French businesses will change significantly upon closing of the transaction, the Company expects to have sufficient unrecognised tax benefits in order to offset the final tax liability, which will have no effect on the Company's liquidity.
3. The results from discontinued operations included a deferred tax expense of $16.7 million relating to the recognition of temporary differences on the French businesses. This $16.7 million has been calculated using difference between the net book value of the French subsidiaries and the related tax basis.

THIRD QUARTER RESULTS FROM CONTINUING OPERATIONS[1]

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Solid order backlog[2] of $298.7 million, up $15.0 million or 5.3% since the beginning of the year.
- Bookings[2] of $59.1 million, versus $60.1 million last year, representing a book-to-bill ratio[2] of 0.81.
- Adjusted net income from continuing operations of $8.5 million, versus an adjusted net loss of $7.0 million in the corresponding quarter, mainly due to higher sales and gross profit.
- Adjusted net income per share from continuing operations of $0.39, compared to an adjusted net loss per share of $0.32 last year.
- Adjusted EBITDA from continuing operations of $14.3 million, compared to negative $4.1 million last year. The increase is mainly attributable to higher sales and gross profit.

IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS

- Sales of $73.4 million, up $11.2 million or 18.1% compared to the same quarter last year.
- Gross profit of $28.3 million or 38.6% of sales, up significantly from $8.2 million, or 13.1% of sales, last year.
- Net loss[3] from continuing operations of $47.8 million, versus a net loss of $9.5 million last year reflecting restructuring costs of $74.5 million before income taxes.
- Net loss per share from continuing operations of $2.22, compared to a net loss per share of $0.44 last year.
- Cash flows from operating activities was breakeven, versus $0.1 million last year.
- Net cash of $32.1 million at the end of the quarter, versus $36.4 million at the beginning of the fiscal year.

NINE MONTHS RESULTS FROM CONTINUING OPERATIONS

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Bookings of $230.5 million for the period, versus $177.1 million last year, representing a book-to-bill ratio of 1.09.
- Adjusted net income from continuing operations of $11.9 million, versus an adjusted net loss of $14.7 million in the corresponding period, reflecting higher sales and gross profit.
- Adjusted net income per share from continuing operations of $0.55, compared to an adjusted net loss per share of $0.68 last year.
- Adjusted EBITDA from continuing operations of $24.3 million, compared to negative $5.9 million last year, reflecting higher sales and gross profit.

IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS

- Sales of $212.0 million, up $34.5 million or 19.5% compared to the same period last year.
- Gross profit of $65.1 million or 30.7% of sales, up from $31.9 million, or 18.0% of sales, last year.
- Net loss from continuing operations of $50.6 million, versus a net loss of $22.4 million last year reflecting restructuring costs of $81.3 million before income taxes.
- Net loss per share from continuing operations of $2.35, compared to a net loss per share of $1.04 last year.
- Solid cash flows from operating activities from continuing operations of $19.9 million, versus negative $7.6 million last year.

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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.

RESULTS OF OPERATIONS

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

NON-IFRS	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2024**	**November 30, 2023**	*Variance*	**November 30, 2024**	**November 30, 2023**	*Variance*
Adjusted net income (loss)[1] from continuing operations	8,502	(7,011)	*15,513*	11,857	(14,728)	*26,585*
Adjusted EBITDA[2] from continuing operations	14,260	(4,148)	*18,408*	24,337	(5,824)	*30,161*
Adjusted net income (loss) per share from continuing operations– basic and diluted	0.39	(0.32)	*0.71*	0.55	(0.68)	*1.23*

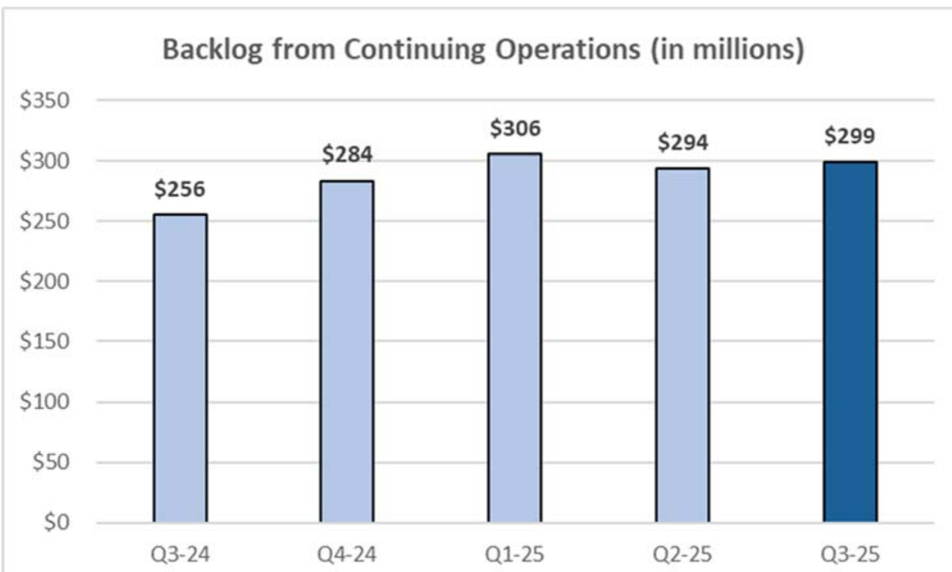
IFRS	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2024**	**November 30, 2023**	*Variance*	**November 30, 2024**	**November 30, 2023**	*Variance*
From continuing operations						
Sales	$73,404	$62,160	*$11,244*	$211,998	$177,458	*$34,540*
Gross profit	28,305	8,165	*20,140*	65,087	31,871	*33,216*
Administration costs	17,003	15,476	*1,527*	48,348	46,504	*1,844*
Other expense (income)	(782)	(542)	*(240)*	(876)	(949)	*73*
	12,084	(6,769)	*18,853*	17,615	(13,684)	*31,299*
Restructuring expenses	74,468	2,274	*72,194*	81,301	6,846	*74,455*
Income taxes	(14,930)	77	*(15,007)*	(13,933)	832	*(14,825)*
Net loss[2]	(47,835)	(9,461)	*(38,374)*	(50,632)	(22,366)	*(28,266)*
Net income (loss) from discontinued operations	(14,262)	2,211	*(16,473)*	(12,449)	4,712	*(17,161)*
Net loss	(62,097)	(7,250)	*(54,847)*	(63,081)	(17,654)	*(45,427)*
(as a percentage of sales)						
Gross profit from continuing operations	38.6%	13.1%	*2,550 bps*	30.7%	18.0%	*1,270 bps*
(in dollars per share)						
Net income (loss) per share from continuing operations – basic and diluted	(2.22)	(0.44)	*(1.78)*	(2.35)	(1.04)	*(1.31)*
Net income (loss) per share from discontinued operations – basic and diluted	(0.66)	0.10	*(0.76)*	(0.57)	0.22	*(0.79)*
Net income (loss) per share – basic and diluted	(2.88)	(0.34)	*(2.54)*	(2.92)	(0.82)	*(2.10)*

[1] *Non-IFRS and supplementary financial measures – more information 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

	As at					
	November 30, 2024		February 29, 2024		November 30, 2023	
(in thousands)	$	%	$	%	$	%
Backlog	298,685		283,647		255,699	
For delivery within the next 12 months	249,144	83.4%	259,662	91.5%%	232,955	91.1%
For delivery between 12 and 24 months	44,434	14.9%	13,757	4.9%	13,758	5.4%
For delivery between 24 and 36 months	0	0.0%	10,228	3.6%	8,986	3.5%
For delivery beyond 36 months	5,107	1.7%	0	0%	0`	0%

As at November 30, 2024, the backlog from continuing operations stood at $298.7 million, up $15.0 million, or 5.3%, since the beginning of the fiscal year. The increase is primarily due to bookings exceeding shipments in the first nine months of fiscal 2025. As at November 30, 2024, 83.4% of the backlog, representing orders of $249.1 million, is deliverable in the next 12 months. Currency movements had a $2.5 million negative effect on the value of the backlog for the first nine months of fiscal 2025 compared to the same period last year mainly due to the weakening of the euro versus the U.S. dollar.



Bookings

	Three-month periods ended		Nine-month periods ended	
(in thousands, excluding ratio)	November 30, 2024	November 30, 2023	November 30, 2024	November 30, 2023
Bookings	$59,096	$60,076	$230,474	$177,054
Book-to-bill ratio	0.81	0.97	1.09	1.00

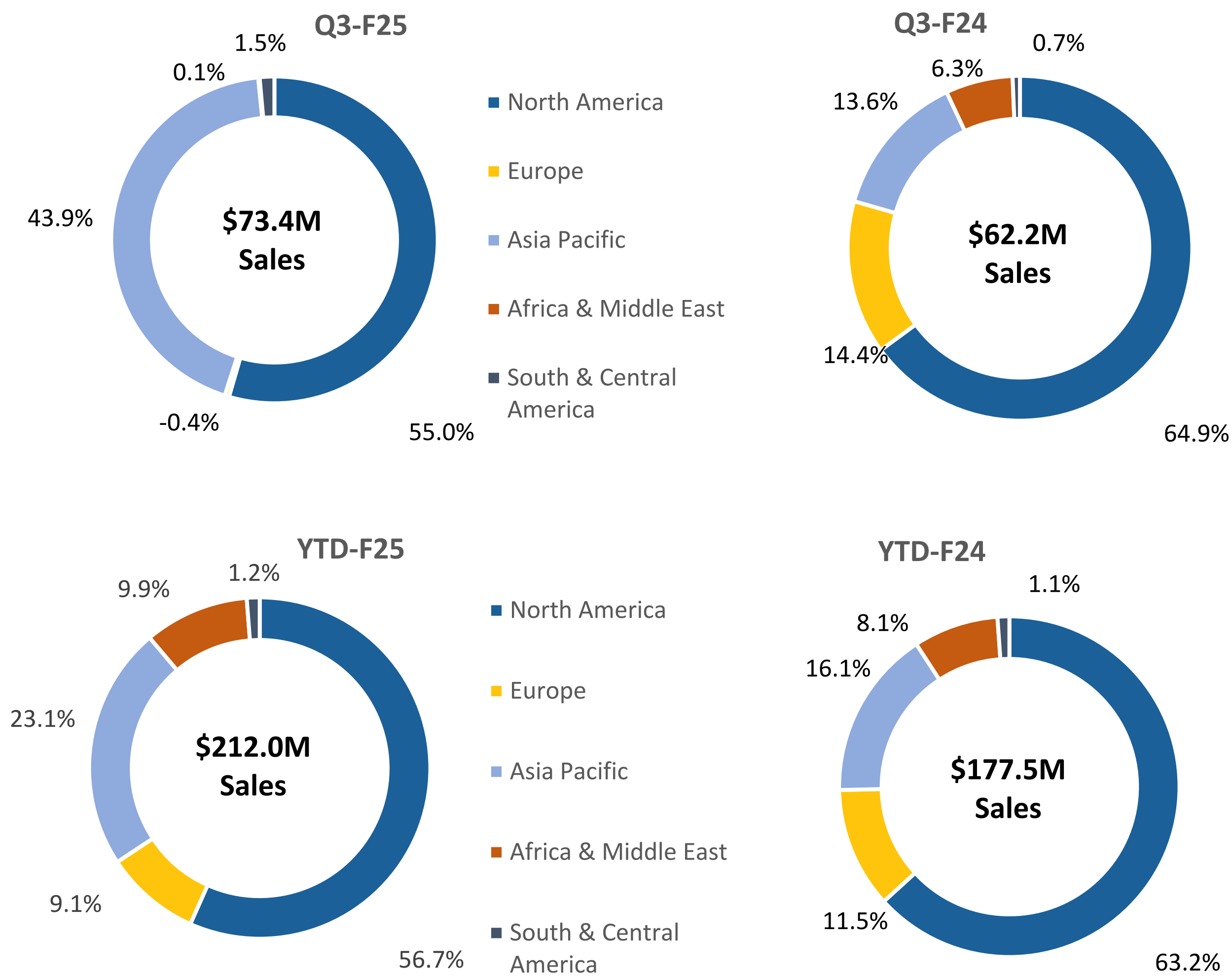
Bookings from continuing operations for the third quarter of fiscal 2025 were $59.1 million, versus $60.1 million for the same period last year. The slight decrease reflects the timing of orders following strong bookings in the first half of fiscal 2025 and delays in certain targeted projects in Italy. These factors were partially offset by higher MRO bookings in North America and higher bookings in Germany for oil refinery projects. Currency movements had a $0.6 million negative effect on the value of bookings for the quarter.

For the first nine months of fiscal 2025, bookings from continuing operations totaled $230.5 million, up from $177.1 million in the first nine months of fiscal 2024. The increase reflects higher bookings in North America and Germany, partially offset by lower bookings in Italy. Currency movements had a $1.7 million negative effect on the value of bookings for the period.

As sales outpaced bookings, the book-to-bill ratio was 0.81 for the quarter ended November 30, 2024, while the ratio for the nine-month period ended November 30, 2024, was 1.09 as bookings, driven mainly by nuclear activities in North America, outpaced sales.

Sales

Sales distribution by customer geographic location (from continuing operations)



Sales from continuing operations for the third quarter of fiscal 2025 reached $73.4 million, up $11.2 million or 18.1% from the same period last year. The increase mainly reflects higher shipments from Italian operations for the oil and gas market and from China for the petrochemical sector. These factors were partially offset by lower sales in other international markets, while sales from North American operations remained relatively stable. Currency movements had a $0.5 million positive effect on sales for the quarter.

For the nine-month period ended November 30, 2024, sales from continuing operations totaled $212.0 million, compared to $177.5 million for the same period last year. The increase is mainly attributable to higher shipments from Italian and North American operations, as well as non-recurring revenue of $5.2 million in the second quarter for which no gross profit was recognized, partially offset by lower sales in other international markets. Currency movements had a $0.2 million positive effect on sales for the period.

Gross profit

Gross profit from continuing operations for the third quarter of fiscal 2025 totaled $28.3 million, up from $8.2 million last year. The increase is attributable to higher sales which positively impacted the absorption of fixed production overhead costs, a more favorable product mix this year compared to last, reduced exposure to an onerous contract and efficiency gains. Currency movements had a $0.2 million positive effect on gross profit for the quarter compared to the same period last year. As a percentage of sales, gross profit was 38.6%, compared to 13.1% last year.

For the nine-month period ended November 30, 2024, gross profit from continuing operations reached $65.1 million, compared to $31.9 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 efficiency gains. Currency movements had no effect on gross profit for the period compared to the same period last year. As a percentage of sales, gross profit was 30.7%, compared to 18.0% last year. Excluding the effect of non-recurring revenue noted above, this year's gross profit as a percentage of sales was 31.5%.

Administration costs

Administration costs from continuing operations for the third quarter of fiscal 2025 totaled $17.0 million, or 23.2% of sales, compared to $15.5 million, or 24.9% of sales a year ago. The year-over-year increase is mainly attributable to higher sales commissions due to higher business volume, higher freight costs, and the impact of a significant increase in the market value of the Company's shares on its long-term incentive plan.

In the first nine months of fiscal 2025, administration costs from continuing operations were $48.3 million, or 22.8% of sales, versus $46.5 million, or 26.2% of sales, last year. The year-over-year increase is due to the factors noted above.

Restructuring costs

For the three-month period ended November 30, 2024, the Company incurred restructuring expenses of $74.5 million consisting of asbestos-related costs of $69.1 million and transaction-related costs of $5.4 million. In the three-month period ended November 30, 2023, restructuring expenses were $2.3 million in connection with asbestos-related costs.

For the nine-month period ended November 30, 2024, the Company incurred restructuring expenses of $81.3 million consisting of asbestos-related costs of $73.7 million and transaction-related costs of $7.6 million. In the nine-month period ended November 30, 2023, restructuring expenses were $6.8 million in connection with asbestos-related costs.

EBITDA and Adjusted EBITDA

EBITDA from continuing operations for the third quarter of fiscal 2025 amounted to negative $60.2 million, compared to negative $6.7 million last year. Excluding asbestos-related costs and transaction-related costs, this year's third quarter adjusted EBITDA from continuing operations was $14.3 million, while last year's adjusted EBITDA was negative $4.1 million. The year-over-year increase is due to higher sales and gross profit, partially offset by higher administration costs.

For the first nine months of fiscal 2025, EBITDA from continuing operations was negative $56.9 million, compared to negative $13.8 million last year. Excluding asbestos-related costs and transaction-related costs, adjusted EBITDA from continuing operations for the first nine months of fiscal 2025 was $24.3 million, up from negative $5.9 million a year ago. The increase reflects the aforementioned factors.

Finance costs (net)

For the three-month period ended November 30, 2024, finance costs from continuing operations were stable at $0.4 million compared to the three-month period ended November 30, 2023.

For the nine-month period ended November 30, 2024, finance costs from continuing operations were stable at $1.1 million compared to the nine-month period ended November 30, 2023.

Income taxes

For the third quarter of fiscal 2025, the income tax recovery from continuing operations stood at $14.9 million, compared to an income tax expense from continuing operations of $0.1 million last year. The variation is attributable to an income tax recovery of $16.7 million in fiscal 2025 reflecting deferred tax assets related to the recognition of deferred tax assets not previously recognized which are expected to be utilized against the tax liability resulting from the disposal of the French subsidiaries. Moreover, the temporary differences arising from the accounting of asbestos-related costs of $69.1 million have not been recognized in the United States.

For the first nine months of fiscal 2025, the income tax recovery from continuing operations was $14.0 million, compared to an income tax expense from continuing operations of $0.8 million last year. The variation is attributable to the deferred tax assets mentioned above as well as the unrecognized temporary differences of asbestos-related costs.

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

Three-month period

For the third quarter of fiscal 2025, the net loss from continuing operations was $47.8 million, or $2.22 per share, compared to a net loss of $9.5 million, or $0.44 per share last year.

Adjusted net income from continuing operations for the third quarter of fiscal 2025 was $8.5 million, or $0.39 per share, versus an adjusted net loss of $7.0 million, or $0.32 per share, last year. The variation is primarily attributable to higher adjusted EBITDA.

Net loss from discontinued operations amounted to $14.3 million, or $0.66 per share, versus net income from discontinued operations of $2.2 million, or $0.10 per share, last year. As a result, the net loss for the third quarter of fiscal 2025 was $62.1 million, or $2.88 per share, versus a net loss of $7.3 million, or $0.34 per share, last year.

Nine-month period

For the first nine months of fiscal 2025, the net loss from continuing operations was $50.6 million, or $2.35 per share, versus a net loss of $22.4 million or $1.04 per share, last year.

Adjusted net income from continuing operations for the first nine months of fiscal 2025 was $11.9 million, or $0.55 per share, versus an adjusted net loss of $14.7 million, or $0.68 per share, last year. The variation is primarily attributable to higher adjusted EBITDA.

Net loss from discontinued operations amounted to $12.4 million, or $0.57 per share, versus net income from discontinued operations of $4.7 million, or $0.22 per share, last year. As a result, the net loss for the first nine months of fiscal 2025 was $63.1 million, or $2.92 per share, versus a net loss of $17.7 million, or $0.82 per share, last year.

Discontinued operations

The income and expenses, gains and losses relating to the discontinuation of the disposal group have been subtracted from the Company's net income from continuing operations and are presented on a separate line in the consolidated statement of income. The details of the elements making up this result are as follows:

	Three-month periods ended		Nine-month periods ended	
	November 30,	November 30,	November 30,	November 30,
	2024	2023	2024	2023
(thousands)	$	$	$	$
Sales	23,381	18,785	60,934	51,464
Cost of sales	14,728	10,564	38,583	28,512
Gross profit	8,653	8,222	22,351	22,953
Administration costs	5,241	4,867	15,852	15,465
Other expense (income)	360	569	907	1,488
Operating income (loss)	3,052	2,786	5,592	5,999
Finance income	(60)	(59)	(118)	(265)
Finance costs	-	-	-	-
Finance costs – net	(60)	(59)	(118)	(265)
Income (loss) before income taxes	**3,112**	**2,845**	**5,710**	**6,263**
Income tax expense (note a)	17,374	634	18,159	1,551
Net profit (loss) for the period	**(14,262)**	**2,211**	**(12,449)**	**4,712**

a) Since management expects to realize the temporary tax differences over its disposal group, a deferred tax liability and expense of $16.7 million associated with the disposal group has been recognized. This deferred tax liability is calculated based on the net book value as at November 30, 2024, of the disposal group and will be revised using the expected proceeds from the disposal, which will result in a final tax expense significantly higher. The Company has sufficient unrecognized tax benefits that it will recognize to offset the impact of this tax expense, which will have no effect on the Company's liquidity.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters, presented on the basis of continuing operations, are as follows:

								Quarters ended
(in thousands, excluding per share amounts)	**November 2024**	**August 2024**	**May 2024**	**February 2024**	**November 2023**	**August 2023**	**May 2023**	**February 2023**
Sales	$73,404	$77,696	$60,898	$80,847	$62,160	$63,196	$52,102	$79,017
Net income (loss) from continuing operations	(47,835)	(837)	(1,959)	(8,287)	(9,461)	(3,996)	(8,909)	(53,090)
per share – basic and diluted	(2.22)	(0.03)	(0.09)	(0.39)	(0.44)	(0.19)	(0.41)	(2.45)
Net income (loss) from discontinued operations	(14,262)	958	855	6,204	2,211	1,876	625	5,926
per share – basic and diluted	(0.66)	0.01	(0.05)	0.41	0.10	(0.09)	0.03	0.27

Net income (loss)	(62,097)	121	(1,104)	(2,083)	(7,250)	(2,120)	(8,284)	(47,164)
per share – basic and diluted	(2.88)	0.01	(0.05)	(0.10)	(0.34)	(0.10)	(0.38)	(2.18)
Adjusted EBITDA from continuing operations	14,260	6,535	2,806	15,661	(4,148)	2,220	(3,998)	13,558
Adjusted net income (loss) from continuing operations	8,502	683	(1,808)	2,740	(7,011)	(3,754)	(8,535)	2,864
per share – basic and diluted	0.39	0.03	(0.08)	0.13	(0.32)	(0.17)	(0.40)	0.13

FINANCIAL POSITION

Assets

As at November 30, 2024, total assets stood at $510.4 million, up from $479.4 million as at February 29, 2024.

Current assets amounted to $404.6 million as at November 30, 2024, including $139.4 million of assets held for sale, up from $387.0 million as at February 29, 2024. On a continuing operations basis, the variation mainly reflects a $22.6 million increase in inventories to support a growing order backlog and a $7.8 million increase in cash and cash equivalent stemming from a strong cash flow generation. These factors were partially offset by a $6.0 million decrease in accounts receivable due to better collection.

Non-current assets totalled $105.7 million as at November 30, 2024, including $17.0 million of assets held for sale, versus $92.4 million as at February 29, 2024. On a continuing operation basis, the variation is mainly attributable an increase of $17.3 million in deferred income taxes reflecting the deferred tax assets related to the transactions mentioned above, partially offset by decreases of $2.3 million and $1.2 million in intangible assets and property, plant and equipment, respectively.

Liabilities

As at November 30, 2024, total liabilities amounted to $393.1 million, up from $296.1 million as at February 29, 2024.

Current liabilities stood at $301.2 million as at November 30, 2024, including $39.7 million of liabilities held for sale, versus $160.4 million as at February 29, 2024. On a continuing operation basis, the variation is mainly due to an increase of $139.4 million in provisions due to the reclass from long-term to short-term of the asbestos-related provision, and increases of $20.6 million and $5.7 million, respectively, in accounts payable and accrued liabilities as well as in customer deposits reflecting higher bookings. These factors were partially offset by a $20.4 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).

Non-current liabilities amounted to $91.9 million as at November 30, 2024, including $60.6 million of liabilities held for sale, versus $135.7 million as at February 29, 2024. On a continuing operation basis, the variation is mainly due to a $74.1 million reduction in provisions, partially offset by a $14.6 million rise in long-term debt related to the reclasses noted above.

Equity

As at November 30, 2024, total equity was $116.8 million, versus $183.3 million as at February 29, 2024. The variation essentially reflects the Company's net loss for the first nine months of fiscal 2025. The Company anticipates a gain on the closing of the French subsidiaries that should increase significantly the equity value as reported.

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 November 30, 2024
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	19,468	3,150	3,648	2,519	15,248	24,565
Long-term lease liabilities	5,928	1,371	2,684	1,370	1,853	7,278
Accounts payable and accrued liabilities	77,179	77,179	-	-	-	77,179
Customer deposits	28,507	24,604	1,859	2,044	-	28,507

As at November 30, 2024 the Company is in compliance with all covenants related to its debt and credit facilities.

On November 30, 2024, the Company's order backlog was $298.7 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 nine months ended November 30, 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		Nine-month periods ended	
(in thousands)	November 30, 2024	November 30, 2023	November 30, 2024	November 30, 2023
Cash and cash equivalents – Beginning of period	$37,045	$31,414	$27,283	$40,605
Cash flow provided (used) by operating activities from continuing operations	(9)	61	19,883	(7,594)
Cash flow equivalents used by investing activities from continuing operations	(4,892)	(1,749)	(8,307)	(6,443)
Cash flow provided (used) by financing activities from continuing operations	265	(6,143)	(6,088)	(3,320)
Effect of exchange rate differences on cash	(347)	(207)	(710)	128
Net change in cash and cash equivalents from continuing operations	(4,984)	(8,038)	4,778	(17,229)
Net change in cash and cash equivalents from discontinued operations	10,301	(4,972)	6,145	(6,662)
Net change in cash and cash equivalents	**5,317**	**(13,010)**	**10,924**	**(23,891)**
Cash and cash equivalents – End of period	**32,061**	**23,376**	**32,061**	**23,376**

Operating activities

For the three-month period ended November 30, 2024, cash flow from operating activities from continuing operations was breakeven, versus cash provided by operating activities of $0.1 million in the corresponding period a year earlier. The variation reflects higher EBITDA from continuing operations offset by less favourable changes in non-cash working capital movements.

For the first nine months of fiscal 2025, cash flow provided by operating activities from continuing operations amounted to $19.9 million, versus cash used by operating activities of $7.6 million last year. The variation mainly reflects higher EBITDA from continuing operations.

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

	Three-month periods ended		Nine-month periods ended	
(in thousands)	**November 30, 2024**	**November 30, 2023**	**November 30, 2024**	**November 30, 2023**
Accounts receivable	2,098	7,244	8,522	18,179
Inventories	(14,801)	4,893	(24,718)	(1,435)
Income taxes recoverable	(70)	(136)	266	(1,233)
Deposits and prepaid expenses	954	(558)	1,588	764
Accounts payable and accrued liabilities	7,924	(1,020)	22,722	(2,495)
Income taxes payable	1,178	606	1,310	(284)
Customer deposits	4,766	(2,500)	3,725	(251)
Provisions	598	34	2,828	1,780
	2,647	**8,563**	**16,243**	**15,025**

Investing activities

Cash used by investing activities from continuing operations for the quarter ended November 30, 2024, was $4.9 million reflecting additions to property, plant and equipment of $4.0 million and additions to intangible assets of $1.0 million. For the quarter ended November 30, 2023, cash used by investing activities from continuing operations totaled $1.7 million consisting in additions to property, plant and equipment and intangible assets.

For the nine-month period ended November 30, 2024, cash used by investing activities from continuing operations totaled $8.3 million, mostly related to additions to property, plant and equipment and intangible assets. For the nine-month period ended November 30, 2023, cash used by investing activities from continuing operations was $6.4 million reflecting additions to property, plant and equipment and intangible assets.

Financing activities

During the third quarter of fiscal 2025, cash provided by financing activities from continuing operations totaled $0.3 million reflecting the net variation in long-term debt for the period. During the third quarter of fiscal 2024, cash used by financing activities from continuing operations was $6.1 million mainly reflecting repayment of long-term debt of $5.7 million.

For the first nine months of fiscal 2025, cash used by financing activities from continuing operations was $6.1 million mainly reflecting a $5.7 million net reduction in long-term debt. For the first nine months of fiscal 2024, cash used by financing activities from continuing operations was $3.3 million due to repayments of $1.8 million and $1.3 million, respectively, on long-term debt and long-term lease liabilities.

Discontinued operations

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

	Three Months period ended		Nine Months period ended	
(thousands)	November 30, 2024 $	November 30, 2023 $	November 30, 2024 $	November 30, 2023 $
Operating activities	8,429	(5,278)	3,582	(7,754)
Investing activities	1,736	538	1,798	1,514
Financing activities	(648)	(186)	(931)	(956)
Effect of exchange rate differences on cash and cash equivalents	64	(46)	192	534
Net change in cash during the period from discontinuing operations	**9,581**	**(4,972)**	**4,641**	**(6,662)**

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 November 30, 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)	
	November 30, 2024	February 29, 2024	November 30, 2024	February 29, 2024	November 30, 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	(249)	40	US$30,200	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 November 30, 2024, five (February 29, 2024 – two) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 11.2% (February 29, 2024 – 7.6%), and the Company's ten largest customers accounted for 56.7% (February 29, 2024 – 41.3%) of trade accounts receivable. In addition, there was two customer (November 30, 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)	**November 30, 2024**	**February 29, 2024 $**
Current	33,292	81,030
Past due 0 to 30 days	10,160	12,600
Past due 31 to 90 days	10,575	7,426
Past due more than 90 days	3,391	9,041
	57,418	110,097
Less: Loss allowance	(219)	(225)
	57,199	109,872
Other receivables	8,424	10,042
Total accounts receivable	**65,623**	**119,914**

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

	Nine-month periods ended	
(thousands)	**November 30, 2024**	**November 30, 2023**
Balance – Beginning of the year	224	481
Loss allowance expense	-	62
Recoveries of trade accounts receivable	(3)	(228)
Write-off of trade accounts receivable	-	(92)
Foreign exchange	(2)	2
Balance – End of the period	**219**	**225**

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 November 30, 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 November 30, 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		Nine-month periods ended	
(in thousands, except amount per shares)	**November 30, 2024 $**	**November 30, 2023 $**	**November 30, 2024 $**	**November 30, 2023 $**
Reconciliation of net income (loss) from continuing operations to adjusted net income (loss) from continuing operations and adjusted net income (loss) from continuing operations per share				
Net income (loss) from continuing operations	(47,835)	(9,461)	(50,632)	(22,366)
Adjustments for:				
Asbestos-related costs	69,064	2,274	73,545	6,846
Deferred tax assets related to the transactions	(16,699)		(16,699)	
Other restructuring costs	-	-	89	-
Transaction costs	3,972	176	5,554	792
Adjusted net income (loss) from continuing operations	**8,502**	**(7,011)**	**11,857**	**(14,728)**
per share – basic and diluted	0.39	(0.32)	0.55	(0.68)
Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations				
Net income (loss) from continuing operations	(47,835)	(9,461)	(50,632)	(22,366)
Adjustments for:				
Depreciation of property, plant and equipment	1,545	1,803	5,091	5,203
Amortization of intangible assets and financing costs	570	529	1,558	1,520
Finance costs – net	442	391	1,091	1,064
Income taxes	(14,930)	77	(13,993)	832
EBITDA	**(60,208)**	**(6,661)**	**(56,885)**	**(13,747)**
Adjustments for:				
Other restructuring costs	-	-	121	-
Asbestos-related costs	69,064	2,274	73,545	6,846
Transaction-related costs	5,404	239	7,556	1,077
Adjusted EBITDA	**14,260**	**(4,148)**	**24,337**	**(5,824)**

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.

Management believes that presented an adjusted net income and adjusted EBITDA for the impacts of the disposal of the French subsidiaries as well as the settlement of the asbestos-related costs will help investor to better understand the past performance of the Company.

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.