VELAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended May 31, 2025

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the first quarter ended May 31, 2025. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2025 and February 29, 2024. 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 July 10, 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 industrial sectors including power generation, nuclear, oil and gas, chemicals, LNG and cryogenics, pulp and paper, geothermal processes, shipbuilding, defense, and carbon-neutral technologies. The Company is a world leader in steel industrial valves operating 11 manufacturing plants worldwide with 1,291 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 Italy, Portugal, the Kingdom of Saudi Arabia, Korea, Taiwan, India, and China. The Company's network operations also include a sales operation in Germany.

FIRST QUARTER RESULTS FROM CONTINUING OPERATIONS

IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS (see below)

- Sales of $72.2 million, up $11.3 million or 18.6% compared to the same period last year.
- Solid increase in gross profit to $20.6 million or 28.6% of sales, from $16.8 million or 27.6% of sales last year.
- Net income[1] of $17.8 million, or $0.83 per share, versus a net loss of $2.2 million last year.
- Strong financial position with cash and cash equivalents of $59.1 million as at May 31, 2025, versus $34.9 million at the beginning of the fiscal year.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Backlog[2] of $286.1 million, up 4.1% from $274.9 million at the end of the previous quarter.
- Bookings[2] of $78.2 million, versus $83.0 million last year, representing a current book-to-bill ratio of 1.08.
- Adjusted net income[2] of $0.1 million, versus adjusted net income of $0.2 million last year.
- Adjusted EBITDA[2] of $4.0 million, compared to $2.8 million last year, reflecting higher gross profit.

RECENT DEVELOPMENT

On July 10, 2025, the Board of Directors of Velan modified the Company's dividend policy by approving a significant increase in the Company's recurring quarterly dividend payment from CA$0.03 to CA$0.10 per common share. This increase reflects Velan's growing backlog and the Board's confidence in the Company's future financial performance, including generating strong cash flow.

The Board has declared that the next dividend of CA$0.10 per common share will be payable on August 29, 2025, to shareholders of record as at August 15, 2025.

SIGNIFICANT TRANSACTIONS

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

On January 14, 2025, the Company announced that it had entered into an agreement to permanently divest its asbestos-related liabilities (the "Asbestos Divestiture Transaction"). The Asbestos Divestiture Transaction was completed on April 3, 2025, and has permanently removed all asbestos-related liabilities and obligations from Velan Inc.'s balance sheet and indemnified the Company for all asbestos liabilities.

The Company also announced that it closed the sale of 100% of the share capital and voting rights of its French subsidiaries, Segault SAS and Velan SAS on March 31, 2025, for a total consideration of $208.2 million (€192.5 million), including $184.1 million (€170.0 million) in cash.

As a result of the sale of the French businesses, the consolidated balance sheet as at February 28, 2025, was adjusted to present the disposal group as asset held for sale, and the consolidated income statement and cash flows were retrospectively adjusted to present only the results from continuing operations.

Following the closing of the France transaction, a gain of $95.8 million was recorded in the first quarter of fiscal 2026. The sale also triggered the recognition of a negative cumulative translation adjustment of $12.5 million. These amounts were recorded as part of the results from discontinued operations.

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

RESULTS OF OPERATIONS

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

IFRS	Three-month periods ended		
(thousands)	**May 31, 2025**	**May 31, 2024**	*Variance*
From continuing operations			
Sales	$72,229	$60,898	*$11,331*
Gross profit	20,626	16,828	*3,798*
Administration costs	18,313	15,368	*2,945*
Other expense (income)	732	762	*(30)*
	1,581	698	*883*
Restructuring expenses	5,374	2,340	*3,034*
Income tax expense (recovery)	(21,958)	406	*22,364*
Net income (loss)	17,826	(2,187)	*20,013*
Net income from discontinued operations	59,379	1,083	*58,296*
Net income (loss)	77,205	(1,104)	*78,309*
(as a percentage of sales)			
Gross profit from continuing operations	28.6%	27.6%	*100 bps*
(in dollars per share)			
Net income (loss) per share from continuing operations – basic and diluted	0.83	(0.10)	*0.93*
Net income per share from discontinued operations – basic and diluted	2.75	0.05	*2.70*
Net income (loss) per share – basic and diluted	3.58	(0.05)	*3.63*

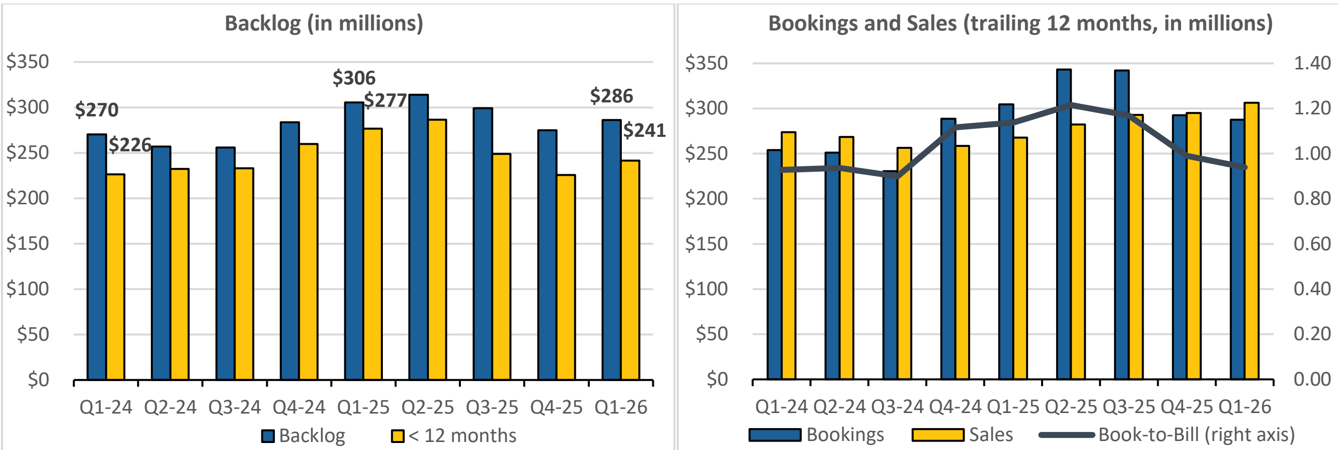
NON-IFRS	Three-month periods ended		
(thousands)	**May 31, 2025**	**May 31, 2024**	*Variance*
From continuing operations			
Adjusted EBITDA	$3,976	$2,846	*$1,130*
Adjusted net income (loss)	90	242	*(152)*
Adjusted net income (loss) per share – basic and diluted	0.00	0.01	*(0.01)*

Backlog

	As at					
(thousands)	**May 31, 2025**		**February 28, 2025**		**May 31, 2024**	
	$	**%**	**$**	**%**	**$**	**%**
Backlog	286,088		274,877		305,601	
For delivery within the next 12 months	241,326	84.4%	225,662	82.1%	276,646	90.5%
For delivery between 12 and 24 months	44,762	15.6%	44,183	16.1%	28,956	9.5%
For delivery between 24 and 36 months	0	0.0%	0	0.0%	0	0.0%
For delivery beyond 36 months	0	0.0%	5,032	1.8%	0	0.0%

As at May 31, 2025, the backlog from continuing operations stood at $286.1 million, up $11.2 million, or 4.1%, from $274.9 million as at February 28, 2025. Currency movements had a $7.1 million positive effect on the value of the backlog during the quarter mainly due to the strengthening of the euro versus the U.S. dollar. Excluding currency movements, the increase reflects bookings exceeding shipments in the first quarter of fiscal 2026. As at May 31, 2025, 84.4% of the backlog, representing orders of $241.3 million, is deliverable in the next 12 months, versus 90.5%

of last year's backlog. This shift in the delivery schedule is driven by the securing of an increasing number of long-term larger contracts for the nuclear and defense sectors.



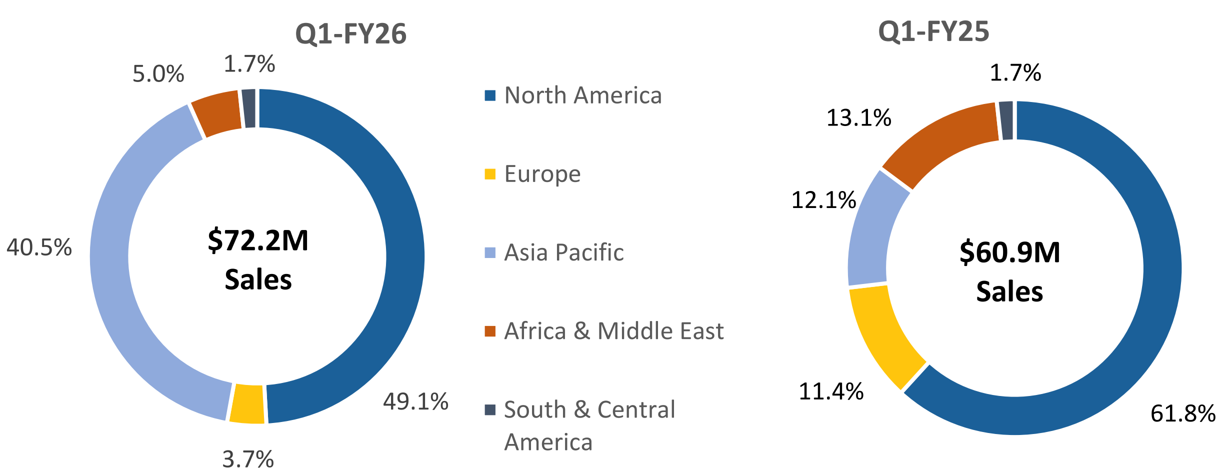
Bookings

	Three-month periods ended	
(in thousands, excluding ratio)	**May 31, 2025**	**May 31, 2024**
Bookings from continuing operations	78,234	82,969
Book-to-bill ratio	1.08	1.36

Bookings from continuing operations amounted to $78.2 million in the first quarter of fiscal 2026, compared to $83.0 million in the first quarter of fiscal 2025. The decrease reflects lower bookings in Germany and North America due to large orders received in last year's first quarter. These factors were partially offset by higher bookings for Chinese and Portuguese operations, as well as higher maintenance, repair and overhaul (MRO) bookings. Currency movements had a negligible effect on the value of bookings for the quarter.

Sales

Sales distribution by customer geographic location



Sales from continuing operations for the first quarter of fiscal 2026 totaled $72.2 million, an increase of $11.3 million or 18.6% compared to $60.9 million for the same period last year. The variation mainly reflects higher shipments from Italian operations for the oil & gas industry and higher business volume at our operations in China, India and Germany. These factors were partially offset by lower sales in other international markets. North American sales held relatively steady as lower shipments to the defense industry were offset by strong MRO activity. Currency movements had a negligible effect on sales for the period.

Gross profit

In the first quarter of fiscal 2026, gross profit from continuing operations reached $20.6 million, up from $16.8 million last year. The variation reflects a higher business volume which improved the absorption of fixed production overhead costs, a more favorable product mix this year compared to last, lower material costs and lower provisions for aging inventory. Currency movements had no effect on gross profit for the period. As a percentage of sales, gross profit was 28.6%, compared to 27.6% last year.

Administration costs

Administration costs from continuing operations amounted to $18.3 million, or 25.4% of sales, in the first quarter of fiscal 2026, compared to $15.4 million, or 25.2% of sales, in the first quarter of fiscal 2025. The variation reflects higher sales commissions and higher professional fees.

Restructuring expenses

In the first quarter of fiscal 2026, the Company incurred restructuring expenses of $5.4 million, including $6.1 million in transaction-related costs, partially offset by a $0.7 million reversal of asbestos-related costs. In the first quarter of fiscal 2025, restructuring expenses consisted of asbestos-related costs of $2.3 million.

EBITDA[1] and Adjusted EBITDA[1]

In the first quarter of fiscal 2026, EBITDA from continuing operations was negative $1.4 million compared to positive $0.4 million last year. Excluding restructuring expenses, adjusted EBITDA from continuing operations for the first quarter of fiscal 2026 was $4.0 million, versus $2.8 million in the first quarter of fiscal 2025. The increase is primarily attributable to higher gross profit, partially offset by higher administration costs, as explained above.

Finance costs or income (net)

Net finance costs from continuing operations amounted to $0.4 million in the first quarter of fiscal 2026, versus net finance costs of $0.2 million a year ago. The variation reflects lower finance income due to a reduction in interest rates this year compared to last.

Income taxes (recovery)

For the first quarter of fiscal 2026, the income tax recovery from continuing operations was $22.0 million, compared to an income tax expense of $0.4 million last year. The variation mainly reflects a $23.1 million non-recurring tax recovery related to the disposal of the French subsidiaries.

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

For the first quarter of fiscal 2026, net income from continuing operations was $17.8 million, or $0.83 per share, compared to a net loss of $2.2 million, or a loss of $0.10 per share, in the first quarter of fiscal 2025. Excluding restructuring expenses and the non-recurring tax recovery on the France transaction, adjusted net income from continuing operations was $0.1 million, or $0.00 per share, in the first quarter of fiscal 2026, versus adjusted net income of $0.2 million, or $0.01 per share, in the first quarter of fiscal 2025.

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

Net income from discontinued operations was $59.4 million, or $2.75 per share, in the first quarter of fiscal 2026, versus net income from discontinued operations of $1.1 million, or $0.05 per share, in the first quarter of fiscal 2025. Results from discontinued operations are detailed below.

As a result, net income for the period was $77.2 million, or $3.58 per share, compared with a net loss of $1.1 million, or $0.05 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. Results from discontinued operations for the quarter ended May 31, 2025, include a gain of $95.8 million on the disposal of French subsidiaries Velan SAS and Segault as well as the recognition of a cumulative translation adjustment of $12.5 million. Details are as follows:

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

SUMMARY OF QUARTERLY RESULTS

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

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

								Quarters ended
(in thousands, excluding per share amounts)	**May 2025**	**February 2025**	**November 2024**	**August 2024**	**May 2024**	**February 2024**	**November 2023**	**August 2023**
Sales from continuing operations	$72,229	$83,198	$73,404	$77,696	$60,898	$80,847	$62,842	$63,196
Net income (loss) from continuing operations	17,826	(16,056)	(47,835)	(1,168)	(2,187)	(8,462)	(9,683)	(4,550)
per share – basic and diluted	0.83	(0.74)	(2.22)	(0.05)	(0.10)	(0.39)	(0.45)	(0.21)
Net income (loss) from discontinued operations	59,379	3,636	(14,262)	1,289	1,083	6,379	2,433	2,430
per share – basic and diluted	2.70	0.17	(0.66)	0.06	0.05	0.29	0.11	0.11
Net income (loss)	77,205	(12,420)	(62,097)	121	(1,104)	(2,083)	(7,250)	(2,120)
per share – basic and diluted	3.58	(0.57)	(2.88)	0.01	(0.05)	(0.10)	(0.34)	(0.10)
Adjusted EBITDA from continuing operations	3,976	3,620	14,260	6,746	2,846	9,281	(4,629)	1,240
Adjusted net income (loss) from continuing operations	90	(4,899)	8,502	2,754	242	3,689	(8,383)	(3,184)
per share – basic and diluted	0.00	(0.23)	0.39	0.13	0.01	0.17	(0.39)	(0.15)

FINANCIAL POSITION

Assets

As at May 31, 2025, total assets stood at $334.9 million, down from $502.0 million as at February 28, 2025, reflecting the disposition of the French assets.

Current assets amounted to $270.2 million as at May 31, 2025, down from $418.9 million as at February 28, 2025. The variation reflects the disposal of assets held for sale of $176.8 million during the period, partially offset by a $24.2 million increase in cash and cash equivalents, reflecting net proceeds from the transactions, and a $3.1 million increase in inventories.

Non-current assets totalled $64.8 million as at May 31, 2025, down from $83.1 million as at February 28, 2025. The variation reflects a decrease of $19.8 million in the value of deferred taxes following the sale of the French subsidiaries. This factor was partially offset by a $0.9 million increase in the value of property plant and equipment and by a $0.6 million increase in the value of intangible assets.

Liabilities

As at May 31, 2025, total liabilities amounted to $154.7 million, down from $403.2 million as at February 28, 2025, reflecting the disposition of the French liabilities and of asbestos-related provisions.

Current liabilities stood at $120.0 million as at May 31, 2025, down from $374.3 million as at February 28, 2025. The variation is attributable to a $144.2 million reduction in provisions and to the disposal of liabilities held for sale of $110.9 million, both related to transactions completed during the first quarter.

The value of non-current liabilities was $34.6 million as at May 31, 2025, up from $28.9 million as at February 28, 2025. The variation mainly reflects a $5.1 million increase in the non-current portion of customer deposits.

Equity

As at May 31, 2025, total equity was $180.3 million, versus $98.7 million as at February 28, 2025. The variation is attributable to a $72.0 million increase in retained earnings reflecting the Company's net income for the first quarter of fiscal 2026, which included the gain on the sale of the French assets.

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

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

						As at May 31, 2025
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	16,396	2,194	3,358	2,374	12,654	20,580
Long-term lease liabilities	6,211	1,661	2,929	1,254	783	6,627
Accounts payable and accrued liabilities	85,392	85,392	-	-	-	85,392
Customer deposits	25,003	16,019	8,984	-	-	25,003
Derivative liabilities	525	525	-	-	-	525

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

As at May 31, 2025, the Company is in compliance with all covenants related to its debt and credit facilities.

On May 31, 2025, the Company's order backlog was $286.1 million. The Company believes that its net cash, subject to certain local exchange control restrictions, along with future cash flows generated from operations, are sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute its business strategy. However, there can be no assurance that the risk of an event, such as a sharp downturn in the economy or an escalating trade dispute, 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 ended May 31, 2025

(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	
(thousands)	**May 31, 2025**	**May 31, 2024**
Net cash from continuing operations – Beginning of period	32,364	27,283
From continuing operations		
Cash provided (used) by operating activities before net change in provisions	(15,457)	12,045
Net change in provisions	(144,561)	(127)
Cash provided (used) by operating activities	(160,018)	11,918
Cash used by investing activities excluding proceeds on disposal of French assets	(997)	(3,037)
Proceeds on disposal of French assets	183,143	-
Cash provided (used) by investing activities	182,146	(3,037)
Cash used by financing activities	(206)	(4,010)
Effect of exchange rate differences on cash	1,498	(532)
Net change in cash from continuing operations	23,420	4,338
Net change in cash from discontinued operations	9,525	(6,762)
Net change in cash and cash equivalents	32,944	(2,424)
Net cash from continuing operations – end of period	**55,784**	**31,621**

Operating activities

For the three-month period ended May 31, 2025, cash used by operating activities from continuing operations was $160.0 million, compared to a cash generation of $11.9 million in the corresponding period a year earlier. The unfavorable movement in cash is attributable to negative changes in non-cash working capital movements.

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

	Three-month periods ended	
(thousands)	**May 31, 2025**	**May 31, 2024**
Accounts receivable	216	11,470
Inventories	(757)	(5,829)
Income tax recoverable	(714)	(259)
Deposits and prepaid expenses	(22)	634
Accounts payable and accrued liabilities	(6,258)	2,686
Income tax payable	(1,344)	(50)
Customer deposits	(7,180)	6,469
Provisions	(144,561)	(127)
Changes in non-cash working capital items	**(160,620)**	**14,994**

For the quarter ended May 31, 2025, negative non-cash working capital movements were mainly due to a decrease in provisions following the closing of the asbestos-related transaction, and to a decrease in customer deposits due to lower bookings this year compared to last.

Investing activities

Cash provided by investing activities from continuing operations for the quarter ended May 31, 2025, was $182.1 million reflecting net proceeds of $183.1 million on disposal of the French subsidiaries, partially offset by additions to property, plant and equipment, net of disposal, of $1.0 million. For the quarter ended May 31, 2024, cash used by investing activities from continuing operations was $3.0 million mainly reflecting additions of $1.7 million to property, plant and equipment, of $0.8 million to intangible assets, and a $0.4 million increase in short-term investments.

Financing activities

During the first quarter of fiscal 2026, cash used by financing activities from continuing operations was $0.2 million reflecting repayment of long-term lease liabilities of $0.4 million partially offset by a net increase of $0.2 million in long-term debt. In the first quarter of fiscal 2025, cash used by financing activities from continuing operations was $4.0 million essentially due to a $3.6 million net reduction in long-term debt.

FOREIGN EXCHANGE RATES

The following table shows certain average and closing exchange rates applicable to Velan's three-month periods ended May 31, 2025, and 2024. Average exchange rates are used to translate foreign-denominated sales and expenses in U.S. dollars for the periods mentioned, while closing rates are used to translate foreign-denominated assets and liabilities in U.S. dollars as at the end of the periods.

		Three-month periods ended	
		May 31, 2025	**May 31, 2024**
US$/CDN$	Average	**0.7110**	0.7337
	Closing	**0.7268**	0.7333
US$/Euro	Average	**1.1098**	1.0803
	Closing	**1.1339**	1.0852

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 May 31, 2025, and February 28, 2025, are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	May 31, 2025	February 28, 2025	May 31, 2025	February 28, 2025	May 31, 2025	February 28, 2025
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 15 months	-	-	-	-	-	-
Buy US$ for CA$ - 0 to 15 months	-	-	-	-	-	-
Sell € for US$ - 0 to 12 months	-	-	-	-	-	-
Buy € for US$ - 0 to 12 months	1.05 to 1.08	1.04 to 1.10	680	(405)	US$9,000	US$15,005

Foreign exchange forward contracts are contracts whereby the Company has the obligation to sell or buy the currencies at the strike price. The fair value of the foreign currency instruments is recorded in the consolidated statement of loss and reflects the estimated amounts the Company would have paid or received to settle these contracts as at the financial position date. Unrealized gains are recorded as derivative assets and unrealized losses as derivative liabilities on the consolidated statement of financial position.

Cash flow and fair value interest rate risk

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

Credit risk

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at May 31, 2025, three (February 28, 2025 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 11.3% (February 28, 2025 – 15.8%) and the Company's ten largest customers accounted for 51.7% (February 28, 2025 – 52.8%) of trade accounts receivable. In addition, one customer accounted for 13.6% of the Company's sales (February 28, 2025 – 13.6%).

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

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

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

		As at
(thousands)	May 31, 2025 $	February 28, 2025 $
Current	35,996	34,636
Past due 0 to 30 days	8,064	10,866
Past due 31 to 90 days	11,115	5,313
Past due more than 90 days	3,523	3,285
	58,698	54,100
Less: Loss allowance	(388)	(381)
	58,310	53,719
Other receivables	3,539	8,893
Total accounts receivable	**61,849**	**62,612**

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

		Fiscal years ended
(thousands)	May 31, 2025 $	May 31, 2024 $
Balance – Beginning of the year	381	224
Loss allowance expense	0	0
Recoveries of trade accounts receivables	0	0
Write-off of trade accounts receivable	0	0
Foreign exchange	7	1
Balance – End of the period	**388**	**381**

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

CERTAIN RISKS THAT COULD AFFECT THE COMPANY’S BUSINESS

The Company lists the various risks that could affect its business in the MD&A for the fiscal year ended February 28, 2025. The Company has no changes to report as at May 31, 2025, except for the asbestos litigation risk which is no longer a factor following the completion of the Asbestos Divestiture Transaction on April 3, 2025.

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 May 31, 2025, 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 28, 2025.

Accounting standards and amendments issued but not yet adopted

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

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

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

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

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

IFRS 18 introduces three new elements designed to improve the presentation of information in financial statements. It introduces three new categories of revenue and expense (operating, investing, and financing) to improve the comparability of income statements between companies. In addition, *IFRS 18* aims to improve the transparency of performance indicators defined by management. Finally, *IFRS 18* provides guidance on how to present information in financial statements. The Company is currently evaluating the impact of adopting *IFRS 18,* which will be applicable to fiscal years beginning on or after January 1, 2027.

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	
(in thousands, except per share amounts; certain totals may not add up due to rounding)	**May 31, 2025 $**	**May 31, 2024 $**
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	17,826	(2,187)
Adjustments for:		
Asbestos-related costs	(754)	2,340
Transaction-related costs	6,128	-
Other restructuring expenses	-	89
Non-recurring tax recovery on France transaction	(23,110)	-
Adjusted net income (loss) from continuing operations	**90**	**242**
per share – basic and diluted	0.00	0.01
Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations		
Net income (loss) from continuing operations	17,826	(2,187)
Adjustments for:		
Depreciation of property, plant and equipment	1,573	1,349
Amortization of intangible assets and financing costs	771	623
Finance costs – net	390	194
Income tax expense (recovery)	(21,958)	406
EBITDA	**(1,398)**	**385**
Adjustments for:		
Asbestos-related costs	(754)	2,340
Transaction-related costs	6,128	-
Other restructuring expenses	-	121
Adjusted EBITDA	**3,976**	**2,846**

The term "Adjusted net income (loss)" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus adjustment, net of income taxes, for costs related to the proposed transaction, restructuring, and asbestos provision. The terms "Adjusted net income (loss) per share" is obtained by dividing Adjusted net income (loss) by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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

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.