



MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended August 31, 2025

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the second quarter ended August 31, 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 October 9, 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 1,265 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.

SECOND QUARTER RESULTS FROM CONTINUING OPERATIONS

IFRS MEASURES

- Sales of \$67.6 million, versus \$77.7 million last year, reflecting the rescheduling of more than \$12 million in sales to later in the fiscal year, largely related to customer changes in original delivery schedules, and the disruptive effects of ongoing changes in global tariff schemes.
- Gross profit of \$15.7 million, or 23.2% of sales, compared to \$20.0 million, or 25.7% of sales, last year.
- Operating income of \$0.4 million, compared to an operating loss of \$0.3 million a year ago.
- Net loss¹ of \$1.7 million, or \$0.08 per share, versus a net loss of \$1.2 million, or \$0.06 per share, last year.
- Strong financial position with a net cash position of \$29.5 million as at August 31, 2025, versus \$32.4 million at the beginning of the fiscal year, and access to total liquidity of approximately \$96 million.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Backlog² of \$285.8 million, up 4.0% since the beginning of the fiscal year.
- Bookings² of \$65.2 million, versus \$88.4 million last year which included new strategic projects for the nuclear power market with typically long lead times.
- Adjusted net loss² of \$1.2 million, versus adjusted net income of \$2.8 million last year.
- Adjusted EBITDA² of \$3.4 million, compared to \$6.7 million last year.

SIX MONTHS RESULTS FROM CONTINUING OPERATIONS

IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS

(see "Significant Transactions" section on page 9)

- Sales of \$139.8 million, up \$1.2 million or 0.9% compared to the same period last year.
- Gross profit of \$36.3 million, or 26.0% of sales, versus \$36.8 million, or 26.5% of sales, last year.
- Operating loss of \$3.4 million, compared to an operating loss of \$2.0 million a year ago.
- Net income of \$16.2 million, or \$0.75 per share, versus a net loss of \$3.4 million last year, or \$0.16 per share last year.
- Net income of \$74.8 million considering discontinued operations, including gain on disposal of French assets.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Bookings of \$143.4 million, versus \$171.4 million last year.
- Adjusted net loss² of \$1.1 million, versus adjusted net income of \$3.0 million last year.
- Adjusted EBITDA² of \$7.1 million, compared to \$9.6 million last year.

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			Six-month periods ended		
(thousands)	August 31, 2025	August 31, 2024	Variance	August 31, 2025	August 31, 2024	Variance
From continuing operations						
Sales	67,611	77,696	(10,085)	139,840	138,594	1,246
Gross profit	15,675	19,954	(4,279)	36,301	36,782	(481)
Administration costs	15,377	15,977	(600)	33,690	31,345	2,345
Restructuring expenses	690	4,493	(3,803)	6,064	6,833	(769)
Other expense (income)	(777)	(175)	(602)	(45)	588	(633)
Operating income (loss)	385	(341)	726	(3,408)	(1,984)	(1,424)
Net income (loss)	(1,660)	(1,168)	(492)	16,166	(3,355)	19,521
Net income (loss) from discontinued operations	(780)	1,289	(2,069)	58,599	2,372	56,227
Net income (loss)	(2,440)	121	(2,561)	74,765	(983)	75,748
(as a percentage of sales)						
Gross profit from continuing operations	23.2%	25.7%	(250) bps	26.0%	26.5%	(50) bps
(in dollars per share – basic and diluted)						
Net income (loss) from continuing operations	(0.08)	(0.05)	(0.03)	0.75	(0.16)	0.91
Net income (loss) from discontinued	(0.03)	0.06	(0.09)	2.71	0.11	2.60
Net income (loss)	(0.11)	0.01	(0.12)	3.46	(0.05)	3.51

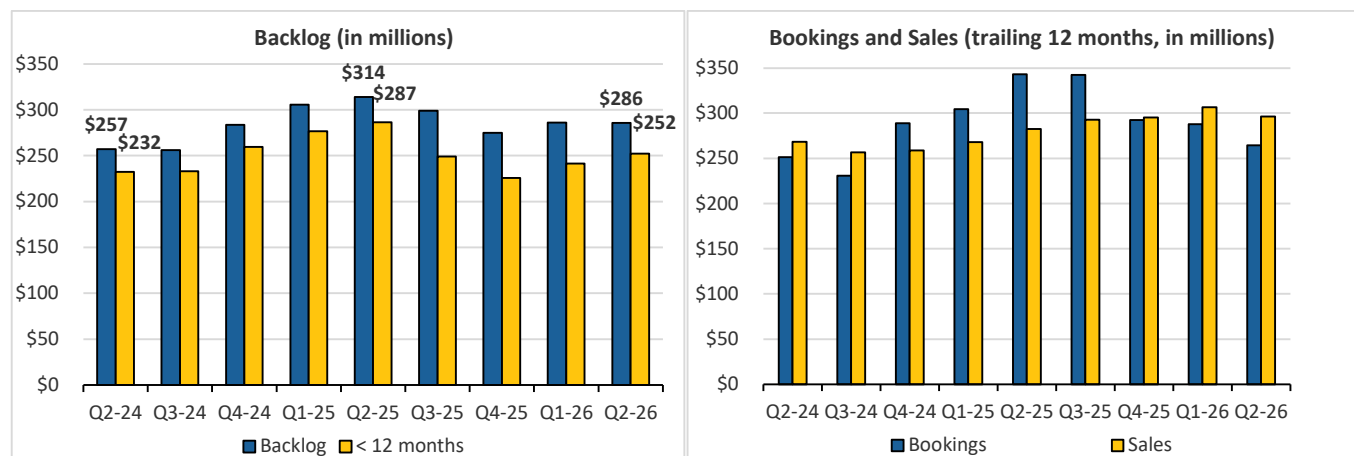
NON-IFRS	Three-month periods ended			Six-month periods ended		
(thousands)	August 31, 2025	August 31, 2024	Variance	August 31, 2025	August 31, 2024	Variance
From continuing operations						
Adjusted EBITDA	3,358	6,746	(3,388)	7,138	9,592	(2,454)
Adjusted net income (loss)	(1,153)	2,754	(3,907)	(1,063)	2,997	(4,060)
Adjusted net income (loss) per share – basic and diluted	(0.05)	0.13	(0.18)	(0.05)	0.14	(0.19)

Backlog

	As at					
(thousands)	August 31, 2025		February 28, 2025		August 31, 2024	
	\$	%	\$	%	\$	%
Backlog	285,800		274,877		313,960	
For delivery within the next 12 months	252,355	88.3%	225,662	82.1%	286,517	91.3%
For delivery between 12 and 24 months	33,445	11.7%	44,183	16.1%	20,569	6.6%
For delivery between 24 and 36 months	0	0.0%	0	0.0%	1,069	0.3%
For delivery beyond 36 months	0	0.0%	5,032	1.8%	5,805	1.8%

As at August 31, 2025, the backlog from continuing operations stood at \$285.8 million, up \$10.9 million, or 4.0%, from \$274.9 million since the beginning of the fiscal year. Currency movements had a \$9.6 million positive effect on the value of the backlog during the first six months of fiscal 2026 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 six months of fiscal 2026. As at August 31, 2025, 88.3% of the backlog, representing orders of \$252.4 million, is deliverable in the next 12 months, versus 91.3% 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

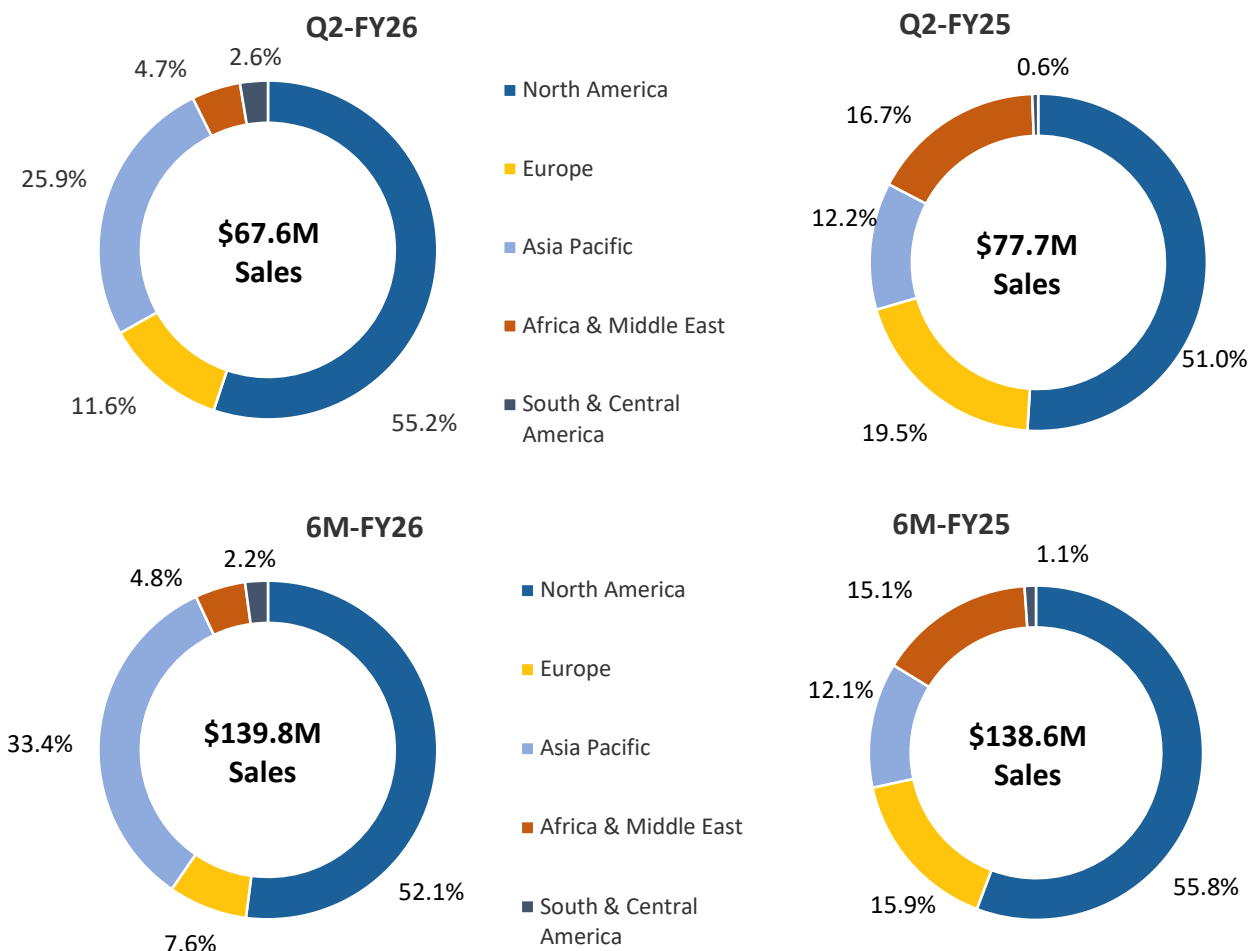
(in thousands, excluding ratio)	Three-month periods ended		Six-month periods ended	
	August 31, 2025	August 31, 2024	August 31, 2025	August 31, 2024
Bookings from continuing operations	65,165	88,408	143,399	171,377

Bookings from continuing operations amounted to \$65.2 million in the second quarter of fiscal 2026, compared to \$88.4 million in the second quarter of fiscal 2025. The decrease reflects lower bookings in North America and Germany due to large orders received in last year's second quarter and the timing of certain bookings due to tariff-related uncertainty. These factors were partially offset by higher bookings recorded by Italian operations. Currency movements had a negligible effect on the value of bookings for the quarter.

In the first half of fiscal 2026, bookings from continuing operations totaled \$143.4 million, compared to \$171.4 million in the first half of fiscal 2025. The decrease is mainly attributable to the factors mentioned above. Currency movements had a \$1.3 million positive effect on the value of bookings for the period.

Sales

Sales distribution by customer geographic location



Sales from continuing operations for the second quarter of fiscal 2026 totaled \$67.6 million, a decrease of \$10.1 million or 13.0% compared to \$77.7 million for the same period last year. The variation is mainly related to customer changes in delivery schedules on certain projects at North American and Italian operations of more than \$12 million and to the disruptive effects of ongoing changes in global tariff schemes. Last year's second quarter results also included non-recurring revenue of \$5.2 million related to a cancelled agreement for German operations. These factors were partially offset by higher sales in Korea, India and China as well as higher maintenance, repair and overhaul (MRO) sales in North America. Currency movements had a \$1.4 million positive effect on sales for the period.

For the six-month period ended August 31, 2025, sales from continuing operations amounted to \$139.8 million, an increase of \$1.2 million, or 0.9%, compared to \$138.6 million for the six-month period ended August 31, 2024. The variation reflects higher sales in Korea, India, China and Italy. These factors were mostly offset by the changes in customers' delivery schedules, the tariff effect, and last year's non-recurring revenue of \$5.2 million. Currency movements had a \$1.5 million positive effect on sales for the period.

Gross profit

In the second quarter of fiscal 2026, gross profit from continuing operations was \$15.7 million, versus \$20.0 million last year. The variation reflects a lower business volume which affected the absorption of fixed production overhead costs, a less favorable product mix this year compared to last, and the effect of tariffs on supply chain optimization as well as a timing lag between tariffs incurred and customer recovery. Currency movements had a \$0.3 million positive effect on gross profit for the period. As a percentage of sales, gross profit was 23.2%, compared to 25.7% last year.

In the first six months of fiscal 2026, gross profit from continuing operations totaled \$36.3 million, compared to \$36.8 million in the first six months of fiscal 2025. The small decrease reflects the negative effect of the factors mentioned above, mostly offset by the positive effect of higher business volume and a more favorable product mix in the first quarter. Currency movements had a \$0.3 million positive effect on gross profit for the period. As a percentage of sales, gross profit was 26.0%, compared to 26.5% last year.

Administration costs

Administration costs from continuing operations amounted to \$15.4 million, or 22.7% of sales, in the second quarter of fiscal 2026, compared to \$16.0 million, or 20.6% of sales, in the second quarter of fiscal 2025. The variation mainly reflects lower sales commissions and lower freight costs.

For the six-month period ended August 31, 2025, administration costs from continuing operations were \$33.7 million, or 24.1% of sales, compared to \$31.3 million, or 22.6% of sales, in the six-month period ended August 31, 2024. The variation is attributable to higher professional fees and higher sales commissions, partially offset by lower freight costs.

Restructuring expenses

In the second quarter of fiscal 2026, the Company incurred restructuring expenses of \$0.7 million, consisting of transaction-related costs, while in the second quarter of fiscal 2025, restructuring expenses of \$4.5 million included asbestos-related costs of \$2.3 million and transaction-related costs of \$2.2 million.

In the first half of fiscal 2026, the Company incurred restructuring expenses of \$6.1 million, including \$6.8 million in transaction-related costs, partially offset by a \$0.8 million reversal of asbestos-related costs. In the first half of fiscal 2025, restructuring expenses of \$6.8 million included asbestos-related costs of \$4.7 million transaction-related costs of \$2.2 million.

EBITDA¹ and Adjusted EBITDA¹

In the second quarter of fiscal 2026, EBITDA from continuing operations was \$2.7 million compared to \$2.3 million last year. Adjusted EBITDA from continuing operations for the second quarter of fiscal 2026, excluding restructuring expenses, was \$3.4 million, versus \$6.7 million in the second quarter of fiscal 2025. The decrease is primarily attributable to lower gross profit, partially offset by lower administration costs, as explained above.

In the first six months of fiscal 2026, EBITDA from continuing operations was \$1.1 million, compared to \$2.6 million last year. Adjusted EBITDA from continuing operations for the first half of fiscal 2026, excluding restructuring expenses, was \$7.1 million, versus \$9.6 million in the first half of fiscal 2025. The decrease is primarily attributable to higher administration costs.

Finance costs or income (net)

Net finance costs from continuing operations were \$0.2 million in the second quarter of fiscal 2026, versus \$0.3 million a year ago. The variation reflects lower interest rates and lower indebtedness this year compared to last.

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

For the first six months of fiscal 2026, net finance costs from continuing operations were \$0.6 million, versus \$0.5 million last year. The variation reflects lower finance income due to a reduction in interest rates compared to last year.

Income taxes (recovery)

For the second quarter of fiscal 2026, the income tax expense from continuing operations was \$1.8 million, compared to an income tax expense of \$0.5 million last year. The variation is mainly due to the Company's taxation being levied on a legal entity basis rather than at the consolidated level.

For the first six months of fiscal 2026, the income tax recovery from continuing operations was \$20.1 million, versus an income tax expense of \$0.9 million for the first six months of fiscal 2025. The variation mainly reflects a \$23.1 million non-recurring tax recovery related to the disposal of the French subsidiaries in the first quarter of fiscal 2026.

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

For the second quarter of fiscal 2026, net loss from continuing operations was \$1.7 million, \$0.08 per share, compared to a net loss of \$1.2 million, \$0.05 per share, a year earlier. Adjusted net loss from continuing operations, excluding restructuring expenses, was \$1.2 million, or \$0.05 per share, in the second quarter of fiscal 2026, versus adjusted net income of \$2.8 million, or \$0.13 per share, in the second quarter of fiscal 2025.

Net loss from discontinued operations for the three-month period ended August 31, 2025, was \$0.8 million, or \$0.03 per share, representing conditional transaction closing fees, versus net income from discontinued operations of \$1.3 million, or \$0.06 per share, in the three-month period ended August 31, 2024.

As a result, the net loss for the three-month period ended August 31, 2025, was \$2.4 million, \$0.11 per share, compared with net income of \$0.1 million, or \$0.01 per share, for the same period last year.

For the six-month period ended August 31, 2025, net income from continuing operations was \$16.2 million, or \$0.75 per share, compared to a net loss of \$3.4 million, \$0.16 per share, in the six-month period ended August 31, 2024., Adjusted net loss from continuing operations, excluding restructuring expenses and the non-recurring tax recovery on the France transaction, was \$1.1 million, or \$0.05 per share, in the first half of fiscal 2026, versus adjusted net income of \$3.0 million, or \$0.14 per share, in the first half of fiscal 2025.

Net income from discontinued operations was \$58.6 million, or \$2.71 per share, in the first half of fiscal 2026, versus net income from discontinued operations of \$2.4 million, or \$0.11 per share, in the first half of fiscal 2025. Results from discontinued operations are detailed below.

As a result, net income for the six-month period ended August 31, 2025, was \$74.8 million, or \$3.46 per share, compared with a net loss of \$1.0 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 six-month period ended August 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		Six-month periods ended	
	August 31, 2025	August 31, 2024	August 31, 2025	August 31, 2024
<i>(thousands)</i>	\$	\$	\$	\$
Sales	-	20,952	4,764	37,553
Cost of sales	-	14,238	3,127	23,855
Gross profit	-	6,714	1,637	13,698
Administration costs	-	5,428	1,782	10,659
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)	780	14	782	27
Operating income (loss)	(780)	1,272	82,441	3,012
Finance costs – net	-	(159)	(128)	(143)
Income (loss) before income taxes	(780)	1,431	82,569	3,155
Income tax expense	-	142	23,970	783
Net profit (loss) for the period	(780)	1,289	58,599	2,372

SIGNIFICANT TRANSACTIONS

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

The Company completed the divestiture of its asbestos-related liabilities on April 3, 2025, which 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 closed the sale of 100% of the share capital and voting rights of its French subsidiaries 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. A gain of \$95.8 million was recorded in the first quarter of fiscal 2026 and the sale also triggered the recognition of a negative cumulative translation adjustment of \$12.5 million. These amounts were recorded as part of results from discontinued operations.

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							
<i>(in thousands, excluding per share amounts)</i>	August 2025	May 2025	February 2025	November 2024	August 2024	May 2024	February 2024	November 2023
Sales from continuing operations	67,611	\$72,229	\$83,198	\$73,404	\$77,696	\$60,898	\$80,847	\$62,842
Net income (loss) from continuing operations	(1,660)	17,826	(16,056)	(47,835)	(1,168)	(2,187)	(8,462)	(9,683)
per share – basic and diluted	(0.08)	0.83	(0.74)	(2.22)	(0.05)	(0.10)	(0.39)	(0.45)
Net income (loss) from discontinued operations	(780)	59,379	3,636	(14,262)	1,289	1,083	6,379	2,433
per share – basic and diluted	(0.03)	2.70	0.17	(0.66)	0.06	0.05	0.29	0.11
Net income (loss)	(2,440)	77,205	(12,420)	(62,097)	121	(1,104)	(2,083)	(7,250)
per share – basic and diluted	(0.11)	3.58	(0.57)	(2.88)	0.01	(0.05)	(0.10)	(0.34)
Adjusted EBITDA from continuing operations	3,358	3,976	3,620	14,260	6,746	2,846	9,281	(4,629)
Adjusted net income (loss) from continuing operations	(1,153)	90	(4,899)	8,502	2,754	242	3,689	(8,383)
per share – basic and diluted	(0.05)	0.00	(0.23)	0.39	0.13	0.01	0.17	(0.39)

FINANCIAL POSITION

Assets

As at August 31, 2025, total assets stood at \$315.8 million, down from \$502.0 million as at February 28, 2025, reflecting the disposition of the French assets.

Current assets amounted to \$253.0 million as at August 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 \$5.6 million increase in accounts receivable.

Non-current assets totalled \$62.8 million as at August 31, 2025, down from \$83.1 million as at February 28, 2025. The variation reflects a decrease of \$19.5 million in the value of deferred taxes following the sale of the French subsidiaries and a \$0.8 million decrease in the value of property plant and equipment.

Liabilities

As at August 31, 2025, total liabilities amounted to \$141.8 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 \$106.7 million as at August 31, 2025, down from \$374.3 million as at February 28, 2025. The variation is attributable to a \$148.8 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 \$35.2 million as at August 31, 2025, versus \$28.9 million as at February 28, 2025. The variation mainly reflects a \$5.6 million increase in the non-current portion of customer deposits.

Equity

As at August 31, 2025, total equity was \$173.9 million, versus \$98.7 million as at February 28, 2025. The variation is due to a \$68.0 million increase in retained earnings reflecting net income for the first six months of fiscal 2026, which included the gain on the sale of the French assets, partially offset by dividend payments of \$6.8 million.

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 August 31, 2025						
<i>(thousands)</i>	Carrying value \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$	Total \$
Long-term debt	15,913	1,961	3,146	2,359	12,357	19,823
Long-term lease liabilities	6,016	1,666	2,835	1,143	1,529	7,173
Accounts payable and accrued liabilities	74,598	74,598	-	-	-	74,598
Customer deposits	24,457	14,564	9,893	-	-	24,457

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

On August 31, 2025, the Company's order backlog was \$285.8 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 – three- and six-month periods ended August 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		Six-month periods ended	
(thousands)	August 31, 2025	August 31, 2024	August 31, 2025	August 31, 2024
Net cash from continuing operations – Beginning of period	55,784	31,620	32,364	27,283
From continuing operations				
Cash provided (used) by operating activities before net change in provisions	(15,979)	4,651	(31,378)	17,027
Net change in provisions	<u>(1,119)</u>	<u>2,636</u>	<u>(145,680)</u>	<u>2,178</u>
Cash provided (used) by operating activities	(17,098)	7,287	(177,058)	19,205
Cash used by investing activities excluding proceeds on disposal of French assets	(848)	656	(1,846)	(2,381)
Proceeds on disposal of French assets	<u>(780)</u>	<u>-</u>	<u>182,363</u>	<u>-</u>
Cash provided (used) by investing activities	(1,628)	656	180,517	(2,381)
Cash used by financing activities	(7,730)	(2,580)	(7,936)	(6,590)
Effect of exchange rate differences on cash	<u>149</u>	<u>62</u>	<u>1,590</u>	<u>(475)</u>
Net change in cash from continuing operations	(26,307)	5,424	(2,887)	9,761
Net change in cash from discontinued operations	780	1,826	8,745	(4,939)
Net change in cash and cash equivalents	(25,527)	7,250	5,857	4,821
Net cash from continuing operations – end of period	29,477	37,044	29,477	37,044

Operating activities

For the three-month period ended August 31, 2025, cash used by operating activities from continuing operations was \$17.1 million, compared to a cash generation of \$7.3 million in the corresponding period last year. The unfavorable movement in cash is attributable to lower profitability and negative changes in non-cash working capital movements.

For the six-month period ended August 31, 2025, cash used by operating activities from continuing operations was \$177.1 million, compared to a cash generation of \$19.2 million in the corresponding period last year. 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		Six-month periods ended	
(thousands)	August 31, 2025	August 31, 2024	August 31, 2025	August 31, 2024
Accounts receivable	(1,508)	(9,166)	(1,292)	4,824
Inventories	1,108	(5,400)	351	(4,246)
Income taxes recoverable	1,183	(554)	469	291
Deposits and prepaid expenses	(405)	483	(427)	1,385
Accounts payable and accrued liabilities	(16,050)	6,833	(22,308)	5,421
Income taxes payable	306	(1,137)	(1,038)	(1,641)
Customer deposits	(1,323)	3,994	(8,503)	4,471
Provisions	(1,119)	2,636	(145,680)	2,178
	(17,808)	(2,311)	(178,428)	(12,684)

For the quarter ended August 31, 2025, negative non-cash working capital movements were mainly due to higher work in process inventory related to changes in delivery schedules and lower accounts payable and accrued liabilities.

For the six-month period ended August 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 a decrease in accounts payable and accrued liabilities.

Investing activities

Cash used by investing activities from continuing operations for the quarter ended August 31, 2025, was \$1.6 million reflecting net additions of \$0.8 million to property plant and equipment, and \$0.8 million in subsequent adjustments to proceeds on disposal of the French subsidiaries. For the quarter ended August 31, 2024, investing activities from continuing operations provided cash of \$0.7 million as a \$1.1 million decrease in short-term investments and a \$0.7 million disposal of intangible assets were partially offset by net additions to property plant and equipment of \$1.2 million.

For the six-month period ended August 31, 2025, cash provided by investing activities from continuing operations amounted to \$180.5 million essentially reflecting net proceeds of \$182.4 million on disposal of the French subsidiaries. For the six-month period ended August 31, 2024, cash used by investing activities from continuing operations was \$2.4 million mainly reflecting net additions of \$2.9 million to property, plant and equipment, partially offset by a \$0.7 million decrease in short-term investments.

Financing activities

During the second quarter of fiscal 2026, cash used by financing activities from continuing operations was \$7.7 million reflecting dividends paid of \$6.8 million and a net reduction of \$0.6 million in long-term debt. In the second quarter of fiscal 2025, cash used by financing activities from continuing operations was \$2.6 million essentially due to a \$3.0 million reduction in the revolving credit facility.

During the first half of fiscal 2026, cash used by financing activities from continuing operations was \$7.9 million reflecting dividends paid of \$6.8 million and the repayment of \$0.8 million in long-term lease liabilities. In the first half of fiscal 2025, cash used by financing activities from continuing operations totaled \$6.6 million mainly due to net repayment of long-term debt of \$3.2 million and a \$3.0 million reduction in the revolving credit facility.

FOREIGN EXCHANGE RATES

The following table shows certain average and closing exchange rates applicable to Velan's three- and six-month periods ended August 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		Six-month periods ended	
		August 31, 2025	August 31, 2024	August 31, 2025	August 31, 2024
US\$/CDN\$	Average	0.7289	0.7305	0.7199	0.7321
	Closing	0.7277	0.7412	0.7277	0.7412
US\$/Euro	Average	1.1610	1.0875	1.1360	1.0840
	Closing	1.1658	1.1087	1.1658	1.1087

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

The Company's financial risk management is generally carried out by the corporate finance team, based on policies approved by the Board of Directors. The identification, evaluation and hedging of the financial risks are the

responsibility of the corporate finance team in conjunction with the finance teams of the Company's subsidiaries. The Company uses derivative financial instruments to hedge certain risk exposures. Use of derivative financial instruments is subject to a policy which requires that no derivative transaction be entered into for the purpose of establishing a speculative or leveraged position (the corollary being that all derivative transactions are to be entered into for risk management purposes only).

Market risk

Currency risk

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

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

The amounts outstanding as at August 31, 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)	
	August 31, 2025	February 28, 2025	August 31, 2025	February 28, 2025	August 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	1.13 to 1.17	1.04 to 1.10	599	(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 August 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 22.7% (February 28, 2025 – 15.8%) and the Company's ten largest customers accounted for 59.0% (February 28, 2025 – 52.8%) of trade accounts receivable. In addition, one customer accounted for 13.7% 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	
	August 31, 2025	February 28, 2025
<i>(thousands)</i>	\$	\$
Current	40,971	34,636
Past due 0 to 30 days	6,447	10,866
Past due 31 to 90 days	7,530	5,313
Past due more than 90 days	8,652	3,285
	63,599	54,100
Less: Loss allowance	(391)	(381)
	63,208	53,719
Other receivables	5,001	8,893
Total accounts receivable	68,209	62,612

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

	Six-month periods ended	
	August 31, 2025	August 31, 2024
<i>(thousands)</i>	\$	\$
Balance – Beginning of the year	381	224
Loss allowance expense	-	-
Recoveries of trade accounts receivables	-	-
Write-off of trade accounts receivable	-	-
Foreign exchange	10	1
Balance – End of the period	391	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 August 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 August 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		Six-month periods ended	
<i>(in thousands, except per share amounts; certain totals may not add up due to rounding)</i>	August 31, 2025 \$	August 31, 2024 \$	August 31, 2025 \$	August 31, 2024 \$
<i>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</i>				
Net income (loss) from continuing operations	(1,660)	(1,168)	16,166	(3,355)
<i>Adjustments for:</i>				
Asbestos-related costs	-	2,341	(754)	4,681
Transaction-related costs	507	1,582	6,635	1,582
Other restructuring expenses	-	-	-	89
Non-recurring tax recovery on France transaction	-	-	(23,110)	-
Adjusted net income (loss) from continuing operations	(1,153)	2,754	(1,063)	2,997
per share – basic and diluted	(0.05)	0.13	(0.05)	0.14
<i>Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations</i>				
Net income (loss) from continuing operations	(1,660)	(1,168)	16,166	(3,355)
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	1,723	2,196	3,352	3,545
Amortization of intangible assets and financing costs	541	364	1,060	987
Finance costs – net	244	331	634	525
Income tax expense (recovery)	1,820	531	(20,138)	937
EBITDA	2,668	2,254	1,074	2,638
<i>Adjustments for:</i>				
Asbestos-related costs	-	2,341	(754)	4,681
Transaction-related costs	690	2,152	6,818	2,152
Other restructuring expenses	-	-	-	121
Adjusted EBITDA	3,358	6,746	7,138	9,592

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 term "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.