VELAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Third quarter ended November 30, 2025

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the third quarter ended November 30, 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 January 14, 2026. 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 1,283 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.

THIRD QUARTER RESULTS FROM CONTINUING OPERATIONS

IFRS MEASURES

- Sales of $71.7 million, versus $73.4 million last year.
- Gross profit of $27.2 million, or 37.9% of sales, compared to $28.3 million, or 38.6% of sales, last year.
- Operating income of $5.9 million, compared to an operating loss of $62.4 million a year ago.
- Net income[1] of $3.0 million, or $0.14 per share, versus a net loss of $47.8 million, or a loss of $2.22 per share, last year.
- Solid financial position with access to total liquidity of approximately $86 million and a net cash position of $20.2 million as at November 30, 2025.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Backlog[2] of $296.8 million, up 8.0% since the beginning of the fiscal year.
- Bookings[2] of $77.9 million, versus $59.1 million last year.
- Adjusted net income[2] of $4.0 million, versus adjusted net income of $8.5 million last year.
- Adjusted EBITDA[2] of $9.5 million, compared to $14.3 million last year.

NINE MONTHS RESULTS FROM CONTINUING OPERATIONS

IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS

(see "Significant Transactions" section on page 9)

- Sales of $211.5 million, compared to $212.0 million for the same period last year.
- Gross profit of $63.5 million, or 30.0% of sales, versus $65.1 million, or 30.7% of sales, last year.
- Operating income of $2.4 million, compared to an operating loss of $64.4 million a year ago.
- Net income of $19.2 million, or $0.89 per share, versus a net loss of $51.2 million, or a loss of $2.37 per share last year.
- Net income of $77.8 million, including discontinued operations, compared to a net loss of $63.1 million for the same period last year.

NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Bookings of $221.3 million, versus $230.5 million last year.
- Adjusted net income[2] of $2.9 million, versus adjusted net income of $11.5 million last year.
- Adjusted EBITDA[2] of $16.7 million, compared to $23.9 million last year.

SUBSEQUENT EVENT

On January 14, 2026, the Company announced that its controlling shareholder, Velan Holding Co. Ltd. ("Velan Holding"), the sole holder of the Company's multiple voting shares, has agreed to sell its 15,566,567 multiple voting shares (representing approximately 72.1% of the Company's outstanding shares and 92.8% of its aggregate voting rights) and one subordinate voting share to funds managed by Birch Hill Equity Partners Management Inc. ("Birch

[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.*

Hill”), at a price of C$13.10 per share, for aggregate gross proceeds of C$203,922,040.80 to Velan Holding and two other entities associated with shareholders of Velan Holding (the “VH Transaction”). Pursuant to a pre-closing reorganization, Velan Holding will, among other things, convert 2,290,075 multiple voting shares into the same number of subordinate voting shares. Therefore, giving effect to such pre-closing reorganization, 13,276,492 multiple voting shares and 2,290,076 subordinate voting shares will be sold to Birch Hill on closing of the VH Transaction (representing approximately 72.1% of the Company’s outstanding shares and 91.9% of its aggregate voting rights) (collectively the “VH Transaction Shares”).

The VH Transaction is expected to close in the first half of 2026, subject to the receipt of the required regulatory approvals and other customary closing conditions. The completion of the VH Transaction is not subject to any financing condition or approval by the Company’s shareholders. The Company estimates that transaction related fees will be approximately $12 million, as well as additional change of control triggered costs of approximately $5 million relating mostly to the vesting and accelerated vesting of various incentive plans already in place at the time of the transaction. Of this total amount, $4 million has already been paid or accrued.

RESULTS OF OPERATIONS

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

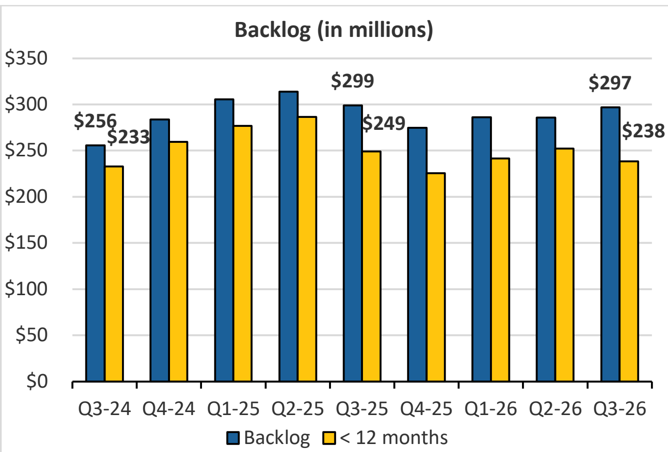
IFRS	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2025**	**November 30, 2024**	*Variance*	**November 30, 2025**	**November 30, 2024**	*Variance*
From continuing operations						
Sales	71,660	73,404	*(1,744)*	211,500	211,998	*(498)*
Gross profit	27,177	28,305	*(1,128)*	63,478	65,087	*(1,609)*
Administration costs	16,457	17,003	*(546)*	50,147	48,348	*1,799*
Restructuring expenses	1,305	74,468	*(73,163)*	7,369	81,301	*(73,932)*
Other expense (income)	3,565	(782)	*4,347*	3,520	(192)	*3,712*
Operating income (loss)	5,850	(62,384)	*68,234*	2,442	(64,370)	*66,812*
Net income (loss)	2,996	(47,835)	*50,831*	19,162	(51,191)	*70,353*
Net income (loss) from discontinued operations	-	(14,262)	*14,262*	58,599	(11,890)	*70,489*
Net income (loss)	2,996	(62,097)	*65,093*	77,761	(63,081)	*140,842*
(as a percentage of sales)						
Gross profit from continuing operations	37.9%	38.6%	*(70 bps)*	30.0%	30.7%	*(70 bps)*
(in dollars per share - basic and diluted)						
Net income (loss) from continuing operations	0.14	(2.22)	*2.36*	0.89	(2.37)	*3.26*
Net income (loss) from discontinued	-	(0.66)	*0.66*	2.71	(0.55)	*3.26*
Net income (loss)	0.14	(2.88)	*3.02*	3.60	(2.92)	*6.52*

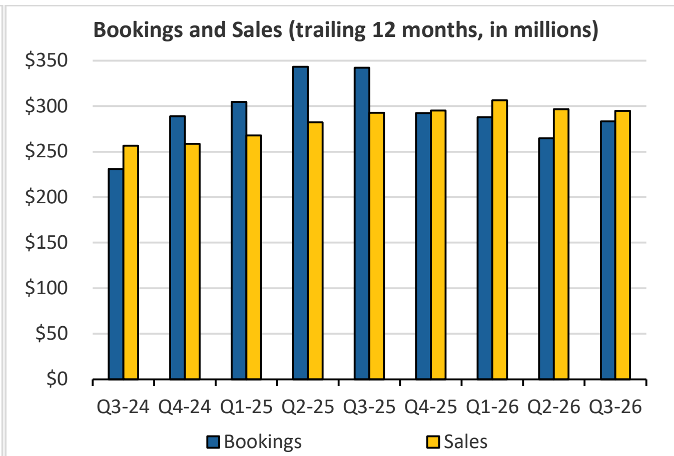
NON-IFRS	Three-month periods ended			Nine-month periods ended		
(thousands)	**November 30, 2025**	**November 30, 2024**	*Variance*	**November 30, 2025**	**November 30, 2024**	*Variance*
From continuing operations						
Adjusted EBITDA	9,542	14,260	*(4,718)*	16,680	23,852	*(7,172)*
Adjusted net income (loss)	3,955	8,502	*(4,547)*	2,892	11,499	*(8,607)*
Adjusted net income (loss) per share – basic and diluted	0.18	0.39	*(0.21)*	0.13	0.53	*(0.40)*

Backlog

	As at					
(thousands)	November 30, 2025 $	%	February 28, 2025 $	%	November 30, 2024 $	%
Backlog	296,776		274,877		298,685	
For delivery within the next 12 months	238,481	80.4%	225,662	82.1%	249,144	83.4%
For delivery between 12 and 24 months	58,295	19.6%	44,183	16.1%	44,434	14.9%
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%	5,107	1.7%

As at November 30, 2025, the backlog from continuing operations stood at $296.8 million, up $21.9 million, or 8.0%, from $274.9 million since the beginning of the fiscal year. Currency movements had an $8.9 million positive effect on the value of the backlog during the first nine 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 nine months of fiscal 2026. As at November 30, 2025, 80.4% of the backlog, representing orders of $238.5 million, is deliverable in the next 12 months, versus 83.4% 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

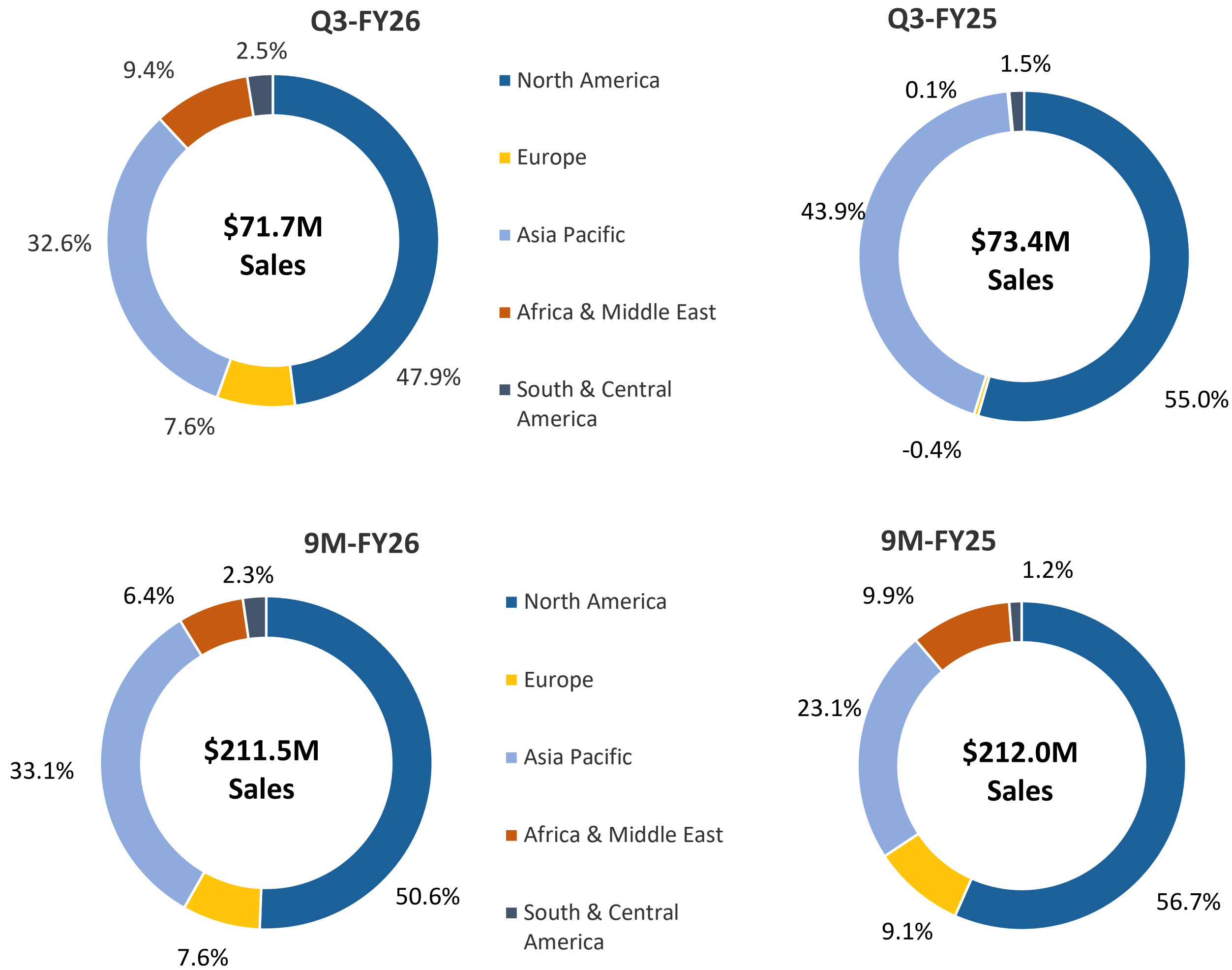
	Three-month periods ended		Nine-month periods ended	
(thousands)	November 30, 2025	November 30, 2024	November 30, 2025	November 30, 2024
Bookings from continuing operations	77,927	59,096	221,326	230,474

Bookings from continuing operations amounted to $77.9 million in the third quarter of fiscal 2026, compared to $59.1 million in the third quarter of fiscal 2025. The increase reflects higher bookings by North American operations from the nuclear and oil & gas sectors, as well as higher bookings recorded by Italian and Chinese operations. These factors were partially offset by lower bookings recorded by German operations due to large orders received in last year's third quarter. Currency movements had a negligible effect on the value of bookings for the quarter.

In the first nine months of fiscal 2026, bookings from continuing operations totaled $221.3 million, compared to $230.5 million for the same period in fiscal 2025. The decrease is mainly attributable to lower bookings recorded in North America and Germany due to large orders received last year, partially offset by higher bookings recorded by Italian operations. Currency movements had a $0.8 million positive effect on the value of bookings for the period.

Sales

Sales distribution by customer geographic location



Sales from continuing operations for the third quarter of fiscal 2026 totaled $71.7 million, a decrease of $1.7 million or 2.4% compared to $73.4 million for the same period last year. The variation reflects lower shipments from Italian operations, following strong sales in last year's third quarter, partially offset by higher sales from Indian and German operations. Currency movements had a $0.6 million positive effect on sales for the period.

For the nine-month period ended November 30, 2025, sales from continuing operations amounted to $211.5 million, a decrease of $0.5 million, or 0.2%, compared to $212.0 million for the nine-month period ended November 30, 2025. The variation reflects changes in customers' delivery schedules, disruptive effects related to the ongoing evolution of global tariff schemes, and non-recurring revenue of $5.2 million in last year's nine-month period. These factors were mostly offset by higher sales in Korea and India. Currency movements had a $2.1 million positive effect on sales for the period.

Gross profit

In the third quarter of fiscal 2026, gross profit from continuing operations was $27.2 million, versus $28.3 million last year. As a percentage of sales, gross profit remained relatively steady, reaching 37.9% compared to 38.6% last year, driven by higher-margin projects, though partially offset by lower absorption due to reduced volume and tariff impacts. Currency movements had a $0.2 million positive effect on gross profit for the period.

In the first nine months of fiscal 2026, gross profit from continuing operations totaled $63.5 million, compared to $65.1 million in the first nine months of fiscal 2025. As a percentage of sales, gross profit was 30.0%, compared to 30.7% last year. The variation reflects the factors mentioned above. Currency movements had a $0.5 million positive effect on gross profit for the period.

Administration costs

Administration costs from continuing operations amounted to $16.5 million, or 23.0% of sales, in the third quarter of fiscal 2026, compared to $17.0 million, or 23.2% of sales, in the third quarter of fiscal 2025. The variation is mainly attributable to cost reduction initiatives.

For the nine-month period ended November 30, 2025, administration costs from continuing operations were $50.1 million, or 23.7% of sales, compared to $48.3 million, or 22.8% of sales, in the nine-month period ended November 30, 2024. The variation reflects higher professional fees and higher sales commissions, partially offset by cost reduction initiatives and lower freight costs.

Restructuring expenses

In the third quarter of fiscal 2026, the Company incurred restructuring expenses of $1.3 million consisting of transaction-related costs. In the third quarter of fiscal 2025, the Company incurred restructuring expenses of $74.5 million, including $69.1 million in asbestos-related costs and $5.4 million in transaction-related costs.

In the first nine months of fiscal 2026, the Company incurred restructuring expenses of $7.4 million, including $8.1 million in transaction-related costs, partially offset by a $0.8 million reversal of asbestos-related costs. In the first nine months of fiscal 2025, restructuring expenses of $81.3 million consisted of asbestos-related costs of $73.7 million and of transaction-related costs of $7.6 million.

EBITDA[1] and Adjusted EBITDA[1]

In the third quarter of fiscal 2026, EBITDA from continuing operations was $8.2 million compared to negative $60.2 million last year. Adjusted EBITDA from continuing operations for the third quarter of fiscal 2026, excluding non-recurring elements, was $9.5 million, versus $14.3 million in the third quarter of fiscal 2025. The decrease is primarily attributable to lower gross profit and an increase in other expenses, mainly attributable to unfavourable currency movements. These factors were partially offset by the favourable reversal of a provision.

In the first nine months of fiscal 2026, EBITDA from continuing operations was $9.3 million, compared to negative $57.6 million last year. Adjusted EBITDA from continuing operations for the first nine months of fiscal 2026, excluding non-recurring elements, was $16.7 million, versus $23.9 million in the first nine months of fiscal 2025. The decrease is primarily attributable to lower gross profit, higher administration costs, and an increase in other expenses. These factors were partially offset by the provision reversal mentioned above.

Financing expenses

Financing expenses from continuing operations were $0.3 million in the third quarter of fiscal 2026, versus $0.4 million a year ago. The variation reflects lower interest rates this year compared to last.

For the first nine months of fiscal 2026, financing expenses from continuing operations were $0.9 million, versus $1.0 million last year. The variation reflects the factors mentioned above.

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

Income taxes (recovery)

For the third quarter of fiscal 2026, the income tax expense from continuing operations was $2.7 million, compared to an income tax recovery of $14.9 million last year. The variation reflects applicable income tax expenses on net income before income taxes in the third quarter of fiscal 2026, as opposed to applicable tax recovery on a net loss before income taxes in the third quarter of fiscal 2025.

For the first nine months of fiscal 2026, the income tax recovery from continuing operations was $17.5 million, versus an income tax recovery of $14.0 million for the first nine 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 as well as applicable income tax expenses on net income before income taxes in the first nine months of fiscal 2026, as opposed to applicable tax recovery on a net loss before income taxes in the first nine months of fiscal 2025.

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

For the third quarter of fiscal 2026, net income from continuing operations was $3.0 million, or $0.14 per share, compared to a net loss of $47.8 million, or a loss of $2.22 per share, a year earlier. Adjusted net income from continuing operations, excluding non-recurring elements, was $4.0 million, or $0.18 per share, in the third quarter of fiscal 2026, versus adjusted net income of $8.5 million, or $0.39 per share, in the third quarter of fiscal 2025.

Net loss from discontinued operations for the three-month period ended November 30, 2024, was $14.3 million, or a loss of $0.66 per share.

As a result, net income for the three-month period ended November 30, 2025, was $3.0 million, $0.14 per share, compared with a net loss of $62.1 million, or a loss of $2.88 per share, for the same period last year.

For the nine-month period ended November 30, 2025, net income from continuing operations was $19.2 million, or $0.89 per share, compared to a net loss of $51.2 million, or a loss of $2.37 per share, in the nine-month period ended November 30, 2024. Adjusted net income from continuing operations, excluding non-recurring elements and the tax effects of the transactions, was $2.9 million, or $0.13 per share, in the first nine months of fiscal 2026, versus adjusted net income of $11.5 million, or $0.53 per share, in the first nine months of fiscal 2025.

Net income from discontinued operations was $58.6 million, or $2.71 per share, in the first nine months of fiscal 2026, versus a net loss from discontinued operations of $11.9 million, or a loss of $0.55 per share, in the first nine months of fiscal 2025. Results from discontinued operations are detailed below.

As a result, net income for the nine-month period ended November 30, 2025, was $77.8 million, or $3.60 per share, compared with a net loss of $63.1 million, or a loss of $2.92 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 nine-month period ended November 30, 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		Nine-month periods ended	
	November 30, 2025	November 30, 2024	November 30, 2025	November 30, 2024
(thousands)	$	$	$	$
Sales	**-**	**23,381**	**4,764**	**60,934**
Cost of sales	-	14,728	3,127	38,583
Gross profit	**-**	**8,653**	**1,637**	**22,351**
Administration costs	-	5,241	1,782	15,852
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)	-	360	782	348
Operating income (loss)	-	3,052	82,441	6,151
Finance costs – net	-	(60)	(128)	(118)
Income (loss) before income taxes	**-**	**3,112**	**82,569**	**6,269**
Income tax expense	-	17,374	23,970	18,159
Net profit (loss) for the period	**-**	**(14,262)**	**58,599**	**(11,890)**

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							
(in thousands, excluding per share amounts)	**November 2025**	**August 2025**	**May 2025**	**February 2025**	**November 2024**	**August 2024**	**May 2024**	**February 2024**
Sales from continuing operations	71,660	67,611	$72,229	$83,198	$73,404	$77,696	$60,898	$80,847
Net income (loss) from continuing operations	2,996	(1,660)	17,826	(16,056)	(47,835)	(1,168)	(2,187)	(8,462)
per share – basic and diluted	0.14	(0.08)	0.83	(0.74)	(2.22)	(0.05)	(0.10)	(0.39)
Net income (loss) from discontinued operations	-	(780)	59,379	3,636	(14,262)	1,289	1,083	6,379
per share – basic and diluted	-	(0.03)	2.70	0.17	(0.66)	0.06	0.05	0.29
Net income (loss)	2,996	(2,440)	77,205	(12,420)	(62,097)	121	(1,104)	(2,083)
per share – basic and diluted	0.14	(0.11)	3.58	(0.57)	(2.88)	0.01	(0.05)	(0.10)
Adjusted EBITDA from continuing operations	9,542	3,358	3,780	3,620	14,260	6,746	2,846	9,281
Adjusted net income (loss) from continuing operations	3,955	(1,153)	90	(4,899)	8,502	2,754	242	3,689
per share – basic and diluted	0.18	(0.05)	0.00	(0.23)	0.39	0.13	0.01	0.17

FINANCIAL POSITION

Assets

As at November 30, 2025, total assets stood at $343.1 million, down from $502.0 million as at February 28, 2025, reflecting the disposition of the French assets.

Current assets amounted to $280.4 million as at November 30, 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 increases of $20.0 million and $16.0 million, respectively, in inventories and accounts receivable.

Non-current assets totalled $62.7 million as at November 30, 2025, down from $83.1 million as at February 28, 2025. The variation reflects a decrease of $19.9 million in the value of deferred taxes following the sale of the French subsidiaries and a $1.0 million decrease in the value of property plant and equipment.

Liabilities

As at November 30, 2025, total liabilities amounted to $156.5 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 November 30, 2025, down from $374.3 million as at February 28, 2025. The variation is attributable to a $146.1 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 $36.5 million as at November 30, 2025, versus $28.9 million as at February 28, 2025. The variation mainly reflects an $8.0 million increase in the non-current portion of customer deposits.

Equity

As at November 30, 2025, total equity was $186.6 million, versus $98.7 million as at February 28, 2025. The variation is mainly due to a $69.5 million increase in retained earnings reflecting net income for the first nine months of fiscal 2026, which included the gain on the sale of the French assets, partially offset by dividend payments of $8.3 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 November 30, 2025
(thousands)	Carrying value $	Less than 1 year $	1 to 3 years $	4 to 5 years $	After 5 years $	Total $
Long-term debt	17,689	3,722	2,249	1,578	10,140	17,689
Long-term lease liabilities	5,781	1,735	2,672	1,171	554	6,132
Accounts payable and accrued liabilities	76,726	76,726	-	-	-	76,726
Customer deposits	23,467	11,456	9,371	2,640	-	23,467

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 November 30, 2025, the Company is in compliance with all covenants related to its debt and credit facilities.

On November 30, 2025, the Company's order backlog was $296.8 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 nine-month periods ended November 30, 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		Nine-month periods ended	
(thousands)	**November 30, 2025**	**November 30, 2024**	**November 30, 2025**	**November 30, 2024**
Net cash from continuing operations – Beginning of period	29,477	37,045	32,364	27,283
From continuing operations				
Cash provided (used) by operating activities before net change in provisions	(6,661)	(589)	(38,039)	16,496
Net change in provisions	(1,019)	598	(146,699)	2,828
Cash provided (used) by operating activities	(7,680)	(9)	(184,738)	19,324
Cash used by investing activities excluding proceeds on disposal of French assets	(1,670)	(4,923)	(3,515)	(8,484)
Proceeds on disposal of French assets	-	-	182,363	-
Cash provided (used) by investing activities	(1,670)	(4,923)	178,848	(8,484)
Cash used by financing activities	(183)	264	(8,119)	(6,088)
Effect of exchange rate differences on cash	279	(315)	1,868	26
Net change in cash from continuing operations	(9,254)	(4,984)	(12,141)	4,778
Net change in cash from discontinued operations	-	9,581	8,745	4,641
Net change in cash and cash equivalents	(9,254)	4,597	(3,396)	9,420
Net cash from continuing operations – end of period	**20,223**	**32,061**	**20,223**	**32,061**

Operating activities

For the three-month period ended November 30, 2025, cash used by operating activities from continuing operations was $7.7 million, compared to breakeven in the corresponding period last year. The unfavorable movement in cash is mainly attributable to negative changes in non-cash working capital movements.

For the nine-month period ended November 30, 2025, cash used by operating activities from continuing operations was $184.7 million, compared to a cash generation of $19.3 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		Nine-month periods ended	
(thousands)	**November 30, 2025**	**November 30, 2024**	**November 30, 2025**	**November 30, 2024**
Accounts receivable	(11,564)	2,098	(12,856)	8,522
Inventories	(17,680)	(14,801)	(17,329)	(24,718)
Income taxes recoverable	285	(70)	754	266
Deposits and prepaid expenses	100	954	(327)	1,588
Accounts payable and accrued liabilities	17,465	7,924	(4,843)	22,722
Income taxes payable	(45)	1,178	(1,083)	1,310
Customer deposits	(3,346)	4,766	(11,849)	3,725
Provisions	(1,019)	598	(146,699)	2,828
	(15,804)	**2,647**	**(194,232)**	**16,243**

For the quarter ended November 30, 2025, negative non-cash working capital movements were mainly due to higher accounts receivables and work in process inventory related to changes in delivery schedules.

For the nine-month period ended November 30, 2025, negative non-cash working capital movements were mainly due to a decrease in provisions following the closing of the asbestos-related transaction, higher accounts receivables and work in process inventory, as well as a decrease in accounts payable and accrued liabilities.

Investing activities

Cash used by investing activities from continuing operations for the quarter ended November 30, 2025, was $1.7 million reflecting additions of $1.7 million to property plant and equipment. For the quarter ended November 30, 2024, investing activities from continuing operations used $4.9 million in cash reflecting additions of $4.0 million to property, plant and equipment and $1.0 million in additions to intangible assets.

For the nine-month period ended November 30, 2025, cash provided by investing activities from continuing operations amounted to $178.8 million essentially reflecting net proceeds of $182.4 million on disposal of the French subsidiaries. For the nine-month period ended November 30, 2024, cash used by investing activities from continuing operations was $8.5 million mainly reflecting additions of $7.9 million to property, plant and equipment, and additions of $1.1 million to intangible assets.

Financing activities

During the third quarter of fiscal 2026, cash used by financing activities from continuing operations was $0.2 million reflecting dividends paid of $1.5 million and the repayment of $0.4 million in lease liabilities, partially offset by a net increase of $1.8 million in long-term debt. In the third quarter of fiscal 2025, cash provided by financing activities from continuing operations was $0.3 million essentially due to net increase in long-term debt.

During the first nine months of fiscal 2026, cash used by financing activities from continuing operations was $8.1 million reflecting dividends paid of $8.3 million and the repayment of $1.2 million in long-term lease liabilities, partially offset by a net increase of $1.4 million in long-term debt. In the first nine months of fiscal 2025, cash used by financing activities from continuing operations totaled $6.1 million mainly due to net repayment of long-term debt.

FOREIGN EXCHANGE RATES

The following table shows certain average and closing exchange rates applicable to Velan's three- and nine-month periods ended November 30, 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		Nine-month periods ended	
		November 30, 2025	**November 30, 2024**	**November 30, 2025**	**November 30, 2024**
US$/CDN$	Average	**0.7164**	0.7270	**0.7186**	0.7304
	Closing	**0.7154**	0.7138	**0.7154**	0.7138
US$/Euro	Average	**1.1643**	1.0881	**1.1456**	1.0853
	Closing	**1.1566**	1.0562	**1.1566**	1.0562

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Market risk

Currency risk

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

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

The amounts outstanding as at November 30, 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)	
	November 30, 2025	February 28, 2025	November 30, 2025	February 28, 2025	November 30, 2025	February 28, 2025
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 15 months	1.38	-	(127)	-	US$11,250	-
Buy US$ for CA$ - 0 to 15 months	-	-	-	-	-	-
Sell US$ for € - 0 to 12 months	1.16	-	(18)	-	€4,000	-
Buy € for US$ - 0 to 12 months	1.10	1.04 to 1.10	249	(405)	US$5,000	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 November 30, 2025, five (February 28, 2025 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 17.0% (February 28, 2025 – 15.8%) and the Company's ten largest customers accounted for 67.4% (February 28, 2025 – 52.8%) of trade accounts receivable. In addition, one customer accounted for 12.1% of the Company's sales (February 28, 2025 – 13.6%).

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)	**November 30, 2025** **$**	**February 28, 2025** **$**
Current	40,762	34,636
Past due 0 to 30 days	7,001	10,866
Past due 31 to 90 days	10,882	5,313
Past due more than 90 days	13,230	3,285
	71,875	54,100
Less: Loss allowance	(432)	(381)
	71,443	53,719
Other receivables	7,172	8,893
Total accounts receivable	**78,615**	**62,612**

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

		Nine-month periods ended
(thousands)	**November 30, 2025** **$**	**November 30, 2024** **$**
Balance – Beginning of the year	381	224
Loss allowance expense	42	-
Recoveries of trade accounts receivables	-	(3)
Write-off of trade accounts receivable	-	-
Foreign exchange	9	(2)
Balance – End of the period	**432**	**219**

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 November 30, 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 November 30, 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		Nine-month periods ended	
(in thousands, except per share amounts; certain totals may not add up due to rounding)	**November 30, 2025 $**	**November 30, 2024 $**	**November 30, 2025 $**	**November 30, 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	2,996	(47,835)	19,162	(51,190)
Adjustments for:				
Asbestos-related costs	-	69,064	(754)	73,745
Transaction-related costs	959	3,972	7,594	5,554
Other restructuring expenses	-	-	-	89
Deferred tax assets related to the transactions		(16,699)		(16,699)
Non-recurring tax recovery on France transaction	-	-	(23,110)	-
Adjusted net income (loss) from continuing operations	**3,955**	**8,502**	**2,892**	**11,499**
per share – basic and diluted	0.18	0.39	0.13	0.53
Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations				
Net income (loss) from continuing operations	2,996	(47,835)	19,162	(51,190)
Adjustments for:				
Depreciation of property, plant and equipment	1,732	1,545	5,084	5,090
Amortization of intangible assets and financing costs	595	570	1,655	1,557
Financing expenses	259	442	893	966
Income tax expense (recovery)	2,655	(14,930)	(17,483)	(13,993)
EBITDA	**8,237**	**(60,208)**	**9,311**	**(57,570)**
Adjustments for:				
Asbestos-related costs	-	69,064	(754)	73,745
Transaction-related costs	1,305	5,404	8,123	7,556
Other restructuring expenses	-	-	-	121
Adjusted EBITDA	**9,542**	**14,260**	**16,680**	**23,852**

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.