



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Fiscal year ended February 28, 2026

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the fiscal year ended February 28, 2026. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2026, and February 28, 2025. 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 May 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](http://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 and are included in this report (see *Certain Risks That Could Affect Our Business* section). 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 1,296 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 also include a sales operation in Germany.

## THREE-YEAR FINANCIAL SUMMARY

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

IFRS (thousands)	For the reporting period ended on		
	February 28, 2026	February 28, 2025	February 29, 2024
<b>Operating data from continuing operations</b>			
Sales	296,405	295,196	258,652
Gross profit	81,092	84,917	54,630
Net income (loss) <sup>1</sup>	15,310	(67,246)	(31,969)
Net income (loss) per share – basic and diluted	0.71	(3.12)	(1.48)
<b>Cash flow data from continuing operations</b>			
Cash provided by operating activities before net change in provisions	(15,719)	23,961	13,714
<b>Balance sheet data</b>			
Cash and cash equivalents	53,354	34,872	36,445
Total assets	346,607	501,966	479,393
Long-term debt, including current portion	18,225	16,203	28,777
<b>Shareholder data</b>			
Cash dividends per share <sup>2</sup> (in CA\$)			
Multiple voting shares	0.53	0.03	0.03
Subordinate voting shares	0.53	0.03	0.03
Outstanding Shares at reporting date			
Multiple voting shares	15,566,567	15,566,567	15,566,567
Subordinate voting shares	6,019,068	6,019,068	6,019,068

NON-IFRS (thousands)	For the reporting period ended on		
	February 28, 2026	February 28, 2025	February 29, 2024
Adjusted EBITDA <sup>3</sup>	20,674	27,470	2,126
Adjusted net income (loss) <sup>3</sup>	890	6,600	(15,653)
Adjusted net income (loss) per share – basic and diluted	0.04	0.31	(0.73)

## Backlog<sup>2</sup> and Bookings<sup>2</sup>

(thousands)	As at					
	February 28, 2026		February 28, 2025		February 29, 2024	
	\$	%	\$	%	\$	%
Backlog	283,290		274,877		283,647	
For delivery within the next 12 months	216,709	76.5%	225,662	82.1%	259,662	91.5%
For delivery between 12 and 24 months	66,581	23.5%	44,183	16.1%	13,757	4.9%
For delivery between 24 and 36 months	0	0.0%	0	0.0%	10,228	3.6%
For delivery beyond 36 months	0	0.0%	5,032	1.8%	0	0.0%
Bookings	295,039		292,505		288,681	

<sup>1</sup> Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

<sup>2</sup> Includes a special dividend of CA\$0.30 per share

<sup>3</sup> Non-IFRS and supplementary financial measures – additional specifications at the end of this report

## FISCAL 2026 HIGHLIGHTS FROM CONTINUING OPERATIONS<sup>1</sup> (unless otherwise indicated)

The Company is pleased with its overall performance in fiscal 2026, given an operating environment marked by economic uncertainty stemming from tariffs, the ongoing conflict in the Middle East and by heightened geopolitical tensions worldwide. These factors had adverse effects on the Company in several ways, notably through delayed bookings and deliveries, supply chain disruptions and profitability.

### IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS (see below)

- Sales for fiscal 2026 amounted to \$296.4 million, up \$1.2 million or 0.4% compared to the previous fiscal year. The variation mainly reflects higher shipments from operations in India, China and Korea, partially offset by non-recurring revenue of \$5.2 million in fiscal 2025 from German operations.
- Gross profit for the year of \$81.1 million, versus \$84.9 million last year. The variation is attributable to a less favorable product mix this year compared to last. As a percentage of sales, gross profit was 27.4% in fiscal 2026, compared to 28.8% in fiscal 2025.
- Operating income of \$1.6 million, compared to an operating loss of \$82.3 million a year ago.
- Net income of \$15.3 million, or \$0.71 per share, compared to a net loss of \$67.2 million, or a loss of \$3.12 per share, last year.
- Including discontinued operations, net income of \$73.9 million, or \$3.42 per share, compared to a net loss of \$75.5 million, or a loss of \$3.50 per share, last year.
- Cash and cash equivalents were \$53.4 million at the end of fiscal 2026, up from \$34.9 million a year earlier, reflecting improved accounts receivable collections. Together with \$49.2 million of available credit facilities, total liquidity was \$102.6 million.

### NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Order backlog<sup>2</sup> of \$283.3 million at the end of fiscal 2026, of which 76.5% is deliverable within the next 12 months, up from \$274.5 million a year earlier.
- Bookings<sup>2</sup> of \$295.0 million for the year, up 0.9% from last year. The increase reflects higher bookings from Italian operations, partially offset by lower bookings by German and Chinese operations following a strong order flow in the prior year.
- Adjusted EBITDA<sup>2</sup> of \$20.7 million in fiscal 2026 compared to adjusted EBITDA of \$27.5 million in fiscal 2025. The decrease is attributable to lower gross profit and higher administration costs.
- Adjusted net income<sup>2</sup> of \$0.9 million in fiscal 2026, versus adjusted net income of \$6.6 million in fiscal 2025.

## OUTLOOK

Given orders totaling \$216.7 million, representing 76.5% of a total backlog of \$283.3 million, expected to be delivered in the next 12 months, and despite the current geopolitical and trade uncertainty, the Company expects to deliver an improved operating performance in fiscal 2027 supported by sharper focus and cost discipline. The Company is confident in its ability to secure future bookings, as business activity in its main markets remains healthy driven by solid prospects including nuclear, defense sectors and oil and gas industry. Management will continue to closely monitor the global situation, notably increased geopolitical tensions and an uncertain macroeconomic environment in the context of mounting trade disputes around the world which may delay the award and the delivery of certain projects.

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<sup>1</sup> Unless otherwise noted, all amounts are in U.S. dollars.

<sup>2</sup> Non-IFRS and supplementary financial measures – more information at the end of this report.

The Company's financial position remains strong with cash and cash equivalents of \$53.4 million and a cash position, net of bank indebtedness, of \$41.5 million as at February 28, 2026. The Company will continue to manage diligently its working capital and capital investments to foster cash flow generation.

Furthermore, although Management believes that the strength of its financial position would allow the Company to counter certain risks, there can be no assurance that external outside economic and geopolitical factors will not materially adversely affect the Company's results of operations or financial condition. Such factors include, but are not limited to, the situation in the Middle East, import tariffs, foreign currency fluctuations, in particular the Canadian dollar and the euro against the U.S. dollar, commodity price fluctuations from both a procurement (price of steel) and sales (price of oil) perspective. See *Certain Risks That Could Affect Our Business* section for more details.

## **FOURTH QUARTER RESULTS FROM CONTINUING OPERATIONS (unless otherwise indicated)**

### **IFRS MEASURES**

- Sales of \$84.9 million, up \$1.7 million or 2.1%, compared to the same quarter last year.
- Gross profit of \$17.6 million or 20.7% of sales, versus \$19.8 million, or 23.8% of sales, last year.
- Operating loss of \$0.8 million, compared to an operating loss of \$18.6 million a year ago.
- Net loss of \$3.9 million, or a loss of \$0.18 per share, versus a net loss of \$16.1 million, or a loss of \$0.74 per share, last year.

### **NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES**

- Bookings of \$73.7 million, up from \$62.0 million last year.
- Adjusted net loss of \$2.0 million, compared to an adjusted net loss of \$4.9 million last year.
- Adjusted net loss per share of \$0.09, compared to an adjusted net loss per share of \$0.23 last year.
- Adjusted EBITDA of \$4.0 million, up from \$3.6 million last year.

## **FISCAL YEAR RESULTS FROM CONTINUING OPERATIONS (unless otherwise indicated)**

### **IFRS MEASURES INCLUDING SIGNIFICANT TRANSACTIONS (see below)**

- Sales of \$296.4 million, up \$1.2 million or 0.4%, compared to the same period last year.
- Gross profit of \$81.1 million, or 27.4% of sales, versus \$84.9 million, or 28.8% of sales, last year.
- Operating income of \$1.6 million, compared to an operating loss of \$82.3 million a year ago.
- Net income of \$15.3 million, or \$0.71 per share, compared to a net loss of \$67.2 million, or a loss of \$3.12 per share, last year.
- Including discontinued operations, net income of \$73.9 million, or \$3.42 per share, compared to a net loss of \$75.5 million, or a loss of \$3.50 per share, last year.
- Cash and cash equivalents of \$53.4 million at the end of fiscal 2026, versus \$34.9 million a year earlier.

### **NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES**

- Backlog of \$283.3 million, up \$8.4 million from \$274.9 million at the end of last year.
- Bookings of \$295.0 million, up \$2.5 million from \$292.5 million last year.
- Adjusted net income of \$0.9 million, versus adjusted net income of \$6.6 million last year.
- Adjusted net income per share of \$0.04, compared to adjusted net income per share of \$0.31 last year.
- Adjusted EBITDA of \$20.7 million in fiscal 2026, compared to \$27.5 million last year.

## RESULTS OF OPERATIONS

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

IFRS	Three-month periods ended			Twelve-month periods ended		
	February 28, 2026	February 28, 2025	Variance	February 28, 2026	February 28, 2025	Variance
<i>(thousands)</i>						
From continuing operations						
Sales	\$84,905	\$83,198	\$1,707	\$296,405	\$295,196	\$1,209
Gross profit	17,614	19,830	(2,216)	81,092	84,917	(3,825)
Administration costs	18,856	20,255	(1,399)	69,003	68,603	400
Restructuring expenses	2,245	19,111	(16,866)	9,614	100,412	(90,798)
Other expense (income)	(2,679)	(957)	1,722	841	(1,833)	(2,674)
Operating income (loss)	(808)	(18,579)	17,771	1,634	(82,265)	83,899
Net income (loss) <sup>1</sup>	(3,852)	(16,056)	12,204	15,310	(67,246)	82,556
Net income (loss) from discontinued operations	-	3,636	(3,636)	58,599	(8,254)	66,853
Net income (loss)	(3,852)	(12,420)	8,568	73,909	(75,500)	149,409
<i>(as a percentage of sales)</i>						
Gross profit from continuing operations	20.7%	23.8%	(310 bps)	27.4%	28.8%	(140 bps)
<i>(in dollars per share)</i>						
Net income (loss) per share from continuing operations – basic and diluted	(0.18)	(0.74)	0.56	0.71	(3.12)	3.83
Net income (loss) per share from discontinued operations – basic and diluted	-	0.17	(0.17)	2.71	(0.38)	3.09
Net income (loss) per share – basic and diluted	(0.18)	(0.57)	0.39	3.42	(3.50)	6.92

NON-IFRS	Three-month periods ended			Twelve-month periods ended		
	February 28, 2026	February 28, 2025	Variance	February 28, 2026	February 28, 2025	Variance
<i>(thousands)</i>						
From continuing operations						
Adjusted EBITDA <sup>2</sup>	\$3,994	\$3,620	\$374	\$20,674	\$27,470	(\$6,796)
Adjusted net income (loss) <sup>2</sup>	(2,002)	(4,899)	2,897	890	6,600	(5,710)
Adjusted net income (loss) per share – basic and diluted	(0.09)	(0.23)	0.14	0.04	0.31	(0.27)

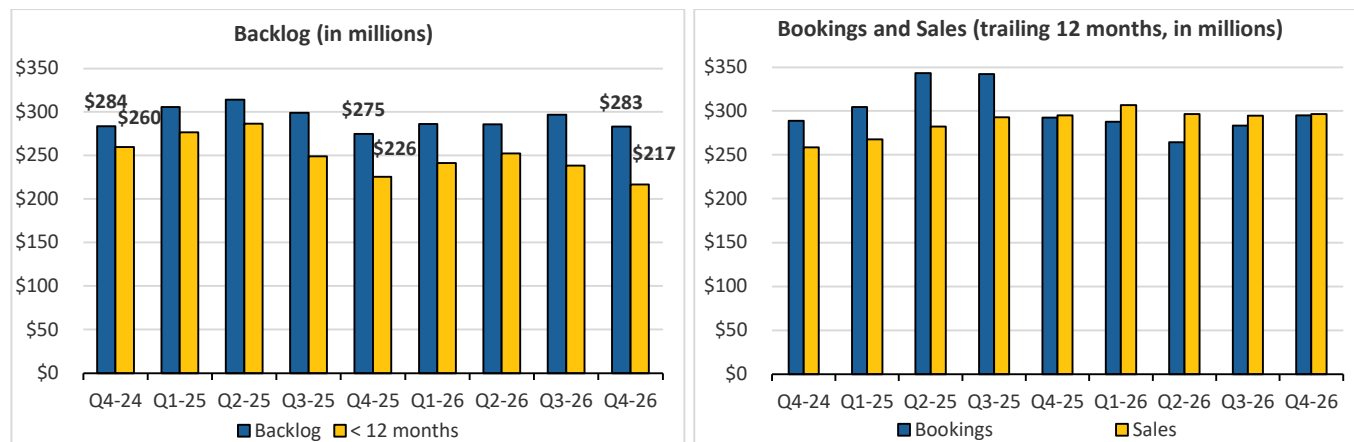
## Backlog

	As at			
	February 28, 2026		February 28, 2025	
<i>(thousands)</i>	\$	%	\$	%
Backlog from continuing operations	283,290		274,877	
For delivery within the next 12 months	216,709	76.5%	225,662	82.1%
For delivery between 12 and 24 months	66,581	23.5%	44,183	16.1%
For delivery between 24 and 36 months	0	0.0%	0	0.0%
For delivery beyond 36 months	0	0.0%	5,032	1.8%

<sup>1</sup> Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares.

<sup>2</sup> Non-IFRS and supplementary financial measures – more information at the end of this report.

As at February 28, 2026, the backlog from continuing operations stood at \$283.3 million, up \$8.4 million, or 3.1%, from \$274.9 million a year earlier. Currency movements had a \$10.1 million positive effect on the value of the backlog during the year mainly due to the strengthening of the euro versus the U.S. dollar. Excluding currency movements, the backlog remained relatively stable, reflecting bookings that were broadly in line with valve shipments during the fiscal year. As at February 28, 2026, 76.5% of the backlog, representing orders of \$216.7 million, is deliverable in the next 12 months, versus 82.1% of last year’s backlog. This shift in the delivery schedule is driven by the securing of an increasing number of long-term contracts for the nuclear and defense sectors.



## Bookings

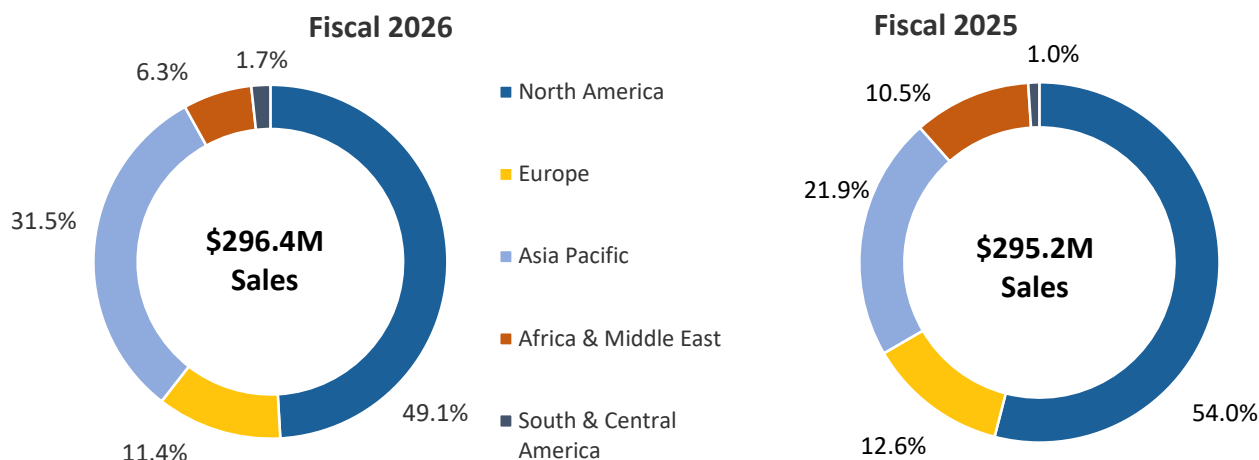
(in thousands)	Three-month periods ended		Twelve-month periods ended	
	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
Bookings from continuing operations	\$73,713	\$62,032	\$295,039	\$292,505

Bookings from continuing operations in the fourth quarter of fiscal 2026 totaled \$73.7 million, compared to bookings of \$62.0 million in the fourth quarter of fiscal 2025. The variation is attributable to higher North American bookings in the nuclear sector and for maintenance, repair and overhaul (MRO) activity, as well as higher bookings recorded by the Company’s operations in India. These factors were partially offset by lower bookings by German operations. Currency movements had a negligible effect on the value of bookings for the quarter.

Fiscal 2026 bookings from continuing operations reached \$295.0 million, up \$2.5 million or 0.9% compared to the previous year. The increase reflects higher bookings from Italian operations, partially offset by lower bookings by German and Chinese operations following a strong order flow in the prior year. Currency movements had a \$2.2 million positive effect on the value of bookings for the year.

## Sales

### Sales distribution by customer geographic location



Sales from continuing operations reached \$84.9 million in the fourth quarter of fiscal 2026, an increase of \$1.7 million or 2.1% compared to the same period last year. The variation reflects higher shipments from North American, Chinese and Indian operations, partially offset by lower shipments from Italian operations due to changes in customer delivery schedules. Currency movements had a \$3.0 million positive effect on sales for the quarter.

Sales from continuing operations for fiscal 2026 amounted to \$296.4 million, an increase of \$1.2 million or 0.4% compared to last year. The variation mainly reflects higher shipments from operations in India, China and Korea, partially offset by non-recurring revenue of \$5.2 million in fiscal 2025 from German operations. Currency movements had a \$5.2 million positive effect on sales for the year.

### Gross profit

For the fourth quarter of fiscal 2026, gross profit from continuing operations was \$17.6 million, compared with \$19.8 million a year ago. The variation is attributable to a less favorable product mix this year compared to last. Currency movements had a \$0.5 million positive effect on gross profit for the quarter. As a percentage of sales, gross profit was 20.7%, versus 23.8% last year.

In fiscal 2026, gross profit from continuing operations totaled \$81.1 million, versus \$84.9 million last year. The variation mainly reflects the aforementioned factors. Currency movements had a \$1.0 million positive effect on gross profit for the year. As a percentage of sales, gross profit was 27.4%, compared to 28.8% last year.

### Administration costs

Administration costs from continuing operations reached \$18.9 million, or 22.2% of sales, in the fourth quarter of fiscal 2026, compared to \$20.3 million, or 24.3% of sales, last year. The decrease mainly reflects lower compensation expenses and last year’s non-cash impact of a significant increase in the value of the Company’s shares on the long-term incentive plan.

Fiscal 2026 administration costs from continuing operations amounted to \$69.0 million, or 23.3% of sales, compared to \$68.6 million, or 23.2% of sales, in fiscal 2025. The slight increase reflects higher professional fees and sales commissions, partially offset by cost reduction initiatives and last year’s non-cash impact of a significant increase in the market value of the Company’s share on the long-term incentive plan.

### **Restructuring expenses**

For the three-month period ended February 28, 2026, restructuring expenses amounted to \$2.2 million, consisting of \$1.5 million in transaction-related costs related to the proposed sale of Velan Holding shares to Birch Hill Equity Partners Management Inc. ("Birch Hill") and a final adjustment to asbestos-related costs. In the three-month period ended February 28, 2025, restructuring expenses amounted to \$19.1 million, consisting of \$2.5 million in asbestos-related costs and of \$16.6 million in transaction-related costs.

In fiscal 2026, the Company incurred restructuring expenses of \$9.6 million consisting of transaction-related costs. In fiscal 2025, the Company incurred restructuring expenses of \$100.4 million, consisting of \$76.2 million in asbestos-related costs and \$24.2 million in transaction-related costs.

### **EBITDA<sup>1</sup> and Adjusted EBITDA<sup>1</sup>**

In the fourth quarter of fiscal 2026, the Company reported EBITDA from continuing operations of \$1.7 million compared to negative \$15.5 million for the same period a year ago. Excluding restructuring expenses, adjusted EBITDA from continuing operations was \$4.0 million in the fourth quarter of fiscal 2026, compared to \$3.6 million a year earlier. This increase reflects an increase in other income, mainly attributable to favourable currency movements, and lower administration costs, partially offset by lower gross profit.

In fiscal 2026, EBITDA from continuing operations was \$11.1 million compared to negative \$73.1 million last year. Excluding restructuring expenses, adjusted EBITDA from continuing operations for fiscal 2026 was \$20.7 million, versus \$27.5 million in fiscal 2025. The decrease is attributable to lower gross profit and higher administration costs.

### **Financing expenses (income)**

For the fourth quarter of fiscal 2026, financing expenses from continuing operations were \$0.7 million, compared to financing income of \$1.2 million last year. The variation reflects last year's reevaluation of minority interest and lower finance income due to a reduction in interest rates.

Financing expenses from continuing operations amounted to \$1.6 million in fiscal 2026, versus financing income of \$0.3 million a year ago. The variation reflects the factors mentioned above.

### **Income taxes (recovery)**

For the fourth quarter of fiscal 2026, the income tax expense from continuing operations was \$2.4 million, compared to an income tax recovery of \$0.6 million last year. The variation reflects higher EBITDA this year compared to last year, and last year's income tax recovery of \$3.5 million reflecting the recognition of deferred tax assets not previously recognized which were expected to be utilized against the tax liability resulting from the disposal of the French subsidiaries.

For fiscal 2026, the income tax recovery from continuing operations was \$15.1 million, compared to an income tax recovery of \$14.6 million last year. Fiscal 2026 included a \$23.1 million non-recurring tax recovery related to the disposal of the French subsidiaries in the first quarter. Fiscal 2025 included an income tax recovery of \$20.2 million reflecting deferred tax assets related to the recognition of deferred tax assets not previously recognized which were utilized against the tax liability resulting from the disposal of the French subsidiaries.

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

For the fourth quarter of fiscal 2026, the net loss from continuing operations was \$3.9 million, or a loss of \$0.18 per share, compared to a net loss of \$16.1 million, or \$0.74 per share last year. Adjusted net loss from continuing operations for the fourth quarter of fiscal 2026 was \$2.0 million, or a loss of \$0.09 per share, versus an adjusted net loss of \$4.9 million, or \$0.23 per share. The variation is attributable to higher adjusted EBITDA and to a lower tax expense, excluding last year's non-recurring items.

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<sup>1</sup> *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

Net income from discontinued operations was \$3.6 million, or net income of \$0.17 per share, in the fourth quarter of fiscal 2025.

As a result, the net loss for the fourth quarter of fiscal 2026 was \$3.9 million, or a loss of \$0.18 per share, compared to a net loss of \$12.4 million, or a loss of \$0.57 per share, in the fourth quarter of fiscal 2025.

For fiscal 2026, net income from continuing operations was \$15.3 million, or net income of \$0.71 per share, compared to a net loss of \$67.2 million, or a loss of \$3.12 per share, in fiscal 2025. Adjusted net income from continuing operations was \$0.9 million, or net income of \$0.04 per share, in fiscal 2026, versus adjusted net income of \$6.6 million, or net income of \$0.31 per share, in fiscal 2025. The variation is attributable to lower adjusted EBITDA.

Net income from discontinued operations was \$58.6 million, or net income of \$2.71 per share, in fiscal 2026, versus a net loss from discontinued operations of \$8.3 million, or a loss of \$0.38 per share, in fiscal 2025.

As a result, net income for fiscal 2026 was \$73.9 million, or net income of \$3.42 per share, compared with a net loss of \$75.5 million, or a loss of \$3.50 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 fiscal ended February 28, 2026, 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		Twelve-month periods ended	
	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
<i>(thousands)</i>	\$	\$	\$	\$
<b>Sales</b>	-	<b>34,844</b>	<b>4,764</b>	<b>95,778</b>
Cost of sales	-	20,057	3,127	58,640
<b>Gross profit</b>	-	<b>14,787</b>	<b>1,637</b>	<b>37,138</b>
Administration costs	-	5,949	1,782	21,801
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)	-	(886)	782	21
Operating income (loss)	-	9,724	82,441	15,316
Finance costs – net	-	36	(128)	(82)
<b>Income (loss) before income taxes</b>	-	<b>9,688</b>	<b>82,569</b>	<b>15,398</b>
Income tax expense	-	6,052	23,970	23,652
<b>Net profit (loss) for the period</b>	-	<b>3,636</b>	<b>58,599</b>	<b>(8,254)</b>

### SIGNIFICANT TRANSACTIONS

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

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 and one subordinate voting share (representing approximately 72.1% of the Company’s outstanding shares and 92.8% of its aggregate voting rights) to funds managed by Birch 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 certain 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.

As announced, the Company has agreed to suspend the declaration of dividend payments until closing, with ordinary course dividends currently planned to resume thereafter, as, if and when declared by the Board.

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:

<i>(in thousands, excluding per share amounts)</i>	Quarters ended							
	February 2026	November 2025	August 2025	May 2025	February 2025	November 2024	August 2024	May 2024
Sales from continuing operations	\$84,905	\$71,660	\$67,611	\$72,229	\$83,198	\$73,404	\$77,696	\$60,898
Net income (loss) from continuing operations	(3,852)	2,996	(1,660)	17,826	(16,056)	(47,835)	(1,168)	(2,187)
per share – basic and diluted	(0.18)	0.14	(0.08)	0.83	(0.74)	(2.22)	(0.05)	(0.10)
Net income (loss) from discontinued operations	-	-	(780)	59,379	3,636	(14,262)	1,289	1,083
per share – basic and diluted	-	-	(0.03)	2.70	0.17	(0.66)	0.06	0.05
Net income (loss)	(3,852)	2,996	(2,440)	77,205	(12,420)	(62,097)	121	(1,104)
per share – basic and diluted	(0.18)	0.14	(0.11)	3.58	(0.57)	(2.88)	0.01	(0.05)
Adjusted EBITDA from continuing operations	3,994	9,542	3,358	3,780	3,620	14,260	6,746	2,846
Adjusted net income (loss) from continuing operations	(2,002)	3,955	(1,153)	90	(4,899)	8,502	2,754	242
per share – basic and diluted	(0.09)	0.18	(0.05)	0.00	(0.23)	0.39	0.13	0.01

## FINANCIAL POSITION

### Assets

As at February 28, 2026, total assets stood at \$346.6 million, down from \$502.0 million as at February 28, 2025.

Current assets amounted to \$285.1 million as at February 28, 2026, down from \$418.9 million a year earlier. The variation reflects the disposal of assets held for sale of \$176.8 million, partially offset by an \$18.5 million increase in cash and cash equivalents, a \$12.8 million increase in accounts receivable and a \$12.2 million increase in inventory.

Non-current assets totalled \$61.5 million as at February 28, 2026, down from \$83.1 million last year. The variation is mainly attributable to a decrease of \$19.8 million in the value of deferred taxes following the sale of the French subsidiaries.

### Liabilities

As at February 28, 2026, total liabilities amounted to \$164.5 million, down from \$403.2 million as at February 28, 2025.

Current liabilities stood at \$134.2 million as at February 28, 2026, down from \$374.3 million a year ago. The decrease is attributable to a \$143.7 million reduction in provision related to Asbestos and to the disposal of liabilities held for sale of \$110.9 million. These factors were partially offset by a \$9.4 million increase in bank indebtedness and a \$6.3 million increase in accounts payable and accrued liabilities.

Non-current liabilities were \$30.3 million as at February 28, 2026, up from \$28.9 million, last year. The variation mainly reflects a \$1.7 million increase in customer deposits.

### Equity

As at February 28, 2026, total equity was \$182.1 million, versus \$98.7 million as at February 28, 2025. The variation is due to the net income for fiscal 2026, which included the gain in the sale of the French assets, and an \$18.0 million decrease in accumulated other comprehensive loss.

## 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 February 28, 2026					
<i>(thousands)</i>	Carrying value \$	Less than 1 year \$	1 to 3 years \$	4 to 5 years \$	After 5 years \$	Total \$
Long-term debt	18,225	3,737	3,160	2,345	12,720	21,962
Long-term lease liabilities	5,560	1,725	2,544	1,162	455	5,886
Accounts payable and accrued liabilities	85,094	85,094	-	-	-	85,094
Customer deposits	25,795	20,068	3,087	2,640	-	25,795
Derivative liabilities	130	130	-	-	-	130

As at February 28, 2026, the Company is in compliance with all covenants related to its debt and credit facilities.

At the end of the current fiscal year, the Company did not have any outstanding purchase commitments with foreign suppliers due within one year which were covered by letters of credit.

On February 28, 2026, the Company's order backlog<sup>1</sup> was \$283.3 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, an escalating trade dispute, or a conflict will not materially adversely affect the Company's results of operations or financial condition.

As part of managing its liquidity risk, the Company also monitors the financial health of its key suppliers.

### Cash flows - quarter and fiscal year ended February 28, 2026

*(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:

<i>(thousands)</i>	Three-month periods ended		Fiscal years ended	
	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
Net cash from continuing operations – Beginning of period	20,223	32,061	32,364	27,283
From continuing operations				
Cash provided (used) by operating activities before net change in provisions	22,320	7,465	(15,719)	23,961
Net change in provisions	<u>2,282</u>	<u>(264)</u>	<u>(144,417)</u>	<u>2,564</u>
Cash provided (used) by operating activities	24,602	7,201	(160,136)	26,525
Cash used by investing activities excluding proceeds on disposal of French assets	(3,579)	(1,793)	(7,094)	(10,277)
Proceeds on disposal of French assets	-	-	<u>182,363</u>	-
Cash provided (used) by investing activities	(3,579)	(1,793)	175,269	(10,277)
Cash used by financing activities	(395)	(3,727)	(8,514)	(9,815)
Effect of exchange rate differences on cash	<u>641</u>	<u>(1,378)</u>	<u>2,509</u>	<u>(1,352)</u>
Net change in cash from continuing operations	21,269	303	9,128	5,081
Net change in cash from discontinued operations	-	208	8,745	6,354
Net change in cash and cash equivalents	21,269	511	17,873	11,435
<b>Net cash from continuing operations – end of period</b>	<b>41,492</b>	<b>32,364</b>	<b>41,492</b>	<b>32,364</b>

### Operating activities

For the three-month period ended February 28, 2026, cash provided by operating activities from continuing operations before net change in provisions totalled \$22.3 million, versus \$7.5 million in the corresponding period a year earlier. The favorable movement in cash is mainly attributable to positive changes in non-cash working capital movements.

For the fiscal year ended February 28, 2026, cash used by operating activities from continuing operations before net change in provisions was \$15.7 million, versus cash provided of \$24.0 million in the previous year. The unfavorable movement in cash mainly reflects negative changes in non-cash working capital movements in the first nine months of the year, partially offset by favourable changes in the fourth quarter.

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

<i>(thousands)</i>	Three-month periods ended		Fiscal years ended	
	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
Accounts receivable	3,658	(783)	(9,198)	7,739
Inventories	8,132	13,399	(9,197)	(11,319)
Income tax recoverable	(596)	224	158	490
Deposits and prepaid expenses	833	277	506	1,865
Accounts payable and accrued liabilities	9,798	6,052	4,955	28,774
Income tax payable	(172)	1,197	(1,255)	2,507
Customer deposits	8,557	(2,522)	(3,292)	1,203
Provisions	2,282	(264)	(144,417)	2,564
<b>Changes in non-cash working capital items</b>	<b>32,492</b>	<b>17,580</b>	<b>(161,740)</b>	<b>33,823</b>

### Investing activities

Cash used by investing activities from continuing operations for the quarter ended February 28, 2026, was \$3.6 million mainly reflecting additions to intangible assets of \$1.5 million and additions to property, plant and equipment of \$0.9 million. For the quarter ended February 28, 2025, cash used in investing activities from continuing operations stood at \$1.8 million reflecting additions to intangible assets totalling \$1.8 million.

For the fiscal year ended February 28, 2026, cash used in investing activities from continuing operations, excluding proceeds from the disposal of French assets, amounted to \$7.1 million reflecting net additions to property, plant and equipment of \$5.5 million and additions to intangible assets of \$1.5 million. For the fiscal year ended February 28, 2025, cash used in investing activities from continuing operations was \$10.3 million due to net additions to property, plant and equipment of \$7.5 million and additions to intangible assets of \$2.9 million.

### Financing activities

During the fourth quarter of fiscal 2026, cash used by financing activities from continuing operations was \$0.4 million as a \$1.2 million decrease in long-term debt and repayment of long-term lease liabilities of \$0.4 million were partially offset a \$1.2 million increase in short-term bank loans. In the fourth quarter of fiscal 2025, cash used by financing activities from continuing operations was \$3.7 million as a \$5.0 million reduction in the revolving credit facility was partially offset by a net increase of \$1.8 million in long-term debt.

In fiscal 2026, cash used by financing activities from continuing operations was \$8.5 million mainly reflecting dividend payments of \$8.3 million and the repayment of \$7.7 million in long term-debt, partially offset by a \$7.9 million increase in the revolving credit facility. In fiscal 2025, cash used by financing activities from continuing operations stood at \$9.8 million mainly reflecting a \$5.0 million decrease in the revolving credit facility and a \$3.8 million net decrease in long-term debt.

## FOREIGN EXCHANGE RATES

The following table shows certain average and closing exchange rates applicable to Velan's three- and twelve-month periods ended February 28, 2026, and 2025. 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		Twelve-month periods ended	
		February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
US\$/CDN\$	Average	0.7275	0.6989	0.7208	0.7226
	Closing	0.7330	0.6926	0.7330	0.6926
US\$/Euro	Average	1.1525	1.0413	1.1529	1.0704
	Closing	1.1805	1.0411	1.1805	1.0411

## 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 February 28, 2026, 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)	
	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025	February 28, 2026	February 28, 2025
<b>Foreign exchange forward contracts</b>						
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	1.04 to 1.10	1.04 to 1.10	(45)	(405)	US\$1,000	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.

The following table provides a sensitivity analysis of the Company's most significant foreign exchange exposures related to its net position in the foreign currency financial instruments, which includes cash and cash equivalents, short-term investments bank indebtedness, short-term bank loans, derivative financial instruments, accounts receivable, accounts payable and accrued liabilities, customer deposits, provision for performance guarantees and long-term debt, including interest payable. A hypothetical strengthening of 5.0% of the following currencies would have had the following impact for the fiscal years ended February 28, 2026, and February 28, 2025:

<i>(thousands)</i>	<b>Net income (loss)</b>	
	<b>February 28, 2026</b>	<b>February 28, 2025</b>
	<b>\$</b>	<b>\$</b>
Canadian dollar strengthening against the U.S. dollar	2,329	(1,420)
Euro strengthening against the U.S dollar	2,283	(4)
Indian rupee strengthening against the U.S dollar	680	451

A hypothetical weakening of 5.0% of the above currencies would have had the opposite impact for both fiscal years.

For the purposes of the above analysis, foreign exchange exposure does not include the translation of subsidiaries into the Company's reporting currency. For those subsidiaries whose functional currency is other than the reporting currency (U.S. dollar) of the Company, such exposure would impact other comprehensive income or loss.

*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 February 28, 2026, three (2025 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 17.0% (2025 – 15.8%) and the Company's ten largest customers accounted for 60.6% (2025 – 52.8%) of trade accounts receivable. In addition, one customer accounted for 12.3% of the Company's sales (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 lifetime expected loss allowance for trade receivables was determined as follows:

As at February 28, 2026					
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.000%	0.000%	0.000%	4.011%	
Gross carrying amount	40,723	5,107	8,372	15,482	69,684
<b>Loss allowance</b>	-	-	-	<b>621</b>	<b>621</b>

As at February 28, 2025					
(thousands)	Current	Past due more than 30 days	Past due 31 to 90 days	Past due more than 90 days	Total
Expected loss rate	0.003%	0.009%	0.004%	11.533%	
Gross carrying amount	34,505	10,866	5,313	3,286	53,970
<b>Loss allowance</b>	<b>1</b>	<b>1</b>	-	<b>379</b>	<b>381</b>

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)	February 28, 2026	February 28, 2025
	\$	\$
Current	40,347	34,636
Past due 0 to 30 days	5,107	10,866
Past due 31 to 90 days	8,372	5,313
Past due more than 90 days	15,482	3,285
	69,398	54,100
Less: Loss allowance	(621)	(381)
Other receivables	68,687	53,719
	6,682	8,894
<b>Total accounts receivable</b>	<b>75,369</b>	<b>62,613</b>

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

Fiscal years ended		
(thousands)	February 28, 2026	February 28, 2025
	\$	\$
Balance – Beginning of the year	381	224
Loss allowance expense	229	166
Recoveries of trade accounts receivables	-	(3)
Write-off of trade accounts receivable	-	(3)
Foreign exchange	11	(3)
<b>Balance – End of the period</b>	<b>621</b>	<b>381</b>

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

## INTERNAL CONTROLS AND PROCEDURES

### DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer ("CEO"), and the Chief Financial Officer ("CFO"), in a timely manner so that appropriate decisions can be made regarding public disclosure.

The CEO and the CFO of the Company have evaluated, or caused the evaluation of, under their direct supervision, the effectiveness of the Company's disclosure controls and procedures (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings) as at February 28, 2026 and have concluded that such disclosure controls and procedures were designed and operating effectively.

### INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management has evaluated the design and effectiveness of its internal controls and procedures over financial reporting (as defined in National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings). The evaluation was based on the "*Internal Control-Integrated Framework (2013)*" issued by the *Committee of Sponsoring Organizations of the Treadway Commission ("COSO")*. This evaluation was performed by the CEO and the CFO of the Company with the assistance of other Company Management and staff to the extent deemed necessary. Based on this evaluation, the CEO and the CFO concluded that the internal controls and procedures over financial reporting were appropriately designed and operating effectively as at February 28, 2026.

In spite of its evaluation, Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure of internal controls and procedures occur and/or mistakes happen of a material nature, the Company intends to take the steps necessary to minimize the consequences thereof.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company did not make any material changes to the design of internal control over financial reporting during the year ended February 28, 2026, that have materially affected, or are reasonably likely to have materially affected, the Company's internal control over financial reporting.

## CRITICAL ACCOUNTING ESTIMATES & ASSUMPTIONS

The Company's significant accounting policies as described above are essential to understanding the Company's results of operations, financial positions 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. 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.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are addressed below:

### **Inventories**

Inventories must be valued at the lower of cost and net realizable value. A write-down of inventory will occur when its estimated net realisable value (which is the estimated selling price minus costs necessary to make the sell) is below its carrying amount. This involves significant management judgment and is based on the Company's assessment of market conditions for its products determined by ageing of inventory, historical usage, estimated future demand and, in some cases, the specific risk of loss on specifically identified inventory. Any change in the assumptions used in assessing this valuation or selling costs could impact the carrying amount of the inventory on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

### **Provisions**

Provisions must be established for possible product warranty expenses. The Company estimates its warranty exposure by taking into account past experience as well as any known technical problems and estimates of costs to resolve these issues. The Company estimates its exposure under these obligations based on an analysis of all identified or expected claims. Any change in the assumptions used could impact the value of the provision on the consolidated statement of financial position with a corresponding impact made to cost of sales on the consolidated statement of loss.

### **Impairment of non-financial assets**

Assets that have an indefinite life, such as goodwill, are tested annually by the Company for impairment, or more frequently if events or circumstances indicate there may be impairment. All other assets must be reviewed by the Company at the end of each reporting period in order to determine whether there is an indication of possible impairment. Determining whether there are indicators of potential impairment is a matter of significant judgment. When determining the recoverable amount of a CGU, management prepares estimates based on assumptions such as the weighted-average cost of capital, the Earnings before interest, taxes, depreciation and amortization ("EBITDA") margin, revenue growth or the recoverable amount of each individual assets. Any change in the assumptions used could impact the carrying amount of the CGU.

### **Income taxes**

The Company must estimate its income taxes in each jurisdiction in which it operates. This involves assessing the probability of using net operating losses against future taxable income as well as evaluating positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. In the event these assessments are changed, there would be an adjustment to income tax expense with a corresponding adjustment to income tax balances on the consolidated statement of financial position.

## **CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

### **Critical judgements in applying the Company's material policies**

#### *Deferred tax assets*

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be used. Deferred income tax assets are reviewed at each statement of financial position date and amended to the extent that it is no longer probable that the related tax benefit will be realized. The Company estimates that future taxable profits will be sufficient to realize this asset.

### **Accounting standards and amendments issued but not yet adopted**

The following new standard has been issued by the International Accounting Standards Board ("IASB") and is not yet effective for the Company's consolidated financial statements. The Company has not early adopted this standard.

*IFRS 18 – Presentation and Disclosure in Financial Statements*

In April 2024, the IASB issued IFRS 18 Presentation and Disclosure in Financial Statements, which replaces IAS 1 Presentation of Financial Statements. IFRS 18 introduces new requirements related to the presentation of financial performance, including the classification of income and expenses into defined categories and the presentation of new mandatory subtotals in the statement of profit or loss. The Standard also introduces enhanced disclosure requirements, including disclosures of management-defined performance measures, and updated principles for aggregation and disaggregation of financial information.

IFRS 18 is effective for annual reporting periods beginning on or after January 1, 2027, with early adoption permitted. The Company does not plan to early adopt this Standard. The adoption of IFRS 18 is not expected to have an impact on the recognition or measurement of amounts in the consolidated financial statements but will result in changes to presentation and disclosures.

*Standards and amendments effective January 1, 2026*

Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures, including amendments related to the classification and measurement of financial instruments, contracts referencing nature-dependent electricity, and annual improvements to IFRS Accounting Standards, are effective for annual reporting periods beginning on or after January 1, 2026. The Company is currently assessing these amendments and does not expect them to have a material impact on the consolidated financial statements.

## **CERTAIN RISKS THAT COULD AFFECT THE COMPANY'S BUSINESS**

### **Cyclical nature of end user markets, commodity price volatility and other macroeconomic factors**

The demand for the Company's products in any particular industry or market can vary significantly according to the level of economic activity in that industry or market. These potential variations may be mitigated by the fact that the Company's sales are diversified geographically as well as by end user market. There can be no assurance that an economic recession or downturns in certain industries or geographic locations, such as the current downturn in the oil and gas industry, will not have a significant adverse effect on the Company's sales.

The Company's financial condition and results of operations may also be adversely affected by commodity price volatility. Crude oil and natural gas prices have experienced significant volatility in recent periods and are inherently subject to rapid and material fluctuations. These prices may change in response to relatively minor variations in supply and demand, market uncertainty, geopolitical tensions, and other factors beyond the Company's control. Commodity price volatility represents a significant risk to the Company's business, financial condition, results of operations, and future prospects.

Crude oil and natural gas prices are influenced by numerous factors, including, but not limited to: global supply and demand fundamentals; global and regional economic conditions; actions taken by the Organization of Petroleum Exporting Countries ("OPEC"), OPEC+, and other producing nations; government policies, regulations, taxation, and fiscal regimes; political instability and geopolitical developments; constraints on infrastructure and the ability to transport hydrocarbons to domestic and international markets; developments in the liquefied natural gas ("LNG") market; the availability, pricing, and adoption of alternative and renewable energy sources; and seasonal variations and extreme weather conditions.

Sustained periods of low commodity prices may reduce the Company's revenues, cash flows, provisions, and provisions values, and may adversely affect the economic viability of certain activities. Such conditions could result in asset impairments, downward revisions to provisions, reductions in capital expenditures, or limitations on the Company's ability to finance future operations and development. In addition, elevated price volatility may increase uncertainty in long-term planning and adversely affect the Company's ability to execute its business strategy. The Company is exposed to the risk of inflation fluctuation.

## **Trade policy and Tariffs**

As a globally operating organization, Velan's business is subject to government policies related to import and trade restrictions and business acquisitions, support for export sales, and world trade policies including specific regional trade practices. As a result, Velan is exposed to risks associated with changing priorities by government and supranational agencies.

In addition, protectionist trade policies and changes in the political and regulatory environment in the markets in which Velan operates, such as foreign exchange import and trade controls, tariffs and other trade barriers, "buy local" government initiatives, price or exchange controls, retaliations to any such trade protection policies or measures, as well as potential changes to free trade arrangements, could affect Velan's business in several national markets, disrupt the supply chain, impact sales and profitability and make the repatriation of profits difficult.

In particular, executive orders signed by the President of the United States in February 2025 imposing tariffs on certain imports originating from Canada, Mexico and China, together with any additional tariffs, retaliatory measures or other trade protectionist actions that have been or may be implemented in connection therewith, have introduced and may continue to introduce uncertainty into the trade environment. Such measures could have a material adverse impact on sales of Velan's products to customers in the United States and could be disruptive and costly to the Company's production activities and supply chain. The imposition, expansion or continuation of tariffs or other trade restrictions may require the Company to source components from alternative suppliers or to modify or relocate certain production activities in order to mitigate tariff exposure. These actions could disrupt established supply chains, result in increased operating costs, and require significant management attention. Higher costs arising from tariffs or related mitigation efforts could reduce the competitiveness of Velan's products in domestic and international markets. In addition, evolving trade policies and the possibility of further changes to tariffs or trade agreements may increase uncertainty for the Company and its customers, making it more difficult to plan or commit to long-term investments and commercial arrangements. Velan continues to monitor developments in global trade policy and has established a management-level committee tasked with assessing potential impacts and evaluating available mitigation strategies. However, there can be no assurance that: (i) existing tariffs will be reduced or eliminated; (ii) additional tariffs, retaliatory measures or changes to trade agreements will not be introduced; or (iii) any actions taken by the Company will be sufficient to avoid or mitigate the adverse effects of such measures. The occurrence of any of the foregoing, even if temporary, could result in delays, cancellations or modifications of customer orders, the repayment of pre-delivery payments (net of applicable liquidated damages), reduced new order intake adversely affecting backlog and cash flows, and lower profitability as a result of reduced sales volumes and/or higher costs. Any such outcomes could have a material adverse effect on Velan's business, financial condition, cash flows and results of operations.

## **Competition**

Competitive pressures in the Company's markets could lead to a loss of market share, which could negatively impact revenues, margins and net income. The Company also competes with manufacturers based in low wage countries that offer valves at lower prices. There can be no assurance that the Company will be able to compete successfully against its current or future competitors or that competition will not have a material adverse effect on the Company's results of operations and financial condition.

## **Backlog**

The Company's order backlog consists of sales orders that are considered firm. It is also an indication of future sales revenues. However, there can be no assurance that subsequent cancellations or scope adjustments will not occur, that the order backlog will ultimately result in earnings, or when the related revenues and earnings from such order backlog will be recognized.

## **Dependence upon key personnel**

The Company is dependent upon the abilities and experience of its executive officers and other key employees. There can be no assurance that the Company can retain the services of such executive officers and key employees.

If several executive officers or other key employees were to leave the employ of the Company, its operations could be adversely affected.

### **Foreign currency exchange risks**

Due to the geographic mix of the Company's customers and its operations, the Company is exposed to foreign currency exchange risk. The Company enters into foreign currency forward contracts in order to manage a portion of its net exposure to foreign currencies. Such forward contracts contain an inherent credit risk related to default on obligations by the counterparty, which the company mitigates by entering into contracts with sound financial institutions that it anticipates will satisfy their obligations. Risk related to currency fluctuations could have a material adverse effect on the Company's results of operations and its financial position.

### **Debt restrictions**

The Company's operations are restricted by the terms of its debt, which could limit its ability to plan for or react to market conditions, or to meet its capital needs. The Company's credit facilities and the indenture governing its senior notes include a number of significant restrictive covenants. These covenants restrict, under certain conditions, the Company's ability to:

- incur debt;
- pay dividends on stock or redeem subordinated debt;
- make investments;
- sell assets, including capital stock in subsidiaries;
- guarantee other indebtedness;
- enter into agreements that restrict dividends or other distributions from restricted subsidiaries;
- enter into transactions with affiliates;
- create or assume liens securing debt;
- sell or transfer and leaseback transactions;
- engage in mergers or consolidations; and
- enter into a sale of all or substantially all of our assets.

These covenants could limit the Company's ability to plan for or react to market conditions or to meet its capital needs. The Company's current credit facility contains other, more restrictive covenants, including financial covenants that require it to achieve certain financial and operating results, and maintain compliance with specified financial ratios. The Company's ability to comply with these covenants and requirements may be affected by events beyond its control, and it may have to curtail some of its operations and growth plans to maintain compliance. The restrictive covenants contained in the Company's senior note indenture, along with the Company's credit facility, do not directly apply to its joint ventures, minority investments and unrestricted subsidiaries.

### **Interest rate risk and debt financing**

A portion of the Company's liabilities consist of debt instruments that bear interest at variable rates. As such, the Company is exposed to the risk of interest rate fluctuations. This risk could have an adverse effect on the Company's results of operations. At maturity of such instruments, the Company may also not be able to refinance such instruments at terms favorable to the Company, or at all. In addition, the terms of the Company's indebtedness provide that, upon an event of default, such indebtedness becomes immediately due and payable. Failure to refinance existing indebtedness on favorable terms or to comply with the terms of such indebtedness could have a material adverse effect on the Company's results of operations and its financial position.

### **Availability and prices of raw materials**

The price of raw materials, principally steel, represents a substantial portion of the cost of manufacturing the Company's products. Historically, there have been fluctuations in these raw material prices and, in some instances, price movements have been volatile. There can be no certainty that the Company will be able to pass on increases

resulting from higher costs of raw materials to its customers through increases in selling prices, or otherwise absorb such cost increases without negatively affecting its margins.

In addition, certain raw materials become, from time to time, in short supply for periods of time. Typically, these shortages do not last long and the Company is usually able to ensure that its needs are met. However, there can be no assurances that its sources of supply will be adequate to supply all of its needs on a timely basis, particularly in the context of the global supply chain disruptions related to the Ukraine conflict.

### **Labour relations**

A substantial portion of the Company's workforce is covered by union agreements with certain collective agreements expired in 2025 and were successfully renewed through 2028. Although the Company has been successful in the past in negotiating renewals, there can be no assurance that this will continue. Failure to renegotiate these agreements could lead to work disruptions or higher labour costs, which could negatively impact results.

### **Reliance on key suppliers**

The Company has several key suppliers with whom it has invested in forging dies and casting patterns. While the Company has alternate sources for most material purchases, the loss of a key supplier could impact negatively on the Company.

### **Reliance on distributors and sales agents**

The Company is directly affected by the ability of independent third-party distributors and sales agents retained by the Company to sell its products in their respective markets. The Company's continued success is thus dependent on its ability to attract and retain the distributors and sales agents it requires to support its existing business and to continue to grow.

### **Project undertakings**

In competing for the sale of valves, the Company may enter into contracts that provide for the production of valves at specified prices and in accordance with certain time schedules. These contracts may involve greater risks as a result of unforeseen increases in costs due to more stringent terms and conditions. Although contract terms may vary from customer to customer, production delays and other performance issues may call for liquidated damages or other penalties in case of non-performance or warranty issues due to the more stringent terms and conditions of such contracts.

### **Political and economic risks associated with international sales and operations**

Since the Company sells and manufactures its products worldwide, the business is subject to risks associated with doing business internationally, including changed in the political and regulatory environment in the markets in which the Company operates, which, among other things, result from changing priorities of governments and supranational agencies. For example, the adoption of and/or continued support for protectionist trade policies could negatively impact the movement of goods, services, and people across borders, including within North America and consequently, the sales and profitability of the Company.

The Company's business and operating results could also be adversely impacted by changes in tax laws from time to time, possibility of expropriation and embargo, foreign exchange restrictions and political, military and/or terrorist disruptions or changes in regulatory environments.

### **Global Geopolitical Risks**

The Company is exposed to risks arising from ongoing and potential geopolitical instability in various regions of the world. Armed conflicts, political tensions, trade disputes, economic sanctions, acts of terrorism, civil unrest, and changes in international relations among countries—including those involving major global or regional powers—have increased in recent years and may continue or intensify. Such geopolitical developments can result in heightened global political and economic uncertainty, market volatility, and disruptions to global trade and financial systems. Governments and international organizations have imposed, and may continue to impose, economic sanctions,

export controls, import restrictions and other restrictive measures against certain countries, entities or individuals in response to geopolitical events. These measures may affect the Company's ability to conduct business in certain markets, fulfill existing contracts, engage in cross-border transactions, or source materials, components, or services from suppliers. Compliance with such measures may also require the Company to suspend, modify or terminate certain commercial relationships or transactions, which could result in delays, lost revenue, increased costs, or contractual disputes.

Geopolitical instability may further contribute to global supply chain disruptions, increased transportation and logistics costs, shortages of raw materials or components, currency fluctuations, inflationary pressures, and reduced customer demand in certain markets. Any escalation or deterioration of geopolitical conditions could adversely affect the Company's customers and suppliers, potentially impacting order levels, production schedules, delivery timelines, and overall operating efficiency. The Company monitors geopolitical developments and applicable regulatory requirements and seeks to conduct its operations in compliance with all applicable laws, sanctions and trade restrictions. However, there can be no assurance that geopolitical developments, or actions taken by governments or supranational bodies in response thereto, will not have a material adverse effect on the Company's business, financial condition, cash flows and results of operations.

### **Force majeure events**

Force majeure events are unforeseeable events or circumstances that occur beyond the control of the Company. Such events include but are not limited to political unrest, war, terrorism, strikes, riots, and crime, as well as seismic or severe weather-related events such as earthquakes, hurricanes, tsunamis, tornadoes, ice storms, flooding and volcanic eruptions. The risk of occurrence of a force majeure event is unpredictable and may result in delays or cancellations of orders and deliveries to customers, delays in the receipt of materials from suppliers, damage to facilities or equipment, personal injury or fatality, and possible legal liability.

### **Product liability and other lawsuits**

The Company, like other worldwide manufacturing companies, has been, and will continue to be, subject to a variety of potential liability claims or other lawsuits connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures. While the Company maintains comprehensive general liability insurance coverage which it considers to generally be in accordance with industry practice, such insurance does not cover certain categories of claims to which the Company is subject. Comprehensive general liability premiums have also increased significantly during the last several years. Accordingly, the Company cannot be certain that comprehensive general liability insurance coverage will continue to be available to it at a reasonable cost, or, if available, would be adequate to cover its liabilities.

### **Health and safety risk**

The Company is committed to providing all employees, contractors, and visitors to its premises with a healthy and safe work environment. The Company has implemented a program throughout its operations with policies and procedures that must be followed to ensure that it meets all applicable health and safety laws, regulations, and standards.

### **Environmental compliance matters**

The Company's operations and properties are subject to increasingly stringent laws and regulations relating to environmental protection, including air and water discharges, waste management and disposal and employee safety. Such laws and regulations both impose substantial fines for violations and mandate cessation of operations in certain circumstances, the installation of costly pollution control equipment, or the undertaking of costly site remediation activities. Furthermore, new laws and regulations, or stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean up requirements could require the Company to incur additional costs which could be significant.

## **Controls over disclosures and financial reporting**

In accordance with National Instrument 52-109, the Chief Executive Officer and the Chief Financial Officer of the Company are responsible for designing, maintaining, and evaluating the effectiveness of disclosure controls and procedures. The Chief Executive Officer and the Chief Financial Officer are also responsible for the effective design of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. A system of controls is subject to certain inherent limitations and is partially based on the possibility or probability of future events. Accordingly, a system of internal controls can provide only reasonable, and not absolute, assurance of reaching the desired objectives.

## **Control of the Company**

Velan Holding Co. Ltd. (the "Controlling Shareholder") owns 15,566,567 Multiple Voting Shares representing, in the aggregate, approximately 92.8% of the voting interests in the Company. Voting control enables the Controlling Shareholder to determine all matters requiring shareholder approval. The Controlling Shareholder has advised the Company that the disposition of the shares requires the consent of certain Velan family members and controlled entities.

The Controlling Shareholder effectively has sufficient voting power to prevent a change in control of the Company, which may negatively affect the price and liquidity of the Subordinate Voting Shares (as such term is defined herein). The sale of a significant number of Subordinate Voting Shares by the Controlling Shareholder pursuant to the exercise of the conversion right attached to the Multiple Voting Shares may negatively impact upon the market price and liquidity of the Subordinate Voting Shares.

## **Income and other tax risks**

The Company operates in a number of different tax jurisdictions and has a significant amount of cross-border purchase and sale transactions. The tax rules and regulations in various countries are becoming more complex. There is a risk that one or more tax authorities could disagree with the tax treatment adopted by the Company, resulting in defense costs and possible tax assessments.

## **Compliance with international laws**

Due to the international nature of its operations, the Company is subject to differing systems of laws and regulations which are often complex and differ from one country to the next. Such laws and regulations include but are not limited to anti-bribery legislation, export and customs controls, foreign currency exchange controls, transfer pricing regulations and economic sanctions imposed by governmental authorities. Failure to comply with such laws could negatively impact earnings and may result in criminal, civil and administrative legal sanctions. The Company has implemented policies and procedures to effect compliance with these laws by its employees and representatives.

## **Non-controlling interest**

The Company's operations in China and Taiwan are undertaken with partners that are classified as non-controlling interest. The success of these operations depends on the satisfactory performance of such partners in their obligations. The failure of such partners to perform their obligations could impose additional financial and performance obligations on the Company that could negatively impact its earnings and financial condition.

## **Cybersecurity**

The Company's information technology networks are critical to the day-to-day operation of its business, and include information about its finances, employees, products, customers and suppliers. Cybersecurity risks are becoming increasingly sophisticated, varied and numerous. The potential consequences of a material cybersecurity breach could include loss of key information, reputational damage and disruption of operations, with consequential material negative financial consequences. While the Company devotes substantial resources to maintaining and securing its information technology networks, there can be no assurance that the Company will be able to prevent, detect or respond to a potential breach of its information technology networks because of, among other things, the evolving

nature of cybersecurity threats, the difficulty in anticipating such threats and the difficulty in immediately detecting all such threats. The failure to prevent, detect or respond to a breach in the Company's information technology networks could have a material adverse impact on the Company's business, financial condition, result of operations and cash flows.

## 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

<i>(in thousands, except per share amounts; certain totals may not add up due to rounding)</i>	Three-month periods ended		Twelve-month periods ended	
	February 28, 2026 \$	February 28, 2025 \$	February 28, 2026 \$	February 28, 2025 \$
<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	(3,852)	(16,056)	15,310	(67,246)
<i>Adjustments for:</i>				
Asbestos-related costs	754	2,466	-	76,211
Transaction costs	1,096	12,234	8,690	17,788
Other restructuring expenses	-	-	-	89
Deferred tax assets related to the transactions	-	(3,543)	-	(20,242)
Non-recurring tax recovery on France transaction	-	-	(23,110)	-
<b>Adjusted net income (loss) from continuing operations</b>	<b>(2,002)</b>	<b>(4,899)</b>	<b>890</b>	<b>6,600</b>
per share – basic and diluted	(0.09)	(0.23)	0.04	0.31
<i>Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations</i>				
Net income (loss) from continuing operations	(3,852)	(16,056)	15,310	(67,246)
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	1,815	1,775	6,899	6,864
Amortization of intangible assets and financing costs	621	577	2,276	2,133
Financing expenses	734	(1,229)	1,627	(263)
Income taxes (recovery)	2,431	(558)	(15,052)	(14,551)
<b>EBITDA</b>	<b>1,749</b>	<b>(15,491)</b>	<b>11,060</b>	<b>(73,064)</b>
<i>Adjustments for:</i>				
Asbestos-related costs	754	2,466	-	76,211
Transaction-related costs	1,491	16,645	9,614	24,201
Other restructuring expenses	-	-	-	121
<b>Adjusted EBITDA</b>	<b>3,994</b>	<b>3,620</b>	<b>20,674</b>	<b>27,470</b>

The term "Adjusted net income (loss)" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus adjustment, net of income taxes, for costs related to the proposed transaction, restructuring, and asbestos provision. The terms "Adjusted net income (loss) per share" is obtained by dividing Adjusted net income

(loss) by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

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

### **Definitions of supplementary financial measures**

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period, as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.