



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

First quarter ended May 31, 2026

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the first quarter ended May 31, 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 July 9, 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. 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 1,273 employees. The Company's head office is located in Montreal, Canada. The Company's business strategy is to design, manufacture, and market new and innovative valves with emphasis on quality, safety, ease of operation, and long service life. The Company's strategic goals include, but are not limited to, customer-driven operational excellence and margin improvements, accelerated growth through increased focus on key target markets where the Company has distinct competitive advantages and continuously improving and modernizing its systems and processes.

The consolidated financial statements of the Company include the North American operations comprising two manufacturing plants in Canada, as well as one manufacturing plant and one distribution facility in the U.S. Significant overseas operations include manufacturing plants in Italy, Portugal, the Kingdom of Saudi Arabia, Korea, Taiwan, India, and China. The Company's network operations also include a sales operation in Germany.

## FIRST QUARTER RESULTS FROM CONTINUING OPERATIONS

### IFRS MEASURES

- Sales of \$57.8 million, compared to \$72.2 million last year, reflecting the geopolitical and regional conflicts which resulted in shipments being deferred to subsequent periods, with the majority expected to be delivered by the end of the fiscal year.
- Gross profit of \$11.4 million or 19.6% of sales, versus \$20.6 million or 28.6% of sales last year, due to lower business volume and higher provisions.
- Net loss<sup>1</sup> of \$9.4 million (\$0.44 per share) versus net income of \$17.8 million (\$0.83 per share) last year, which included a \$23.1 million non-recurring tax recovery related to the disposal of the French subsidiaries.
- Financial position remains solid with cash and cash equivalents of \$34.6 million as at May 31, 2026.

### NON-IFRS AND SUPPLEMENTARY FINANCIAL MEASURES

- Backlog<sup>2</sup> of \$275.1 million, down from \$283.3 million at the end of the previous quarter.
- Bookings<sup>2</sup> of \$48.0 million, versus \$78.2 million last year, reflecting challenging conditions caused by the geopolitical and regional conflicts affecting several markets, but bidding activity remains solid in the Company's main end markets, mainly for large-scale projects.
- Adjusted net loss<sup>2</sup> of \$6.9 million, versus adjusted net income of \$0.1 million last year.
- Adjusted EBITDA<sup>2</sup> of negative \$2.1 million, compared to adjusted EBITDA of \$3.8 million last year, reflecting the impact of lower sales and gross profit.

### SUBSEQUENT EVENTS

On June 15, 2026, the Company announced the closing of the sale by its controlling shareholder, Velan Holding Co. Ltd. ("Velan Holding"), of its controlling interest in the Company to funds managed by Birch Hill Equity Partners Management Inc. ("Birch Hill") (see "Significant Transactions").

The closing created an obligation for the Company to pay conditional fees related to the transaction. These fees are estimated at \$15.5 million and will be accounted for in the second quarter of fiscal 2027.

Following this event, the Company has secured a new \$80 million revolving credit facility with a major chartered bank, maturing in June 2031. The facility strengthens Velan's capital structure by increasing liquidity, enhancing durability, and lowering its cost of capital. Proceeds were used to repay existing North American debt at closing, including \$14.9 million of bank indebtedness and a \$12.4 million secured bank loan, and to be used for general corporate purposes going forward.

### OUTLOOK

In preparation for anticipated demand ramp-up across key markets, including nuclear, defense, and traditional energy, the Company is advancing a series of initiatives to enhance operational efficiency and support future growth. These include optimizing its global manufacturing footprint through lean practices and improved capacity utilization.

The Company is also pursuing procurement savings through strategic sourcing, alongside value and product engineering efforts aimed at reducing cost and complexity while maintaining quality.

In addition, the Company is focused on operating cost optimization through streamlined processes and scalable infrastructure.

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<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.

## RESULTS OF OPERATIONS

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

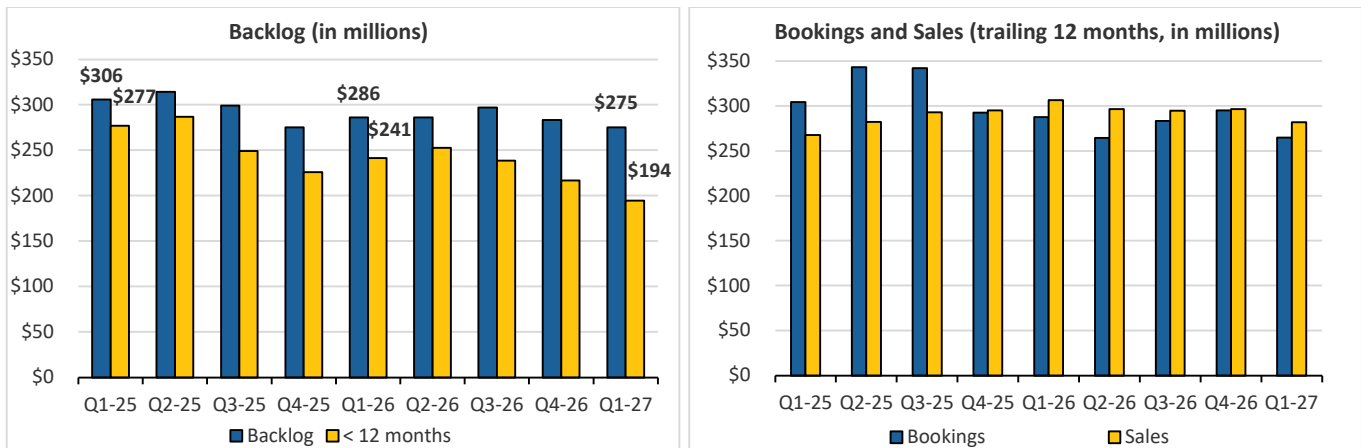
IFRS	Three-month periods ended		
	May 31, 2026	May 31, 2025	Variance
<i>(thousands)</i>			
From continuing operations			
Sales	\$57,830	\$72,229	(14,399)
Gross profit	11,356	20,626	(9,270)
Administration costs	15,719	18,313	(2,594)
Restructuring expenses	513	5,374	(4,861)
Other expenses (income)	2,855	732	2,123
Operating income (loss)	(7,731)	(3,793)	(3,938)
Income tax expense (recovery)	1,687	(21,958)	23,645
Net income (loss)	(9,436)	17,826	(27,262)
Net income from discontinued operations	-	59,379	(59,379)
Net income (loss)	(9,436)	77,205	(86,641)
<i>(as a percentage of sales)</i>			
Gross profit from continuing operations	19.6%	28.6%	(900 bps)
<i>(in dollars per share)</i>			
Net income (loss) per share from continuing operations – basic and diluted	(0.44)	0.83	(1.27)
Net income per share from discontinued operations – basic and diluted	-	2.75	(2.75)
Net income (loss) per share – basic and diluted	(0.44)	3.58	(4.02)

NON-IFRS	Three-month periods ended		
	May 31, 2026	May 31, 2025	Variance
<i>(thousands)</i>			
From continuing operations			
Adjusted EBITDA	(\$2,098)	\$3,780	(5,878)
Adjusted net income (loss)	(6,927)	90	(7,017)
Adjusted net income (loss) per share – basic and diluted	(0.32)	0.00	(0.32)

## Backlog

<i>(thousands)</i>	As at					
	May 31, 2026		February 28, 2026		May 31, 2025	
	\$	%	\$	\$	\$	%
Backlog	275,079		283,290		286,088	
For delivery within the next 12 months	194,369	70.7%	216,709	76.5%	241,326	84.4%
For delivery between 12 and 24 months	43,148	15.7%	66,584	23.5%	44,762	15.6%
For delivery between 24 and 36 months	4,525	1.6%	0	0.0%	0	0.0%
For delivery beyond 36 months	33,037	12.0%	0	0.0%	0	0.0%

As at May 31, 2026, the backlog from continuing operations stood at \$275.1 million, down from \$283.3 million as at February 28, 2026. Foreign currency movements had a \$0.5 million positive effect on the value of the backlog during the quarter. Excluding currency movements, the variation reflects shipments exceeding bookings in the first quarter of fiscal 2027. As at May 31, 2026, 70.7% of the backlog, representing \$194.4 million of orders, is expected to be delivered over the next 12 months, compared to 84.4% in the prior year. The shift in timing reflects a higher proportion of longer-duration, large-scale contracts, particularly in the nuclear and defense sectors, increasing the overall backlog visibility and extending delivery timelines.



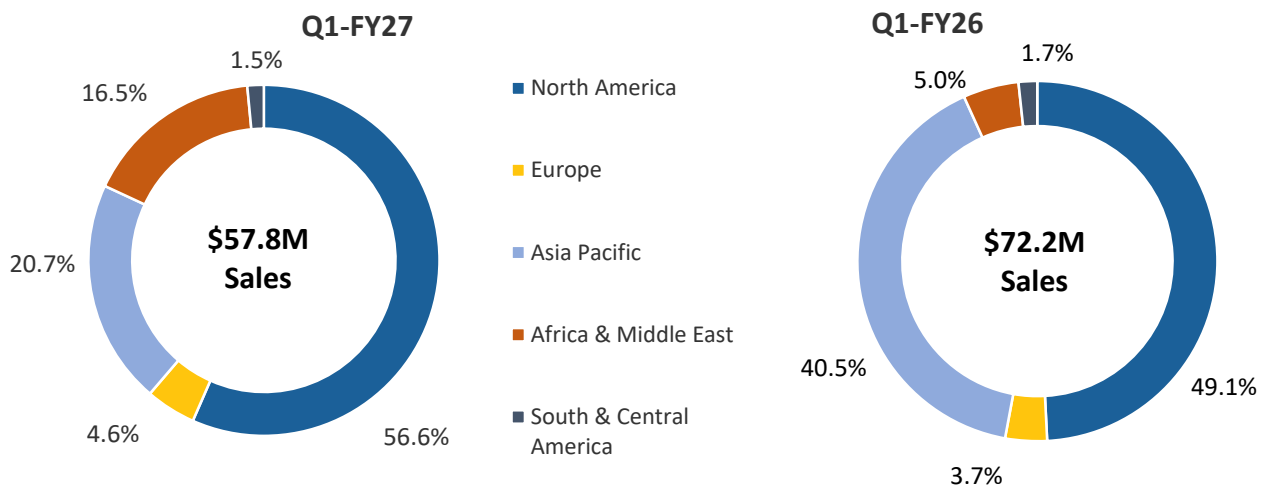
### Bookings

<i>(in thousands, excluding ratio)</i>	Three-month periods ended	
	May 31, 2026	May 31, 2025
Bookings from continuing operations	47,991	78,234

Bookings from continuing operations totaled \$48.0 million in the first quarter of fiscal 2027, compared to \$78.2 million in the first quarter of fiscal 2026. The decrease reflects challenging market conditions caused by the geopolitical and regional conflicts, which affected bookings in North America, Italy, and Germany. North American maintenance, repair and overhaul (MRO) bookings declined during the quarter, primarily due to reduced refurbishment activity impacting demand, combined with a strong comparative performance in the prior year. Foreign currency movements had a negligible effect on total bookings for the quarter. Despite this reduction in bookings, bidding activity remains solid in the Company’s main end markets, mainly for large-scale projects.

### Sales

#### Sales distribution by customer geographic location



Sales from continuing operations for the first quarter of fiscal 2027 totaled \$57.8 million, compared to \$72.2 million for the same period last year. The variance primarily reflects lower shipment volumes from North American and Italian operations, largely attributable to the geopolitical and regional conflicts, which led to oil refinery shutdowns in the

Middle East and reduced North American MRO activity, as described above. As a result, shipments were deferred to subsequent periods, with the majority expected to be delivered by the end of the fiscal year. Foreign currency movements had a favourable impact of \$0.5 million on sales for the period.

### **Gross profit**

In the first quarter of fiscal 2027, gross profit from continuing operations was \$11.4 million, compared to \$20.6 million last year. The variance primarily reflects the impact of lower business volumes on the absorption of fixed production overhead costs, as well as a \$1.3 million increase in the provision for performance guarantee recorded during the period. Foreign currency movements had a negligible effect on gross profit. As a percentage of sales, gross profit was 19.6%, compared to 28.6% in the prior year, reflecting the combined effect of these factors.

### **Administration costs**

Administration costs from continuing operations amounted to \$15.7 million, or 27.2% of sales, in the first quarter of fiscal 2027, compared to \$18.3 million, or 25.4% of sales, in the first quarter of fiscal 2026. The variation reflects cost reduction initiatives and lower sales commissions.

### **Other expenses (income)**

In the first quarter of fiscal 2027, the Company recorded other expenses of \$2.9 million, mainly consisting of a non-recurring provision adjustment. In the first quarter of fiscal 2026, other expenses amounted to \$0.7 million, mainly reflecting foreign currency movements.

### **Restructuring expenses**

In the first quarter of fiscal 2027, the Company incurred restructuring expenses of \$0.5 million, consisting of transaction related costs related to the sale of the Velan Holding shares to Birch Hill. In the first quarter of fiscal 2026, restructuring expenses consisted of \$6.1 million in transaction-related costs, partially offset by a \$0.7 million reversal of asbestos-related costs.

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

In the first quarter of fiscal 2027, EBITDA from continuing operations was negative \$5.5 million compared to negative \$1.6 million last year. Excluding restructuring expenses and non-recurring provision adjustments, adjusted EBITDA from continuing operations for the first quarter of fiscal 2027 was negative \$2.1 million, versus positive \$3.8 million in the first quarter of fiscal 2026. The decrease is primarily attributable to lower gross profit, partially offset by lower administration costs, as explained above.

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

Financing expenses from continuing operations amounted to \$0.1 million in the first quarter of fiscal 2027, versus \$0.4 million a year ago. The variation reflects the absence of significant adjustments to the liability related to the Company's joint venture in China, unlike last year.

### **Income tax expense (recovery)**

For the first quarter of fiscal 2027, the income tax expense from continuing operations was \$1.7 million, compared to an income tax recovery of \$22.0 million last year. The variation mainly reflects last year's \$23.1 million non-recurring tax recovery related to the disposal of the French subsidiaries.

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

For the first quarter of fiscal 2027, the net loss from continuing operations was \$9.4 million (\$0.44 per share), compared to net income of \$17.8 million (\$0.83 per share) in the first quarter of fiscal 2026. Excluding restructuring expenses, non-recurring provision adjustments, and the prior year's non-recurring tax recovery related to the France

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

transaction, the adjusted net loss from continuing operations was \$6.9 million (\$0.32 per share) in the first quarter of fiscal 2027, compared to adjusted net income of \$0.1 million (\$0.00 per share) in the first quarter of fiscal 2026.

Net income from discontinued operations was \$59.4 million (\$2.75 per share) in the first quarter of fiscal 2026, reflecting the gain on the disposal of the French subsidiaries. Results from discontinued operations are detailed below.

As a result, the net loss for the period was \$9.4 million (\$0.44 per share) compared to net income of \$77.2 million (\$3.58 per share) last year.

### Discontinued operations

Results from discontinued operations for the quarter ended May 31, 2025, included a gain of \$95.8 million on the disposal of French subsidiaries Velan SAS and Segault as well as the recognition of a cumulative translation adjustment of \$12.5 million. Details are as follows:

	Three-month periods ended	
	May 31, 2026	May 31, 2025
<i>(thousands)</i>	\$	\$
<b>Sales</b>	-	<b>4,764</b>
Cost of sales	-	3,127
<b>Gross profit</b>	-	<b>1,637</b>
Administration costs	-	1,782
Gain on Disposal of SAS and Segault	-	(95,824)
Reclassification of foreign currency translation of foreign subsidiaries from discontinued operations	-	12,456
Other expense (income)	-	2
Operating income (loss)	-	83,221
Finance income	-	(128)
Finance costs	-	-
Finance costs – net	-	(128)
<b>Income (loss) before income taxes</b>	-	<b>83,349</b>
Income tax expense	-	23,970
<b>Net profit (loss) for the period</b>	-	<b>59,379</b>

### SIGNIFICANT TRANSACTIONS

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

On January 14, 2026, the Company announced that Velan Holding, the sole holder of the Company's multiple voting shares, had 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, among other things, converted 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 were 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"). Closing of the VH Transaction was announced on June 15, 2026 (see "Subsequent Event").

On April 3, 2025, the Company completed the divestiture of its asbestos-related liabilities, which permanently removed all asbestos-related liabilities and obligations from Velan Inc.'s balance sheet and indemnified the Company for all asbestos liabilities.

On March 31, 2025, the Company closed the sale of 100% of the share capital and voting rights of its French subsidiaries 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							
	May 2026	February 2026	November 2025	August 2025	May 2025	February 2025	November 2024	August 2024
Sales from continuing operations	\$57,830	\$84,905	\$71,660	\$67,611	\$72,229	\$83,198	\$73,404	\$77,696
Net income (loss) from continuing operations	(9,436)	(3,852)	2,996	(1,660)	17,826	(16,056)	(47,835)	(1,168)
per share – basic and diluted	(0.44)	(0.18)	0.14	(0.08)	0.83	(0.74)	(2.22)	(0.05)
Net income (loss) from discontinued operations	-	-	-	(780)	59,379	3,636	(14,262)	1,289
per share – basic and diluted	-	-	-	(0.03)	2.70	0.17	(0.66)	0.06
Net income (loss)	(9,436)	(3,852)	2,996	(2,440)	77,205	(12,420)	(62,097)	121
per share – basic and diluted	(0.44)	(0.18)	0.14	(0.11)	3.58	(0.57)	(2.88)	0.01
Adjusted EBITDA from continuing operations	(2,098)	3,994	9,542	3,358	3,780	3,620	14,260	6,746
Adjusted net income (loss) from continuing operations	(6,927)	(2,002)	3,955	(1,153)	90	(4,899)	8,502	2,754
per share – basic and diluted	(0.32)	(0.09)	0.18	(0.05)	0.00	(0.23)	0.39	0.13

## FINANCIAL POSITION

### Assets

As at May 31, 2026, total assets stood at \$317.4 million, down from \$346.6 million as at February 28, 2026.

Current assets amounted to \$258.8 million as at May 31, 2026, down from \$285.1 million as at February 28, 2026. The variation is attributable to an \$18.8 million reduction in cash, primarily reflecting working capital requirements and a \$7.9 million reduction in inventories.

Non-current assets totalled \$58.6 million as at May 31, 2026, down from \$61.5 million as at February 28, 2026. The variation reflects a \$1.2 million decrease in the value of property plant and equipment, a \$1.1 million decrease in deferred taxes assets, and a \$0.6 million decrease in the value of intangible assets and goodwill.

### Liabilities

As at May 31, 2026, total liabilities amounted to \$150.4 million, down from \$164.5 million as at February 28, 2026.

Current liabilities stood at \$111.6 million as at May 31, 2026, down from \$134.2 million as at February 28, 2026. The variation is attributable to a \$20.1 million reduction in accounts payable and accrued liabilities and a \$6.2 million decrease in short-term customer deposits. These factors were partially offset by a \$6.9 million increase in bank indebtedness.

The value of non-current liabilities was \$38.8 million as at May 31, 2026, up from \$30.3 million as at February 28, 2026. The variation mainly reflects a \$9.0 million increase in the non-current portion of customer deposits.

### Equity

As at May 31, 2026, total equity was \$167.0 million, versus \$182.1 million as at February 28, 2026. The variation is attributable to a \$9.4 million decrease in retained earnings, reflecting the Company's net loss for the first quarter of fiscal 2027, and a \$5.6 million increase 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 May 31, 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	16,790	2,792	2,214	2,279	9,505	16,790
Long-term lease liabilities	5,222	1,537	2,175	1,046	1,269	6,027
Accounts payable and accrued liabilities	64,945	64,945	-	-	-	64,945
Customer deposits	28,551	13,965	14,586	-	-	28,551
Derivative liabilities	179	179	-	-	-	179

As at May 31, 2026, the Company was in compliance with all covenants related to its debt and credit facilities. Subsequent to quarter-end, the Company replaced its outstanding debt, further strengthening its financial position and liquidity profile.

On May 31, 2026, the Company's order backlog was \$275.1 million. The Company believes that its net cash, subject to certain local exchange control restrictions, along with future cash flows generated from operations, are sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute its business strategy. However, there can be no assurance that the risk of an event, such as a sharp downturn in the economy or an escalating trade dispute, will not materially adversely affect the Company's results of operations or financial condition.

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

## Cash flows - quarter ended May 31, 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:

(thousands)	Three-month periods ended	
	May 31, 2026	May 31, 2025
Net cash from continuing operations – Beginning of period	41,492	32,364
From continuing operations		
Cash provided (used) by operating activities before net change in provisions	(17,353)	(15,457)
Net change in provisions	<u>(1,052)</u>	<u>(144,561)</u>
Cash provided (used) by operating activities	(18,405)	(160,018)
Cash used by investing activities excluding proceeds on disposal of French assets	(1,776)	(997)
Proceeds on disposal of French assets	-	<u>183,143</u>
Cash provided (used) by investing activities	(1,776)	182,146
Cash used by financing activities	(3,915)	(206)
Effect of exchange rate differences on cash	<u>(418)</u>	<u>1,498</u>
Net change in cash from continuing operations	(24,514)	23,420
Net change in cash from discontinued operations	-	9,525
Net change in cash and cash equivalents	(24,514)	32,944
<b>Net cash from continuing operations – end of period</b>	<b>16,978</b>	<b>55,784</b>

## Operating activities

For the three-month period ended May 31, 2026, cash used by operating activities from continuing operations was \$18.4 million, versus \$160.0 million in the corresponding period a year earlier. This year's unfavorable movement in cash is attributable to negative changes in non-cash working capital movements, while last year's unfavourable movement included a \$144.6 million variation in provision related to the divestiture of asbestos-related liabilities.

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

(thousands)	Three-month periods ended	
	May 31, 2026	May 31, 2025
Accounts receivable	581	216
Inventories	7,384	(757)
Income tax recoverable	(555)	(714)
Deposits and prepaid expenses	(174)	(22)
Accounts payable and accrued liabilities	(19,584)	(6,258)
Income tax payable	556	(1,344)
Customer deposits	(6,180)	(7,180)
Provisions	(1,052)	(144,561)
<b>Changes in non-cash working capital items</b>	<b>(19,024)</b>	<b>(160,620)</b>

For the quarter ended May 31, 2026, negative non-cash working capital movements were mainly due to a decrease in accounts payable and accrued liabilities, a decrease in short-term customer deposits, and a decrease in provisions. These factors were partially offset by a decrease in inventories.

## Investing activities

Cash used by investing activities from continuing operations for the quarter ended May 31, 2026, was \$1.8 million reflecting an increase of \$1.0 million in short-term investments as well as additions to property, plant and equipment

of \$0.8 million. For the quarter ended May 31, 2025, investing activities had generated \$182.1 million in cash reflecting net proceeds of \$183.1 million on disposal of the French subsidiaries.

### Financing activities

During the first quarter of fiscal 2027, cash used by financing activities from continuing operations was \$3.9 million reflecting repayment of long-term debt of \$3.5 million and repayment of lease liabilities of \$0.4 million. In the first quarter of fiscal 2026, cash used by financing activities from continuing operations was \$0.2 million, reflecting repayment of lease liabilities of \$0.4 million, partially offset by a net increase of \$0.2 million in long-term debt.

## FOREIGN EXCHANGE RATES

The following table shows certain average and closing exchange rates applicable to Velan’s three-month periods ended May 31, 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	
		May 31, 2026	May 31, 2025
US\$/CDN\$	Average	<b>0.7284</b>	0.7110
	Closing	<b>0.7247</b>	0.7268
US\$/Euro	Average	<b>1.1643</b>	1.1098
	Closing	<b>1.1644</b>	1.1339

## FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

### Market risk

#### *Currency risk*

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

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

The amounts outstanding as at May 31, 2026, and February 28, 2026, are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	May 31, 2026	February 28, 2026	May 31, 2026	February 28, 2026	May 31, 2026	February 28, 2026
<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	1.17 to 1.20	1.04 to 1.10	(158)	(45)	US\$14,000	US\$1,000

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

#### *Cash flow and fair value interest rate risk*

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

#### **Credit risk**

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

The Company's credit risk related to its trade accounts receivable is concentrated. As at May 31, 2026, four (February 28, 2026 – three) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 18.4% (February 28, 2026 – 17.0%) and the Company's ten largest customers accounted for 60.1% (February 28, 2026 – 60.6%) of trade accounts receivable. In addition, one customer accounted for 14.4% of the Company's sales (February 28, 2026 – 12.3%).

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

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

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

<i>(thousands)</i>	As at	
	May 31, 2026	February 28, 2026
	\$	\$
Current	32,496	40,347
Past due 0 to 30 days	10,892	5,107
Past due 31 to 90 days	9,637	8,372
Past due more than 90 days	14,328	15,482
	67,353	69,398
Less: Loss allowance	(502)	(621)
	66,851	68,687
Other receivables	7,212	6,682
<b>Total accounts receivable</b>	<b>74,063</b>	<b>75,369</b>

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

<i>(thousands)</i>	Three-month periods ended	
	May 31, 2026	May 31, 2025
	\$	\$
Balance – Beginning of the year	621	381
Loss allowance expense	0	0
Recoveries of trade accounts receivables	0	0
Write-off of trade accounts receivable	(115)	0
Foreign exchange	(4)	7
<b>Balance – End of the period</b>	<b>502</b>	<b>388</b>

**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, 2026. The Company has no changes to report as at May 31, 2026.

## INTERNAL CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings, disclosure controls and procedures have been designed to provide reasonable assurance that the information presented in the Company's interim and annual reports to shareholders is accumulated and communicated to management on a timely basis, including the Chief Executive Officer and the Chief Financial Officer, in order for appropriate decisions to be made in regards to disclosures. Internal controls over financial reporting have also been designed to provide reasonable assurance regarding the reliability of the financial reporting and the preparation of financial statements in accordance with IFRS.

The Company did not make any changes to the design of internal controls over financial reporting during the three-month period ended May 31, 2026, 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, 2026.

### **New accounting standards and amendments issued but not yet adopted**

The following new standard has been issued by the 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 assessed these amendments and does not expect them to have a material impact on the consolidated financial statements.

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

In this MD&A, the Company presented measures of performance or financial condition which are not defined under IFRS ("non-IFRS measures") and are, therefore, unlikely to be comparable to similar measures presented by other companies. These measures are used by management in assessing the operating results and financial condition of the Company and are reconciled with the performance measures defined under IFRS. The Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

**Adjusted net income (loss), Adjusted net income (loss) per share, Earnings before interest, taxes, depreciation and amortization ("EBITDA") and Adjusted EBITDA**

	Three-month periods ended	
	May 31, 2026	May 31, 2025
<i>(in thousands, except per share amounts; certain totals may not add up due to rounding)</i>	\$	\$
<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	(9,436)	17,826
<i>Adjustments for:</i>		
Asbestos-related costs	-	(754)
Transaction-related costs	377	6,128
Non-recurring provision adjustments	2,132	-
Non-recurring tax recovery on France transaction	-	(23,110)
<b>Adjusted net income (loss) from continuing operations</b>	<b>(6,927)</b>	<b>90</b>
per share – basic and diluted	(0.32)	0.00
<i>Reconciliation of net income (loss) from continuing operations to Adjusted EBITDA from continuing operations</i>		
Net income (loss) from continuing operations	(9,436)	17,826
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	1,698	1,629
Amortization of intangible assets and financing costs	456	519
Finance costs – net	84	390
Income tax expense (recovery)	1,687	(21,958)
<b>EBITDA</b>	<b>(5,511)</b>	<b>(1,594)</b>
<i>Adjustments for:</i>		
Asbestos-related costs	-	(754)
Transaction-related costs	513	6,128
Non-recurring provision adjustments	2,900	-
<b>Adjusted EBITDA</b>	<b>(2,098)</b>	<b>3,780</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.