



MANAGEMENT'S DISCUSSION AND ANALYSIS

First quarter ended May 31, 2023

HIGHLIGHTS¹

- Order backlog² remains strong at \$490.5 million, an increase of \$26.2 million or 5.6% since the beginning of the year driven by strong net new orders ("bookings")² and the lower sales volume reported for the quarter. The portion of the current backlog² deliverable in the next twelve months is \$335.8 million.
- Bookings² of \$91.8 million for the quarter, representing a book-to-bill ratio² of 1.36. The bookings² remained relatively stable compared to the previous year.
- Sales for the quarter amounted to \$67.7 million, a decrease of \$7.3 million or 9.8% compared to the same quarter of the previous fiscal year. The decrease for the quarter is primarily attributable to accelerated shipments in the fourth quarter of the prior fiscal year as a result of customer demand and the Company's increased production ramp-up, delays on certain shipments in the current quarter caused by customer readiness issues, and finally a shortage of deliverable orders in the Company's Italian operations.
- Gross profit for the quarter amounted to \$15.1 million or 22.2%, a decrease compared to last year's \$20.1 million or 26.8%. The 460 basis points decrease in gross profit percentage is mainly due to the lower sales volume which impacted the absorption of fixed production overhead costs.
- Net loss³ of \$8.3 million and negative EBITDA² of \$3.8 million for the quarter compared to a net loss³ of \$7.4 million and a negative EBITDA² of \$2.9 million last year. The decrease in EBITDA² is primarily attributable to the decrease in gross profit, partially offset by a decrease in administration costs.
- The Company's net cash amounted to a solid \$58.6 million at the end of the quarter, an increase of \$8.4 million since the beginning of the fiscal year driven by continued improvements in operating cash flow generation.

¹ All dollar amounts are denominated in U.S. dollars.

² Non-IFRS and supplementary financial measures – additional specifications at the end of this report

³ Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the quarter ended May 31, 2023. This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the years ended February 28, 2023 and 2022. 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 6, 2023. Additional information relating to the Company, including the Annual Information Form and Proxy Information Circular, can be found on SEDAR at www.sedar.com.

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 most industry applications including power generation, oil and gas, refining and petrochemicals, chemicals, LNG and cryogenics, pulp and paper, geothermal processes and shipbuilding. The Company is a world leader in steel industrial valves operating 12 manufacturing plants worldwide with 1,639 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 France, Italy, Portugal, Korea, Taiwan, India, and China. The Company's operations also include a sales operation in Germany.

RESULTS OF OPERATIONS

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first quarter of the last fiscal year)

	Three-month periods ended		
	May 31, 2023	May 31, 2022	Variance
<i>(thousands)</i>			
Sales	\$67,659	\$75,005	(7,346)
Gross profit	15,052	20,073	(5,021)
Administration costs	21,499	25,812	(4,313)
Income taxes	651	1,509	(858)
Net loss ¹	(8,284)	(7,352)	932
EBITDA ²	(3,799)	(2,878)	(921)
Bookings ²	91,811	93,446	(1,635)
Period ending backlog ² of orders	490,518	505,950	(15,432)
<i>(as a percentage of sales)</i>			
Gross profit	22.2%	26.8%	460 bpts
<i>(in dollars per share)</i>			
Net loss ¹ per share – basic and diluted	(0.38)	(0.34)	0.04
EBITDA ² per share – basic and diluted	(0.18)	(0.13)	(0.05)

Backlog²

	As at		
	May 31, 2023	February 28, 2023	May 31, 2022
<i>(thousands)</i>			
Backlog ²	490,518	464,337	505,950
For delivery within the next twelve months	335,848	307,991	339,214
For delivery beyond the next twelve months	154,670	156,346	166,736
Percentage – beyond the next twelve months	31.5%	33.7%	33.0%

The total backlog² increased by \$26.2 million or 5.6% since the beginning of the fiscal year, amounting to \$490.5 million at the end of the quarter. The increase in backlog² is primarily due to a strong book-to-bill ratio² of 1.36 as a result of bookings² outpacing sales in the current quarter.

¹ Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares

² Non-IFRS and supplementary financial measures – more information at the end of this report

Bookings¹

Bookings¹ amounted to \$91.8 million, a decrease of \$1.6 million or 1.7% compared to the first quarter of last year. This decrease is partially attributable to lower marine orders recorded in the Company's North American operations, partially offset by increased upstream oil and gas and nuclear orders recorded in the Company's Italian and French operations.

Sales

Sales were lower for the quarter, decreasing by \$7.3 million or 9.8% compared to the same quarter last year. The decrease in sales for the quarter is primarily attributable to decreased shipments of large orders in the Company's Italian and French operations. This decrease was caused by accelerated shipments in the fourth quarter of the prior fiscal year as a result of customer demand and the Company's increased production ramp-up, delays on certain shipments in the current quarter caused by customer readiness issues, and finally a shortage of deliverable orders in the Company's Italian operations. The decrease in sales for the quarter was partially offset by increased shipments in the Company's North American operations despite also being faced with multiple customer related issues.

Gross profit

Gross profit decreased for the quarter, totaling \$15.1 million or 22.2% compared to last year's \$20.1 million or 26.8%. The decrease in gross profit percentage for the quarter is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The Company's gross profit was also negatively impacted by unfavorable unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro when compared to similar movements from the previous year. Finally, the decrease in gross profit was also due to the unfavorable effect of the product mix delivered.

Administration costs

Administration costs for the quarter amounted to \$21.5 million, a decrease of \$4.3 million or 16.7%. The decrease in administration costs for the quarter is primarily attributable to the recording in the last quarter of the previous fiscal year of an asbestos provision for potential settlement value of future unknown claims. The settlement expense in the first quarter of fiscal 2023 amounted to \$3.2 million. The decrease in administration costs for the quarter is also due to lower outbound freight costs which have now stabilized and sales commissions in reaction to the lower quarterly sales volume.

EBITDA¹

EBITDA¹ amounted to negative \$3.8 million or \$0.18 per share compared to a negative \$2.9 million or \$0.13 per share last year. The unfavorable movement in EBITDA¹ for the quarter is primarily attributable to the previously explained lower gross profit, partially offset by the decrease in administration costs.

¹ Non-IFRS and supplementary financial measures – more information at the end of this report

Income taxes

<i>(thousands, excluding percentages)</i>	Three-month periods ended			
	May 31, 2023		May 31, 2022	
	\$	%	\$	%
Income tax at statutory rate	(2,024)	26.5	(1,546)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	23	(0.3)	52	(0.9)
Non-deductible foreign exchange losses	111	(1.5)	267	(4.6)
Unrecognized tax losses	2,402	(31.4)	2,855	(48.9)
Benefit attributable to a financing structure	(67)	0.9	(67)	1.1
Other differences	206	(2.7)	(52)	0.9
Income tax expense	651	(8.5)	1,509	(25.9)

Net loss¹

Net loss¹ amounted to \$8.3 million or \$0.38 per share compared to \$7.4 million or \$0.34 per share last year. The movement in net loss¹ was primarily attributable to the same factors as explained in the EBITDA² section combined with an unfavorable movement in finance costs, partially offset by a favorable movement in income taxes.

LIQUIDITY AND CAPITAL RESOURCES – a discussion of liquidity risk, credit facilities, cash flows and proposed transactions *(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.

On May 31, 2023, the Company's order backlog² was \$490.5 million and its net cash plus unused credit facilities amounted to \$145.0 million, which it believes, along with future cash flows generated from operations, is sufficient to meet its financial obligations, increase its capacity, satisfy its working capital requirements, and execute on its business strategy. However, there can be no assurance that the risk of another sharp downturn in the economy will not materially adversely affect the Company's results of operations or financial condition. As at May 31, 2023, the Company is in compliance with all covenants related to its debt and credit facilities.

As part of managing its liquidity risk, the Company also monitors the financial health of its key suppliers. As at May 31, 2023, the Company does not see undue risk as a result of this assessment.

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² Non-IFRS and supplementary financial measures – more information at the end of this report

Cash flows - quarter ended May 31, 2023 compared to the quarter ended May 31, 2022

(unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to same period in the prior fiscal year)

The Company's changes in net cash were as follows:

	Three-month periods ended	
	May 31, 2023	May 31, 2022
<i>(thousands)</i>		
Net Cash – Beginning of period	50,253	53,465
Cash provided (used) by operating activities	10,694	(3,065)
Cash used by investing activities	(1,432)	(2,187)
Cash provided (used) by financing activities	(1,288)	1,221
Effect of exchange rate differences on cash	403	(1,782)
Net Cash – End of period	58,630	47,652

Operating activities

The favorable movement in cash provided by operating activities for the quarter is primarily attributable to favorable movements in non-cash working capital items, partially offset by the decrease in EBITDA¹.

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

	Three-month periods ended	
	May 31, 2023	May 31, 2022
<i>(thousands)</i>		
Accounts receivable	31,220	14,062
Income taxes recoverable	(489)	(561)
Inventories	(13,492)	(10,173)
Deposits and prepaid expenses	(314)	(302)
Accounts payable and accrued liabilities	(1,192)	413
Income taxes payable	(466)	(1,098)
Customer deposits	2,037	3,790
Provisions	846	(98)
Changes in non-cash working capital items	18,150	6,033

The positive non-cash working capital movements for the quarter ended May 31, 2023 consisted primarily of a decrease in accounts receivable mainly explained by increased collections.

The negative non-cash working capital movements for the quarter ended May 31, 2023 were primarily due to an increase in inventories in reaction to the overall increase in backlog combined with temporary shipment delays explained under "sales" in the *Results of operations* section.

¹ Non-IFRS and supplementary financial measures – more information at the end of this report

Investing activities

Cash used by investing activities for the quarter was primarily due to additions to property, plant and equipment and intangible assets. The fluctuation in additions to property, plant and equipment for the current quarter is primarily attributable to the timing of the receipts of certain equipment.

Cash used by investing activities for the prior year quarter was primarily due to an increase in short-term investments and additions to property, plant and equipment.

Financing activities

During the quarter, the Company continued to pay down its outstanding long-term debt without undertaking any new debt issuances.

During the prior year quarter, the Company's Italian operations borrowed \$2.2 million in the form of unsecured bank loans, bearing annual interest between 0.67% and 0.71%, repayable quarterly and expiring in fiscal 2027.

SUBSEQUENT EVENT

On June 1, 2023, the minority shareholders of one of the subsidiaries of the Company exercised the right to their unconditional put option, whereby the Company is obligated to effect the repurchase of their minority stake in the subsidiary. The amount of the repurchase is €4.6 million (\$4.9 million) as at May 31, 2023. The repurchase amount is payable within 4 months of notice issuance, thereby requiring a settlement by September 30, 2023. The resulting change to the legal structure of the Company would be that as of the date of the payment, the subsidiary will become a 100% owned subsidiary of the Company.

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, 2023 and February 28, 2023 are as follows:

	Range of exchange rates		Gain (loss) (in thousands of U.S. dollars)		Notional amount (in thousands of indicated currency)	
	May 31, 2023	February 28, 2023	May 31, 2023	February 28, 2023	May 31, 2023	February 28, 2023
			\$	\$		
Foreign exchange forward contracts						
Sell US\$ for CA\$ - 0 to 12 months	1.38	1.38	(58)	(299)	US\$30,000	US\$40,000
Buy US\$ for CA\$ - 0 to 12 months	1.32	1.32	18	107	US\$30,000	US\$40,000
Sell € for US\$ – 0 to 12 months	1.11	-	(9)	-	€9,000	-
Buy € for US\$ – 0 to 12 months	1.07	-	53	-	€9,000	-

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 income 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.

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, 2023, three (February 28, 2023 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 10.8% (February 28, 2023 – 15.0%), and the Company's ten largest customers accounted for 54.8% (February 28, 2023 – 60.4%) of trade accounts receivable. In addition, there was two customers (May 31, 2022 – two) that accounted for more than 10% of the Company's sales.

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 macro-economic factors affecting the Company's customers.

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

The table below summarizes the ageing of the trade accounts receivable as at:

	As at	
	May 31, 2023 \$	February 28, 2023 \$
<i>(thousands)</i>		
Current	48,139	83,118
Past due 0 to 30 days	7,442	9,961
Past due 31 to 90 days	10,376	5,902
Past due more than 90 days	15,115	14,548
	81,072	113,529
Less: Loss allowance	(484)	(481)
	80,588	113,048
Other receivables	10,167	8,005
Total accounts receivable	90,755	121,053

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

	Three-month periods ended	
	May 31, 2023 \$	May 31, 2022 \$
<i>(thousands)</i>		
Balance – Beginning of the year	481	509
Loss allowance expense	2	8
Write-off of trade accounts receivable	-	(16)
Foreign exchange	1	(13)
Balance – End of the period	484	488

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

CERTAIN RISKS THAT COULD AFFECT OUR BUSINESS

The Company lists the various risks that could affect its business in the year-end version of its MD&A. The Company has no changes to report as at May 31, 2023.

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, 2023 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 annual MD&A.

ACCOUNTING STANDARDS AND AMENDMENTS ISSUED BUT NOT YET ADOPTED

IAS 1 Presentation of financial statements requires that, for an entity to classify a liability as non-current, the entity must have the right at the reporting date to defer settlement of the liability for at least twelve months after that date.

In January 2020, the Board issued the amendments *Classification of liabilities as current or non-current to IAS 1* (2020 amendments). The 2020 amendments originally had an effective date for reporting periods beginning on or after 1 January 2023. Applying the 2020 amendments, an entity does not have the right to defer settlement of a liability—and thus classifies the liability as current—when the entity would not have complied with covenants based on its circumstances at the reporting date, even if compliance with such covenants were tested only within twelve months after that date.

The amendments issued in October 2022 clarify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification as current or non-current, even if the covenant is only assessed after the entity's reporting date.

The 2022 amendments introduce additional disclosure requirements. When an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to the covenants which an entity is required to comply with within twelve months of the reporting date, the entity shall disclose information in the notes that enables users

of financial statements to understand the risk that the liability could become repayable within twelve months of the reporting period, including:

- a) the carrying amount of the liability;
- b) information about the covenants;
- c) facts and circumstances, if any, that indicate the entity may have difficulty complying with the covenants. Such facts and circumstances could also include the fact that the entity would not have complied with the covenants based on its circumstances at the end of the reporting period.

The *amendments to IAS 1* are effective for annual reporting periods beginning on or after January 1, 2024 with earlier adoption permitted and should be applied retrospectively. The Company does not expect the amendment to have a significant impact on its consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

Summary financial data derived from the Company's unaudited financial statements from each of the eight most recently completed quarters are as follows:

For the quarters in months ending May, August, November and February
(in thousands of U.S. dollars, excluding per share amounts)

	QUARTERS ENDED							
	May 2023	February 2023	November 2022	August 2022	May 2022	February 2022	November 2021	August 2021
Sales	\$67,659	\$115,141	\$95,229	\$85,054	\$75,005	\$124,849	\$109,971	\$101,893
Net earnings (loss) ¹	(8,284)	(47,164)	2,739	(3,676)	(7,352)	(25,509)	4,507	5,015
Net earnings (loss) ¹ per share								
- Basic and diluted	(0.38)	(2.18)	0.13	(0.17)	(0.34)	(1.19)	0.21	0.23
EBITDA ²	(3,799)	(39,486)	6,136	1,365	(2,878)	16,592	13,291	10,657
EBITDA ² per share								
- Basic and diluted	(0.18)	(1.83)	0.28	0.06	(0.13)	0.77	0.62	0.49

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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. Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found below.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month periods ended	
	May 31, 2023 \$	May 31, 2022 \$
<i>(thousands, except amount per shares)</i>		
Net loss ¹	(8,284)	(7,352)
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	2,066	2,161
Amortization of intangible assets and financing costs	563	568
Finance costs – net	1,205	236
Income taxes	651	1,509
EBITDA	(3,799)	(2,878)
EBITDA per share		
- Basic and diluted	(0.18)	(0.13)

The term "EBITDA" is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus depreciation of property, plant & equipment, plus amortization of intangible assets and financing costs, plus net finance costs plus income taxes. The terms "EBITDA per share" is obtained by dividing EBITDA 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.

Definitions of supplementary financial measures

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

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

The term "book-to-bill" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

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

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