MANAGEMENT'S DISCUSSION AND ANALYSIS

Second quarter ended August 31, 2023

HIGHLIGHTS[1]

- Sales for the quarter amounted to $80.3 million, an improvement of $12.7 million or 18.7% compared to the first quarter of the current fiscal year, a decrease of $4.7 million or 5.6% compared to the second quarter of the previous fiscal year. The decrease in sales for the quarter compared to the prior year is primarily attributable to delays on certain shipments caused by customer readiness issues and a shortage of deliverable orders in the Company's Italian operations.
- Gross profit for the quarter amounted to $23.4 million or 29.1% compared to last year's $23.5 million or 27.6%. Gross profit improved by $8.3 million or 690 basis points compared to the first quarter of the current fiscal year. Gross profit percentage for the quarter was a result of improved product mix offsetting the lower sales volume and unfavorable unrealized foreign exchange translations compared to last year.
- Net loss[2] of $2.1 million and EBITDA[3] of $3.0 million for the quarter compared to a net loss[2] of $3.7 million and EBITDA[3] of $1.4 million last year. The increase in EBITDA[3] is primarily attributable to a $2.1 million decrease in administration costs.
- Order backlog[3] remains strong at $485.7 million, an increase of $21.3 million or 4.6% since the beginning of the year. The increase in backlog[3] is primarily attributable to changes in the profile of scheduled backlog[3] shipment dates. The portion of the current backlog[3] deliverable in the next twelve months is $339.4 million.
- Net new orders ("bookings")[3] of $71.5 million for the quarter, a decrease of $2.0 million or 2.7% compared to last year. The decrease in bookings[3] is primarily attributable to a reduction in MRO distributor orders as well as lower process and mining orders, partially offset by a pick-up in oil and gas orders compared to last year.
- The Company's net cash amounted to $39.4 million at the end of the quarter, a decrease of $19.3 million compared to the $58.6 million net cash balance at the beginning of the quarter. The decrease in net cash for the quarter is primarily related to temporary unfavorable movements in working capital, notably in accounts receivable, inventories and accounts payable and accrued liabilities as the Company prepares for its ramp-up in Q3 and Q4 of the current year. The overall available liquidity remains strong with $122.1 million of available cash-on-hand and facilities.
- On September 18, 2023, the Company completed the previously announced purchase of the 25% minority stake of Segault S.A.S. for €4.7 million ($5.1 million). The Company now owns 100% of all of the outstanding equity of Segault S.A.S.
- The Company announced earlier today that it has been verbally informed that the French Ministry of Economy is refusing to grant its approval in connection with the change of control of Segault S.A.S. and Velan S.A.S. as part of the overall sale of Velan Inc. to Flowserve. As a result, Flowserve informed the Company that they intend to terminate the arrangement agreement on October 7, 2023.

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[1] *All dollar amounts are denominated in U.S. dollars.*
[2] *Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[3] *Non-IFRS and supplementary financial measures – additional specifications at the end of this report*

The following discussion provides an analysis of the consolidated operating results and financial position of Velan Inc. ("the Company") for the quarter ended August 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 October 5, 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 1,626 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 second quarter of the last fiscal year)

	Three-month periods ended			Six-month periods ended		
(thousands)	**August 31, 2023**	**August 31, 2022**	*Variance*	**August 31, 2023**	**August 31, 2022**	*Variance*
Sales	$80,318	$85,054	*(4,736)*	$147,977	$160,059	*(12,082)*
Gross profit	23,385	23,482	*(97)*	38,437	43,555	*(5,118)*
Administration costs	22,571	24,678	*(2,107)*	44,070	50,490	*(6,420)*
Income taxes	1,021	2,084	*(1,063)*	1,672	3,593	*(1,921)*
Net loss[1]	(2,120)	(3,676)	*1,556*	(10,404)	(11,028)	*624*
EBITDA[2]	2,960	1,365	*1,595*	(839)	(1,513)	*674*
Bookings[2]	71,545	73,495	*(1,950)*	163,356	166,941	*(3,585)*
Period ending backlog[2] of orders				485,659	477,596	*8,063*
(as a percentage of sales)						
Gross profit	29.1%	27.6%	*150 bpts*	26.0%	27.2%	*-120 bpts*
(in dollars per share)						
Net loss[1] per share – basic and diluted	(0.10)	(0.17)	*0.07*	(0.48)	(0.51)	*0.03*
EBITDA[2] per share – basic and diluted	0.14	0.06	*0.08*	(0.04)	(0.07)	*0.03*

Backlog[2]

			As at
(thousands)	**August 31, 2023**	**February 28, 2023**	**August 31, 2022**
Backlog[2]	485,659	464,337	477,596
For delivery within the next twelve months	339,430	307,991	347,213
For delivery beyond the next twelve months	146,229	156,346	130,383
Percentage – beyond the next twelve months	30.1%	33.7%	27.3%

The backlog[2] increased by $21.3 million or 4.6% since the beginning of the fiscal year. The increase in backlog[2] is primarily attributable to changes in the profile of scheduled backlog[2] shipment dates. The increase in backlog[2] is also due to the strengthening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented $6.5 million.

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*
[2] *Non-IFRS and supplementary financial measures – more information at the end of this report*

Bookings[1]

Bookings[1] for the quarter amounted to $71.5 million, a decrease of $2.0 million or 2.7% compared to the second quarter of last year. Bookings[1] for the half year amounted to $163.4 million, a decrease of $3.6 million or 2.1% compared to the prior fiscal year. The decrease for the quarter and the half year is primarily attributable to lower orders recorded by the Company's North American operations. The decrease in North American bookings[1] for both periods is partly attributable to a reduction in MRO distributor orders, due in part to higher re-stocking orders in the previous year but also a slowdown currently observed in some covered markets. Additionally, the reduction in North American bookings[1] for both periods was also due to lower process orders, while the decrease for the quarter was also explained by a decrease in mining orders compared to last year. The decrease in bookings[1] for both periods was partially offset by higher oil and gas bookings[1] recorded in the Company's Italian operations, while the decrease for the half year was also partially offset by an increase in nuclear orders recorded by the Company's French operations. Finally, the decrease in bookings[1] was also partially compensated by the strengthening of the euro average rate against the U.S. dollar on bookings[1] for the Company's European operations which resulted in a favorable impact of $2.3 million in the second quarter and $2.7 million on the half year compared to the prior year.

Sales

Sales amounted to $80.3 million for the quarter, decreasing by $4.7 million or 5.6% compared to the same quarter last year. Sales for the half year totaled $148.0 million, a decrease of $12.1 or 7.5% compared to the last fiscal year. The decrease in sales for the quarter and half year is primarily attributable to lower shipments of large orders by the Company's Italian operations due to a reduction of these orders recorded in the previous fiscal year. The decrease in sales for the quarter was also caused by delays on certain shipments caused by customer readiness issues while the decrease for the half year was also due 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. The decrease in sales for the half year was partially offset by increased shipments in the Company's North American operations. Otherwise, the decrease was also partially offset by the positive impact of the strengthening of the euro average rate against the U.S. dollar on sales which amounted to $2.1 million for the quarter and half year compared to last fiscal year. Finally, sales for both periods were also positively impacted by favorable revaluations of the Company's provision for performance guarantees and volume rebate accrual.

Gross profit

Gross profit for the quarter amounted to $23.4 million, a decrease of $0.1 million or 0.4% compared to the second quarter of last year. Gross profit for the half year amounted to $38.4 million, a decrease of $5.1 million or 11.8% compared to the prior fiscal year. The gross profit percentage for the quarter of 29.1% was an increase of 150 basis points compared to last year's second quarter, while the gross profit percentage for the six-month period of 26.0% represented a decrease of 120 basis points compared to the same period last year. The gross profit for both periods was negatively impacted by the lower sales volume which impacted the absorption of fixed production overhead costs as well as unfavorable unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and the Canadian dollar when compared to similar movements from the previous year. Finally, the gross profit for both periods was positively impacted by an improved product mix as well as favorable revaluations of the Company's provision for performance guarantees and volume rebate accrual.

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

Administration cost

Administration costs for the quarter amounted to $22.6 million, a decrease of $2.1 million or 8.5%. Administration costs for the half year amounted to $44.1 million, a decrease of $6.4 million or 12.7%. The decrease in administration costs for the quarter and half year 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 amounted to $3.1 million in the second quarter and $6.3 million in the first six months of fiscal 2023. The decrease in administration costs for both periods is also due to lower outbound freight costs which have now stabilized and sales commissions in relation to the lower sales volume. Finally, the decrease for both periods was partially offset by a general increase in administration costs.

EBITDA[1]

EBITDA[1] for the quarter amounted to $3.0 million or $0.14 per share compared to $1.4 million or $0.06 per share last year. EBITDA[1] for the half year amounted to negative $0.8 million or negative $0.04 per share compared to negative $1.5 million or negative $0.07 per share last year. The favorable movements in EBITDA[1] for both periods are primarily attributable to the previously explained decrease in administration costs partially offset by an increase in other expense. The increase in other expense is mainly due to the adjustment of a provision for a logistics related matter. Finally, the favorable movement in EBITDA[1] for the half year was partially offset by the previously mentioned decrease in gross profit.

Income taxes

	Three-month periods ended			
(thousands, excluding percentages)	August 31, 2023		August 31, 2022	
	$	%	$	%
Income tax at statutory rate	(292)	26.5	(419)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	148	(13.4)	48	(3.0)
Non-deductible (taxable) foreign exchange losses (gains)	(104)	9.4	841	(53.1)
Unrecognized tax losses	1,276	(115.8)	1,545	(97.6)
Benefit attributable to a financing structure	(67)	6.1	(63)	4.0
Other differences	60	(5.5)	132	(8.4)
Income tax expense	**1,021**	**(92.7)**	**2,084**	**(131.6)**

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

	Six-month periods ended			
(thousands, excluding percentages)	August 31, 2023		August 31, 2022	
	$	%	$	%
Income tax at statutory rate	(2,316)	26.5	(1,966)	26.5
Tax effects of:				
Difference in statutory tax rates in foreign jurisdictions	171	(1.9)	100	(1.4)
Non-deductible foreign exchange losses	7	(0.1)	1,108	(14.9)
Unrecognized tax losses	3,678	(42.1)	4,400	(59.3)
Benefit attributable to a financing structure	(134)	1.5	(130)	1.8
Other differences	266	(3.0)	81	(1.1)
Income tax expense	**1,672**	**(19.1)**	**3,593**	**(48.4)**

Net loss[1]

Net loss[1] amounted to $2.1 million or $0.10 per share compared to a net loss[1] of $3.7 million or $0.17 per share last year. Net loss[1] for the half year amounted to $10.4 million or $0.48 per share compared to a net loss[1] $11.0 million or $0.51 per share last year. The positive movements in the Company's results for both periods were primarily attributable to the same factors as explained in the EBITDA[2] section combined with favorable movements in income taxes and unfavorable movements in finance costs.

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 August 31, 2023, the Company's order backlog[2] was $485.7 million and its net cash plus unused credit facilities amounted to $122.1 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 August 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 August 31, 2023, the Company does not see undue risk as a result of this assessment.

[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*

Cash flows - quarter and six-month period ended August 31, 2023

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

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

	Three-month periods ended		Six-month periods ended	
(thousands)	**August 31, 2023**	**August 31, 2022**	**August 31, 2023**	**August 31, 2022**
Net Cash – Beginning of period	58,630	47,652	50,253	53,465
Cash used by operating activities	(21,160)	(11,524)	(10,466)	(14,589)
Cash used by investing activities	(1,950)	(1,671)	(3,382)	(3,858)
Cash provided (used) by financing activities	3,341	(2,951)	2,053	(1,730)
Effect of exchange rate differences on cash	511	(1,781)	914	(3,563)
Net Cash – End of period	**39,372**	**29,725**	**39,372**	**29,725**

Operating activities

The unfavorable movement in cash used by operating activities for the quarter is primarily attributable to unfavorable movements in non-cash working capital items and net change in long-term provisions and customer deposits, partially offset by an increase in EBITDA[1]. The favorable movement in cash used by operating activities for the half year is primarily attributable to favorable movements in non-cash working capital items combined with an increase in EBITDA[1].

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

	Three-month periods ended		Six-month periods ended	
(thousands)	**August 31, 2023**	**August 31, 2022**	**August 31, 2023**	**August 31, 2022**
Accounts receivable	(7,690)	(14,666)	23,530	(604)
Income taxes recoverable	378	(2,129)	(111)	(2,690)
Inventories	(7,664)	6,273	(21,156)	(3,900)
Deposits and prepaid expenses	(1,063)	671	(1,377)	369
Accounts payable and accrued liabilities	(4,351)	(6,836)	(5,543)	(6,423)
Income taxes payable	(1,243)	(689)	(1,709)	(1,787)
Customer deposits	(638)	5,717	1,399	9,507
Provisions	988	(2.272)	1,834	(2,370)
Changes in non-cash working capital items	**(21,283)**	**(13,931)**	**(3,133)**	**(7,898)**

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

The negative non-cash working capital items movements for the quarter ended August 31, 2023 consisted primarily of:

- An increase in accounts receivable primarily due to the higher proportion of sales that occurred later in the quarter;
- An increase in inventories in reaction to the delivery schedule of certain large orders, and;
- A decrease in accounts payable and accrued liabilities due to the timing of payments, primarily related to previously purchased inventories for ongoing and future production.

The negative non-cash working capital movements items for the half-year ended August 31, 2023 consisted primarily of:

- An increase in inventories in reaction to the overall increase in backlog[1]; and
- A decrease in accounts payable and accrued liabilities due to the timing of payments.

The positive non-cash working capital movements for the half year ended August 31, 2023 were primarily due to a decrease in accounts receivable mainly explained by increased in collections.

Investing activities

Cash used by investing activities for the quarter and the half year was primarily due to additions to property, plant and equipment and intangible assets.

Cash used by investing activities in the prior year was due to the same factors as the current year combined with an increase in short-term investments in the half year.

Financing activities

During the quarter, the Company borrowed $5.0 million on its revolving credit facility to fund its temporary non-cash working capital requirements. Otherwise, during both periods, the Company continued to pay down its outstanding long-term debt.

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

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

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

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

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

Market risk

Currency risk

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

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

The amounts outstanding as at August 31, 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)	
	August 31, 2023	February 28, 2023	August 31, 2023 $	February 28, 2023 $	August 31, 2023	February 28, 2023
Foreign exchange forward contracts						
Sell US$ for CA$ - 0 to 12 months	1.38	1.38	(3)	(299)	US$20,000	US$40,000
Buy US$ for CA$ - 0 to 12 months	1.32	1.32	2	107	US$20,000	US$40,000
Buy US$ for € – 0 to 12 months	1.07-1.11	-	13	-	US$881	-
Sell € for US$ – 0 to 12 months	1.11	-	(2)	-	€6,000	-
Buy € for US$ – 0 to 12 months	1.07	-	3	-	€6,000	-

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 August 31, 2023, four (February 28, 2023 – four) customers accounted for more than 5% each of its trade accounts receivable, of which one customer accounted for 9.6% (February 28, 2023 – 15.0%), and the Company's ten largest customers accounted for 56.1% (February 28, 2023 – 60.4%) of trade accounts receivable. In addition, there was one customer (August 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
(thousands)	**August 31, 2023 $**	**February 28, 2023 $**
Current	59,808	83,118
Past due 0 to 30 days	10,222	9,961
Past due 31 to 90 days	4,080	5,902
Past due more than 90 days	15,694	14,548
	89,804	113,529
Less: Loss allowance	(327)	(481)
	89,477	113,048
Other receivables	9,803	8,005
Total accounts receivable	**99,280**	**121,053**

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

	Six-month periods ended	
(thousands)	**August 31, 2023 $**	**August 31, 2022 $**
Balance – Beginning of the year	481	509
Loss allowance expense	59	5
Recoveries of trade accounts receivables	(214)	-
Write-off of trade accounts receivable	-	(16)
Foreign exchange	1	(30)
Balance – End of the period	**327**	**468**

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 August 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 and six-month periods ended August 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							
	August 2023	**May 2023**	**February 2023**	**November 2022**	**August 2022**	**May 2022**	**February 2022**	**November 2021**
Sales	$80,318	$67,659	$115,141	$95,229	$85,054	$75,005	$124,849	$109,971
Net earnings (loss)[1]	(2,120)	(8,284)	(47,164)	2,739	(3,676)	(7,352)	(25,509)	4,507
Net earnings (loss) [1] per share								
- Basic and diluted	(0.10)	(0.38)	(2.18)	0.13	(0.17)	(0.34)	(1.19)	0.21
EBITDA[2]	2,958	(3,799)	(39,486)	6,136	1,365	(2,878)	16,592	13,291
EBITDA[2] per share								
- Basic and diluted	0.14	(0.18)	(1.83)	0.28	0.06	(0.13)	0.77	0.62

[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*

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

	Three-month periods ended		Six-month periods ended	
(thousands, except amount per shares)	**August 31, 2023 $**	**August 31, 2022 $**	**August 31, 2023 $**	**August 31, 2022 $**
Net loss[1]	(2,120)	(3,676)	(10,404)	(11,028)
Adjustments for:				
Depreciation of property, plant and equipment	2,154	2,023	4,220	4,184
Amortization of intangible assets and financing costs	514	556	1,077	1,124
Finance costs – net	1,391	378	2,596	614
Income taxes	1,021	2,084	1,672	3,593
EBITDA	**2,960**	**1,365**	**(839)**	**(1,513)**
EBITDA per share				
- Basic and diluted	0.14	0.06	(0.04)	(0.07)

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 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.

[1] *Net income or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*