INTERIM MANAGEMENT'S REPORT
For the Three-Month Period Ended June 30, 2007

(Management's Discussion and Analysis of
Combined Carve-out Operating Results and Financial Position)

FOREWORD TO MANAGEMENT'S REPORT

Basis of Presentation

This Management's Report deals with the financial results of the operating units, Water Treatment Group, Pulp and Paper Group and Manufacturing Unit ("the transferred commercial activities") of Groupe Laperrière & Verreault Inc. ("GL&V") for the three-month periods ended June 30, 2007 and 2006. Effective August 8, 2007, pursuant to the Arrangement ("the Arrangement") between GL&V, its shareholders and FLSmidth & Co. A/S (« FLS »), substantially all the assets and liabilities of the retained businesses were transferred into the new corporation GLV Inc. ("New GLV" or "the Company"), incorporated on May 15, 2007. The new corporation was listed on the TSX Exchange on August 13, 2007, upon the closing of the Arrangement. (See section titled *"Salient Events; Arrangement between GL&V, its Shareholders and FLSmidth & Co."*)

This Management's Report should be read in conjunction with the unaudited combined carve-out financial statements and accompanying notes to the Management's Report. The reader is also invited to refer to the Information Circular ("the Circular'') distributed to GL&V's shareholders and filed on SEDAR (www.sedar.com) as at June 20, 2007, for the purposes of the Special General Meeting of Shareholders held on July 27, 2007 in order to approve the Arrangement. The reader should particularly refer to the *"Risk Factors"* section of the Circular for a description of the factors that may affect the future financial position, cash flows and operating results of New GLV and its operating units.

The combined carve-out financial statements and accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). They have been derived from the accounting records of GL&V using the historical cost basis of assets and liabilities and historical results of operations of the transferred commercial activities and a breakdown, for the two comparative three-month periods ended June 30, 2007 and 2006, of the historical corporate expenses incurred by head office in regard to those operations.

In this Management's Report, the fiscal year ending March 31, 2008 and the fiscal year ended March 31, 2007 are designated by the terms "fiscal 2008" and "fiscal 2007". The "first quarter of fiscal 2008" and the "first quarter of fiscal 2007" refer to the three-month periods ended June 30, 2007 and 2006 respectively.

Unless otherwise indicated, the financial information presented in this Management's Report, including tabular amounts, is expressed in Canadian dollars. The Canadian dollar is also GL&V's and New GLV's measurement currency. Unless otherwise indicated, the analysis of results for the reporting period in question is made in comparison with financial results for the equivalent period of the previous fiscal year. The initial "M" means "millions of dollars".

Compliance with Canadian GAAP

The financial information presented in this Management's Report, including tabular amounts, is prepared in accordance with Canadian GAAP. The information contained in the Management's Report also includes some figures that are not performance measures consistent with GAAP, specifically:

- **EBITDA**: earnings before amortization, financial expenses and income taxes;
- **normalized EBITDA**: according to the reporting periods, EBITDA before gains or losses on disposal of property, plant, equipment and other assets;
- **EBIT**: earnings before financial expenses and income taxes;
- **normalized EBIT**: according to the reporting periods, EBIT before gains or losses on disposal of property, plant, equipment and other assets; and
- **normalized net earnings**: according to the reporting periods, earnings before gains or losses on disposal of property, plant, equipment and other assets (net of related income taxes).

Such measures allow Management to assess the operational and financial performance of the various operating groups. These measures are also commonly used by the investment community to analyze and compare the performance of companies engaged in the same industries. However, they are not intended to be regarded as alternatives to other financial accounting performance measures or to the statement of cash flows as a measure of liquidity. They are not intended to represent funds available for debt service, dividends, reinvestment or other discretionary uses, and should not be considered in isolation or as a substitute for performance measures prepared in accordance with Canadian GAAP. Management's definition of these measures may not be similarly titled measures reported by other companies. A table presenting the reconciliation between these measures and the most comparable GAAP measures for the quarters ended June 30, 2007 and 2006 is presented elsewhere in this Management's Report.

General Corporate Office Expenses Allocated to the Transferred Commercial Activities, Bonus Expenses, Stock Options and Other Stock-Based Compensation Plans

For the three-month periods ended June 30, 2007 and 2006, GL&V has allocated most of the selling and administrative expenses of the corporate office (included as *"administrative expenses"* in the combined carve-out statement of income) to New GLV's transferred commercial activities on the basis of the percentage of revenues generated. Such allocated costs include human resources, legal, treasury, insurance, finance, taxation, marketing, accounting, strategy, investor relations and public affairs. The costs allocated are not necessarily indicative of the costs that would have been incurred if the transferred commercial activities had performed the functions as a stand-alone company during the periods presented, nor are they indicative of the costs that will be incurred by New GLV in the future. Since the completion of the reorganization and transfer of such commercial activities effective August 8, 2007, New GLV has performed these functions using its own resources or purchased services.

For the three-month periods ended June 30, 2007 and 2006, bonus expenses related to GL&V's corporate office employees have been allocated on the basis of earnings before amortization, financial expenses and income taxes of each combined entity. These expenses are not necessarily indicative of those that would the expenses would have been had the transferred commercial activities been a stand-alone entity during the periods presented.

Stock option expenses and other stock-based compensation expenses in the combined carve-out financial statements of earnings in effect at GL&V during the periods presented include the expenses related to the fair value of awards held by the employees of the transferred commercial activities, as well as an allocation based on earnings before amortization, financial expenses and income taxes of each combined entity, for GL&V's corporate office employees during the years presented. These expenses are not necessarily indicative of what they would have been had the transferred commercial activities been a stand-alone entity during the periods presented.

Forward-Looking Statements

Management's Report is designed to assist investors in understanding the nature and the importance of the changes and trends, as well as the risks and uncertainties associated with the operations and financial position of the commercial activities transferred into New GLV. The statements set forth in this Management's Report and certain other sections of the interim report that describe management's objectives, projections, estimates, expectations or forecasts may constitute forward-looking statements within the meaning of securities legislation. Positive or negative verbs such as "plan", "evaluate", "estimate" and "believe" as well as other related expressions are used to identify such forward-looking statements. Management would like to point out that, by their very nature, forward-looking statements involve a number of risks and uncertainties such that actual and future results could differ materially from those indicated. There can be no assurance as to the materialization of the results, performance or achievements as expressed in or underlying the forward-looking statements. Unless required to do so pursuant to applicable securities legislation, management assumes no obligation as to the updating or revision of the forward-looking statements as a result of new information, future events or other changes.

Effectiveness of Disclosure Controls and Procedures and Internal Controls in Regard to Financial Reporting

Management of the former GL&V and New GLV has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared, and disclosed in public documents pursuant to the requirements of *Multilateral Instrument 52-109*. As at March 31, 2007, GL&V's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, have concluded that the design and operation of the Company's disclosure controls and procedures are effective. The Chief Executive Officer and Chief Financial Officer have also concluded that GL&V has designed appropriate internal controls over financial reporting for the nature and size of the Company's business, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles ("GAAP").

No other changes to internal control over financial reporting has come to Management's attention during the three month period ended June 30, 2007 that have materially adversely affected, or are reasonably likely to materially adversely affect, the Company's internal control over financial reporting.

BUSINESS OVERVIEW

About New GLV

Founded on May 15, 2007 to carry on part of GL&V's business pursuant to the Arrangement, GLV Inc. is a global provider of technologies and processes designed for various environmental, municipal and industrial applications. Its operations are divided into two main groups:

- Created in April 2004, the **Water Treatment Group** specializes in the design and marketing of equipment for the treatment of municipal and industrial wastewater and water used in various industrial processes, as well as water intake screening solutions for certain types of power stations and desalination plants.

- The **Pulp and Paper Group** has specialized for over 30 years in the design and marketing of equipment used in various stages of pulp and paper production, notably pulp preparation and sheet formation, and is a recognized leader in rebuilding, upgrading and optimization services for existing equipment, as well as the sale of replacement parts.

In addition, the Manufacturing Unit specializes in the production of large custom-made parts for external customers involved mainly in the pulp and paper and energy sectors, as well as for the Pulp and Paper Group.

GLV is present in some 30 countries and has close to 1,500 employees. Since August 13, 2007, its shares have traded on the TSX under the ticker symbols LVG.A and LVG.B.

Significant Events

Arrangement between GL&V, its Shareholders and FLS (Announced April 20, 2007 and Closed August 10, 2007)

On April 20, 2007, GL&V and the Danish company FLSmidth & Co. A/S ("FLS") announced the signing of an agreement under a Plan of Arrangement, pursuant to which GL&V would transfer its Water Treatment Group, its Pulp and Paper Group and its Manufacturing Unit into a new corporation (GLV Inc.) to be spun off to GL&V's shareholders and ultimately listed on the TSX. Immediately thereafter, FLS would acquire all the Class A subordinate voting shares and Class B multiple voting shares outstanding of GL&V, thereby becoming the effective owner of 100% of GL&V's Process Group, for a cash consideration equivalent to $33 per share of GL&V and the assumption of the net debt, with the exception of a net debt of approximately $52 M to be assumed by New GLV. Pursuant to the Arrangement, each GL&V shareholder would receive a per-share consideration of $33 in cash and one New GLV share of the same class (Class A subordinate voting or Class B multiple voting) for each share held. The proposed Arrangement was subject to shareholder approval by a resolution approved by no less than 75% of the votes cast in each of GL&V's share classes (Class A subordinate voting and Class B multiple voting) during a Special General Meeting of Shareholders. It was also subject to a number of conditions, including approval by the Quebec Superior Court, acceptance by the TSX and other regulatory approvals.

A detailed description of the Arrangement and the steps taken by GL&V in connection with this transaction is provided in the Circular prepared for the Special General Meeting and filed on SEDAR on June 20, 2007 (www.sedar.com).

On July 27, 2007 GL&V's shareholders present or represented by proxy at the Special General Meeting approved the Arrangement, in a majority of 99.92% of the votes cast by the holders of Class A subordinate voting shares, and unanimously by the holders of Class B multiple voting shares, for a combined majority of 99.97% of the votes cast in the two share classes. On July 31, 2007, the Quebec Superior Court issued a final order approving the Plan of Arrangement. The Arrangement closed on August 10, 2007, after the other required approvals had been obtained, including those of the Federal Department of Industry and relevant competition authorities in various countries. The transfer agent will proceed to distribute the GLV shares and cash payments to shareholders who had previously delivered the duly completed Letter of Transmittal along with their GL&V share certificates. At the close of markets on August 10, 2007, GL&V was delisted from the TSX and when markets opened on August 13, 2007, New GLV's stock began trading under the ticker symbols LVG.A and LVG.B.

Financing of New GLV

On April 19, 2007, New GLV obtained a credit facility from a Canadian financial institution for an aggregate $175 M, consisting of two secured non-reducing revolving credits. Of that amount, $125 M may be used to finance business acquisitions, meet day-to-day financing requirements and issue letters of credit. The remaining $50 M may be used to issue letters of credit guaranteed by Export and Development Canada (EDC). On August 8, 2007, the credit facility was subject to a syndication and was finalized.

Creation and Expansion of the Water Treatment Group

At the beginning of fiscal 2005, a new reportable business segment was formed, the Water Treatment Group, the operations and results of which were previously incorporated into the GL&V's Process Group. This group was originally comprised mainly of the North American entity Eimco Water Technologies, LLC, founded in January 2004. Today, this group comprises all drinking water, industrial process water and municipal and industrial wastewater treatment activities carried out by New GLV's various international subsidiaries. During its first complete fiscal year ended March 31, 2005, this group recorded revenues of approximately $75 million. Two years later, for the fiscal year ended March 31, 2007, its revenues reached more than $212 million.

During fiscal 2006, this group made three acquisitions:

- On April 1, 2005, acquisition of certain water treatment related assets and operations of the British company **Jones & Attwood** ("Jones & Attwood"), based in England and also operating a sales and service centre in Chicago, Illinois. The acquired operations and assets cover the design, manufacture, marketing and installation of effluent liquid/solid filtration and separation process equipment targeted mainly to municipalities as well as an industrial customer base.

- On November 7, 2005, acquisition of all the shares of the British company **Brackett Green Limited** ("Brackett Green"), based in the United Kingdom and its Texas subsidiary, a world leader in advanced water intake screening and filtration technologies used by power stations, desalination plants and various other types of industries. Brackett Green also offers a broad selection of municipal and industrial wastewater treatment equipment. In addition, the Caird & Rayner Clark division offers advanced seawater desalination technologies.

- On January 9, 2006, acquisition of certain assets and operations of the Paper Chemical Systems Unit of **Metso Paper, Inc** ("Metso Paper"), based in Finland, primarily the intellectual property rights associated with a number of products in the wastewater treatment field. This acquisition strengthened the Water Treatment Group's positioning in the pulp and paper industry and various other sectors where such technologies might be applied, including municipal water treatment.

During fiscal 2007, the Water Treatment Group made two acquisitions:

- On June 30, 2006, acquisition of all the outstanding shares of **Enviroquip, Inc**. ("Enviroquip"), based in Texas, a producer of drinking water and wastewater treatment equipment, mainly for municipalities. In addition to its own technologies, it holds the exclusive U.S. municipal market licence for the submerged membrane filtration unit developed by the Japanese multinational Kubota. This wastewater treatment technology is increasingly in demand by North American municipalities. Having held the exclusive licence in Canada since 2004, the Water Treatment Group thereby secured exclusive rights to this technology for the whole of North America. The combination of Enviroquip's products and Kubota's submerged membrane bioreactor (MBR) provides the Water Treatment Group with an edge in the marketplace, having enabled it to establish its presence in a growing market segment, where there are considerable barriers to entry due to numerous existing patents and to the lengthy period required to acquire market share. The addition of this technology to its existing portfolio strengthens its current and future positioning in the North American municipal market, where new technologies such as the submerged membrane are gradually gaining market share at the expense of more conventional technologies.

- On October 16, 2006, acquisition of all the shares of two companies specializing in wastewater treatment solutions: **COPA Limited**, in the United Kingdom, and **COPA Water Pty Ltd**, in Australia ("Copa"). This acquisition, the fifth to be completed by the Water Treatment Group within eighteen months, enabled it to integrate a portfolio of equipment and processes designed for various wastewater treatment applications, and which have gained market recognition for their innovative engineering and superior reliability. In addition, COPA Limited holds the exclusive licence for the Kubota submerged membrane (MBR) for the municipal, commercial and industrial wastewater treatment markets in the United Kingdom. Thus, this acquisition provided the Water Treatment Group with advanced technologies meeting new global market needs, strengthened its relationship with Kubota, increased its know-how in submerged membrane technology, and positioned it more solidly in certain high-potential regions. At the end of the last fiscal year, a non-strategic portion of the Australian business forming part of the Copa acquisition was sold. This divestment is consistent with the objective of restructuring part of the operations of the Water Treatment Group subsequent to its various acquisitions. In addition to improving its cost structure, this transaction allows the group to further focus on its core business in the municipal and industrial sectors in selective growth water treatment markets.

The five acquisitions of the past two years have provided the Water Treatment Group with state-of-the-art technologies and recognized trademarks, access to new markets including energy, a significant installed equipment base worldwide, a growth platform in Europe and an increased international presence.

Intensified International Development of the Pulp and Paper Group

In recent years, pulp and paper production worldwide has been increasingly shifting toward certain regions in the Southern Hemisphere, Asia and Eastern Europe, which benefit from abundant natural resources and advantageous production costs. Concurrently, new technologies have emerged on the market, focused on enhancing mill capacity, productivity and efficiency. Pulp and paper manufacturers' investments in North America, the primary market of the Pulp and Paper Group, are increasingly focused on producing specialty products and upgrading, improving and maintaining existing equipment to maximize its yield, rather than on new capital projects.

In such a context, the Pulp and Paper Group has implemented a market strategy aimed at the following key objectives: (1) the development of its product portfolio, primarily through acquisitions, in order to provide higher value-added technologies and more comprehensive solutions, i.e. covering all stages of its customers' production flowsheets, and to meet the growing need in the global pulp and paper industry for increased mill capacity and productivity and lower costs; (2) the development of its aftermarket business base and the consolidation of its aftermarket leadership in North America and Europe, also by means of acquisitions; and (3) the development of its presence in certain emerging markets toward which a growing proportion of pulp and paper production is shifting, such as China, India, Latin America and Russia. This strategy yielded tangible benefits, as the Pulp and Paper Group was awarded several major contracts abroad in the past two years, while maintaining a strong aftermarket business in North America and Europe.

This group made one acquisition during fiscal 2006, specifically the May 27, 2005 purchase of certain assets of **Perplas Limited** ("Perplas"), based in the United Kingdom and specializing in the manufacture of stock preparation equipment and high-turnover replacement parts (consumables). In October 2006, during the last fiscal year, certain non-strategic operations of Perplas were sold.

The Pulp and Paper Group made four more acquisitions during fiscal 2007:

- On April 1, 2006, acquisition of the principal assets of **KanEng Industries Inc.** ("KanEng") and **KanEng-Deltec Inc.** in Quebec City, Canada, specializing in the manufacture of high-turnover replacement parts (consumables) for paper machines, including a large proportion in the aftermarket.

- On July 10, 2006, acquisition of the principal assets related to the refiner rebuild business of **J&L Fiber Services Inc**. ("J&L Fiber Services"), based in Massachusetts.

- On August 24, 2006, acquisition of the principal assets related to the operations of the **Huyck Dewatering Equipment** division of Xerium Technologies, Inc., in the United Kingdom. These operations are complementary to those of Perplas.

- On December 29, 2006, acquisition from **Metso Corporation** ("Metso") of the principal assets, namely the proprietary rights, patents, know-how, trademarks and part of the manufacturing machinery, relating to the pulp washing, oxygen delignification and bleaching business of the Swedish **Kværner Pulping** ("Kværner") including Kværner's Compact Press™ wash press technology, along with Metso's SuperBatch™ cooking technology. Subsequent to the acquisition, GL&V undertook to set up a chemical pulping technology centre in Karlstad, Sweden, which strengthens the Pulp and Paper Group's European and global presence.

This acquisition contributed to position the Pulp and Paper Group among the world's top providers of stock preparation equipment. The cooking, oxygen delignification, bleaching and wash press technologies have been specifically designed to meet the growing need in the global pulp and paper industry for increased mill production capabilities and efficiency. The acquisition therefore meets the Pulp and Paper Group's key strategic objectives by giving it access to world-class value-added technologies backed by excellent trademarks, strengthening its European team and international presence and providing it with a significant global installed equipment base and new aftermarket products. In the following months, the Pulp and Paper Group was awarded several orders through its new Karlstad technology centre, including a contract worth close to $60 million order for the design, manufacture and turnkey installation of a complete pulp washing, oxygen delignification and pulp bleaching system based on the new Compact Press™ wash press technology. The contract includes the supply of the largest wash press in the industry.

Financial Benefits of the Acquisitions of the Past Two Years

Within the last two fiscal years, the Water Treatment Group and the Pulp and Paper Group have thus completed five business acquisitions each, for a total of ten. These acquisitions contributed to raise the revenues of the commercial activities transferred into New GLV by 48.4% between March 31, 2005 and 2007, representing an average annual growth of 21.8%. During the same period, combined carve-out normalized EBITDA rose 44.7% (average annual growth of 20.3%), due to the contribution of the acquired businesses, their efficient integration with existing operations, tight cost control and the development of the global network of subcontractors, to which a large part of manufacturing is outsourced in order to maintain a competitive and flexible cost structure.

Normalized EBIT posted slower growth than normalized EBITDA, i.e. 23.9% for an average annual growth of 11.3%, due to the increase in amortization expenses arising from the acquisitions, especially the amortization of intangible assets. In fact, the expansion strategy is essentially focused on the acquisition of technologies, trademarks and other strategic assets that enable the groups to provide an international customer base with comprehensive value-added solutions, and thereby to secure an advantageous position in growth niches within various markets. Furthermore, their distinctive aftermarket expertise as OEM manufacturers of an extensive range of products with globally recognized brand names allows them to benefit from a source of recurring aftermarket revenues yielding attractive profit margins. At present, the aftermarket business is especially developed in the Pulp and Paper Group.

SELECTED FIRST-QUARTER FINANCIAL INFORMATION

The following tables present selected combined carve-out financial information relating to the commercial activities transferred into New GLV, including some segmented information concerning the two major operating units: the Water Treatment Group and the Pulp and Paper Group. The information relating to the Manufacturing Unit is included in the item "Other and eliminations", since this unit does not meet the quantitative criteria stipulated in CICA Handbook Section 1701 for reportable segments. The following information should be read in conjunction with (i) this Management's Report; (ii) the unaudited interim combined carve-out financial statements and notes thereto as at June 30, 2007 and 2006 accompanying this Management's Report; and (iii) the Circular filed on SEDAR on June 20, 2007.

Operating Results

	1st Quarters Ended June 30,			
(in thousands of $, except percentages)	**2007**	**2006**	**Change $**	***Change %***
Revenues:				
Water Treatment	56,367	34,314	22,053	*64.3%*
Pulp and Paper	57,917	50,202	7,715	*15.4%*
Other and eliminations	984	1,869	(885)	*(47.4)%*
Total	**115,268**	86,385	28,883	*33.4%*
Gross margin	**24,686**	19,724	4,962	*25.2%*
EBITDA	**3,719**	4,396	(677)	*(15.4)%*
Normalized EBITDA:				
Water Treatment	3,048	2,044	1,004	*49.1%*
Pulp and Paper	1,590	4,127	(2,537)	*(61.5)%*
Other and eliminations	(974)	(2,073)	1,099	*(53.0)%*
Total	**3,664**	4,098	(434)	*(10.6%)*
Other stock-based compensation(1)**:**				
Water Treatment	29	19	10	*52.6%*
Pulp and Paper	1,388	152	1,236	*813.2%*
Other and eliminations	(520)	146	(666)	*(456.2)%*
Total	**897**	317	580	*183.0%*
Amortization:				
Water Treatment	1,393	205	1,188	*579.5%*
Pulp and Paper	752	606	146	*24.1%*
Other	719	577	142	*24.6%*
Total	**2,864**	1,388	1,476	*106.3%*
Normalized EBIT:				
Water Treatment	1,655	1,839	(184)	*(10.0)%*
Pulp and Paper	838	3,521	(2,683)	*(76.2)%*
Other and eliminations	(1,693)	(2,650)	957	*(36.1)%*
Total	**800**	2,710	(1,910)	*(70.5)%*
Financial expenses	**1,269**	(120)	1,389	*(1,157.5)%*
Income taxes	**164**	700	(536)	*(76.6)%*
Net earnings (loss)	**(578)**	2,428	(3,006)	*(123.8)%*

(1) Compensation based on the appreciation of GL&V's Class A subordinate voting shares during the reporting periods.

Balance Sheet Highlights

(in thousands of $)	**June 30, 2007**	**March 31, 2007**
Total assets	349,365	371,423
Invested equity	110,396	116,418
Available short-term cash (1)	5,195	21,242
Long-term liabilities (2)	112,108	116,981
Total net debt (3)	100,682	89,108

(1) Includes cash, cash equivalents and temporary investments.
(2) Includes advances from companies under common control, long-term debt and pension plans liabilities.
(3) Consists of advances from companies under common control and long-term debt, less available cash.

Information Regarding Non Canadian GAAP Measures
(in thousands of $)

	Three months ended June 30, 2007				Three months ended June 30, 2006			
	Water Treatment Group	Pulp & Paper Group	Others & Eliminations	Total	Water Treatment Group	Pulp & Paper Group	Others & Eliminations	Total
Segmented EBIT:								
Earnings (loss) before financial expenses and income taxes (EBIT)	$ 1,721	$ 829	$ (1,695)	$ 855	$ 1,976	$ 3,682	$ (2,650)	$ 3,008
(Gain) loss on disposal of property, plant and equipment and other assets	(66)	9	2	(55)	(137)	(161)	-	(298)
Normalized earnings (loss) before financial expenses and income taxes (normalized EBIT)	**$ 1,655**	**$ 838**	**$ (1,693)**	**$ 800**	**$ 1,839**	**$ 3,521**	**$ (2,650)**	**$ 2,710**
Segmented EBITDA:								
Earnings (loss) before financial expenses and income taxes (EBIT)	$ 1,721	$ 829	$ (1,695)	$ 855	$ 1,976	$ 3,682	$ (2,650)	$ 3,008
Amortization	1,393	752	719	2,864	205	606	577	1,388
Earnings before amortization, financial expenses and income taxes (EBITDA)	3,114	1,581	(976)	3,719	2,181	4,288	(2,073)	4,396
(Gain) loss on disposal of property, plant and equipment and other assets	(66)	9	2	(55)	(137)	(161)	-	(298)
Normalized earnings (loss) before amortization, financial expenses and income taxes (normalized EBITDA)	**$ 3,048**	**$ 1,590**	**$ (974)**	**$ 3,664**	**$ 2,044**	**$ 4,127**	**$ (2,073)**	**$ 4,098**
NET EARNINGS:								
Net earnings (loss)				$ (578)				$ 2,428
(Gain) loss on disposal of property, plant and equipment and other assets (net of related taxes)				(42)				(231)
Normalized net earnings (loss)				**$ (620)**				**$ 2,197**

ANALYSIS OF COMBINED CARVE-OUT OPERATING RESULTS FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2007

Currency Fluctuations

As the commercial activities transferred into New GLV are conducted in some 30 countries, their results are exposed to some currency fluctuations in relation to the Canadian dollar, primarily the U.S. dollar, the pound Sterling and the Euro. The following table summarizes the impact of currency fluctuations on the principal statement of income items for the three-month period ended June 30, 2007, compared with the exchange rates effective during the same periods in 2006.

Favourable (Unfavourable) Impact of Currency Fluctuations

(in thousands of $)	1st Quarter Ended June 30, 2007
Revenues:	
Water Treatment Group	1,151
Pulp and Paper Group	664
Other and eliminations	(4)
Total	**1,811**
Gross margin	**349**
EBITDA:	
Water Treatment Group	145
Pulp and Paper Group	(155)
Other and eliminations	12
Total	**2**
EBIT:	
Water Treatment Group	106
Pulp and Paper Group	(166)
Other and eliminations	19
Total	**(41)**
Order backlog as at June 30, 2007	**(3,226)**

The fluctuation in various exchange rates did not have a material impact on combined carve-out operating results for the first quarter of fiscal 2008. On a segmented basis, the Water Treatment Group slightly benefited, but the Pulp and Paper Group's operating income was adversely affected.

Revenues

(in thousands of $)	1st Quarters Ended June 30,	
	2007	2006
Revenues:		
Water Treatment Group	56,367	34,314
Pulp and Paper Group	57,917	50,202
Other and eliminations	984	1,869
Total	**115,268**	86,386
Revenue mix:		
New equipment	74,373	48,007
Aftermarket	40,895	38,378
Total	**115,268**	86,386

Combined carve-out ***revenues*** for the first quarter of fiscal 2008 grew by $28.9 M or 33.4% over the same period in 2007, driven mainly by the five acquisitions of the previous twelve months.

- The **Water Treatment Group** posted a $22.1 M or 64.3% increase in its quarterly revenues as a result of the acquisition of Enviroquip and Copa at the very end of the first quarter and during the third quarter of the previous fiscal year respectively. Excluding these acquisitions, this group's revenues sustained negative organic growth of 11.8% due mainly to the equipment delivery delays imposed by customers in certain contracts.

- The **Pulp and Paper Group's** revenues grew by $7.7 M or 15.4%, thanks to the purchase of cutting-edge technologies for fibre processing and pulp preparation in December 2006, subsequent to which the group was awarded several contracts including a $60 M order for which it started recognizing revenues during the first quarter. The past year's acquisition of certain assets of J&L Fiber Services and Huyck Dewatering Equipment also contributed to grow the Pulp and Paper Group aftermarket revenues. Excluding the acquisitions and the commercial activities sold in 2007, the Pulp and Paper Group's revenues remained stable with those of the same period last year.

Overall, revenues from the **sale of new equipment** increased by $26.4 M or 54.9% to account for 64.5% of total revenues (before inter-segment eliminations), compared with 55.6% in the same quarter a year earlier. This growth can be explained by the expansion of the Water Treatment Group which generates a large proportion of its revenues in the new equipment segment (79.3% in the first quarter of fiscal 2008), and also by the booking of several new equipment contracts by the Pulp and Paper Group subsequent to its latest acquisition and the setting of its technology centre in Sweden. **Aftermarket** revenues grew by $2.5 M or 6.6% thanks to the Pulp and Paper Group's other acquisitions.

The geographic breakdown of the revenues of the commercial activities transferred into New GLV for the first quarter of fiscal 2008 was as follows:

- 43% of revenues were derived from customers located in the United States (44% in 2007);
- 30% in Europe and Russia (28% in 2007);
- 10% in India, China and the Asia-Pacific region (10% in 2007);
- 8% in Canada (14% in 2007);
- 3% in Latin America (3% in 2007); and
- 6% in Africa and the Middle East (1% in 2007).

Gross Margin and Normalized EBITDA

(in thousands of $, except percentages)	1st Quarters Ended June 30,	
	2007	2006
Gross margin	**24,686**	19,724
As a % of revenues	*21.4%*	*22.8%*
Operating expenses	20,967	15,328
As a % of revenues	*18.2%*	*17.7%*
Normalized EBITDA:		
Water Treatment Group	3,048	2,044
Pulp and Paper Group	1,590	4,127
Other and eliminations	(974)	(2,073)
Total	**3,664**	4,098
As a % of revenues	*3.2%*	*4.7%*

The combined carve-out ***gross margin*** grew by $5.0 M or 25.2%. Expressed as a percentage of revenues, it decreased to 21.4% in the first quarter of fiscal 2008 from 22.8% the previous year. This reduction can be explained by the weaker profitability of certain of the Water Treatment Group's contracts using conventional technologies for which profit margins are below those yielded by new technologies. In addition, the Pulp and Paper Group has recently been awarded certain large-scale contracts for which the profit margins are lower than its usual margins.

Operating expenses were up by $5.6 M or 36.8%, primarily as a result of the five acquisitions of the previous twelve months. Administrative expenses include an increase of approximately $0.6 M in other stock-based compensation based on the price of GL&V's Class A subordinate voting shares due to the appreciation of over 40% in the share price in the days and weeks that followed the April 20, 2007 announcement of the Arrangement. This increase had an unfavourable impact of $1.4 M on the Pulp and Paper Group's results and a non-material impact on the Water Treatment Group's results.

Excluding non-recurring gains on disposal of various assets during the two comparative periods, being an immaterial amount in the first quarter of 2008 and $0.3 M the previous year, ***normalized EBITDA*** decreased by $0.4 M or 10.6%, and the normalized EBITDA margin as a percentage of revenues declined from 4.7% to 3.2%. On a segmented basis, the trend in normalized EBITDA was as follows:

- The **Water Treatment Group's** normalized EBITDA rose 49.1% as a result of its revenue growth. Notwithstanding the impact of other stock-based compensation, its normalized EBITDA grew by 49.2%, whereas its profit margin as a percentage of revenues decreased to 5.4% from 6.0% a year earlier. This slight decline can be explained by the weaker profitability of certain contracts based on conventional technologies. The Water Treatment Group is currently striving to expand its outsourcing network in order to transfer the manufacturing of such contracts to regions with lower costs. Management is also carrying on its efforts to acquire new technologies offering higher profit margins, as it has done over the past two years with the acquisition of Jones & Attwood, Brackett Green, certain Metso technologies and, more recently, Enviroquip and Copa.

- The **Pulp and Paper Group's** normalized EBITDA decreased by $2.5 M or 61.5%. Notwithstanding the unfavourable impact of other stock-based compensation, this group sustained a 30.4% decrease in its normalized EBITDA, while its profit margin as a percentage of revenues declined to 5.1% from 8.5% the previous year. Besides the weaker profit margins on certain recently awarded large-scale contracts, this decline is primarily attributable to the costs associated with setting up its technology centre in Karlstad (Sweden) in the wake of the acquisition of chemical pulp processing technologies in December 2006.

- Excluding the impact of other stock-based compensation, normalized EBITDA of the allocated corporate activities and the Manufacturing Unit increased by $0.4 M or 22.5%.

Normalized EBIT

(in thousands of $)	1st Quarters Ended June 30,	
	2007	2006
Normalized EBITDA	**3,664**	4,098
Less amortization:		
Water Treatment Group	1,343	205
Pulp and Paper Group	752	606
Other	719	577
Total	**2,864**	1,388
Normalized EBIT	**800**	2,710
As a % of revenues	*0.7%*	*3.1%*
Segmented normalized EBIT:		
Water Treatment Group	1,655	1,839
Pulp and Paper Group	838	3,521
Other and eliminations	(1,693)	(2,650)
Total	**800**	2,710

Amortization expenses were up by $1.5 M or 106.3%. This higher amount is mainly due to the growth in intangible assets, particularly the backlog, technologies, trademarks and customer relations resulting from the past year's acquisitions, especially those of Enviroquip and Copa. Thus, the increase in amortization primarily affected the Water Treatment Group, for an amount of $1.2 M.

Consequently, combined carve-out ***normalized EBIT*** declined by $1.9 M or 70.5%.

- The **Water Treatment Group's** normalized EBIT decreased by $0.2 M or 10.0% due mainly to the increase in amortization of its intangible assets.
- The **Pulp and Paper Group's** normalized EBIT declined by $2.7 M or 76.2% as a result of the aforementioned factors.
- Normalized EBIT of the corporate activities and the Manufacturing Unit increased by $1.0 M or 36.1% for the aforementioned reasons.

Net Earnings (Loss)

(in thousands of $)	1st Quarters Ended June 30,	
	2007	2006
EBIT	855	3,008
Financial expenses	1,269	(120)
EBT	**(414)**	3,128
Income taxes	164	700
Net earnings (loss)	**(578)**	2 428

Financial expenses on debt, consisting primarily of advances from companies under common control, increased by $1.4 M as a result of the financing of the past year's acquisitions, in particular those of Enviroquip and Copa. (*For further information, see note 4 to the interim combined carve-out financial statements accompanying this Management's Report.)*

For the first quarter of 2008, income taxes were $0.2 M, compared to $0.7 M in 2007. A valuation allowance pertaining to the tax benefits associated with the presence of integration costs related to the acquisition of principal assets from Metso explains the occurrence of income tax expenses for the first quarter of 2008. When excluding this item and due to the different geographic breakdown of the Group's revenues, income taxes would be a recovery.

The first quarter produced a combined carve-out ***net loss*** of $0.6 M, compared with a combined carve-out net profit of $2.4 M in the first quarter of fiscal 2007. In addition to the increase in stock-based compensation arising from the appreciation in GL&V's share price and lower operating margins as a percentage of revenues, the other reasons for the decline in profitability of the commercial activities transferred into New GLV are the increase in amortization of intangible assets along with the increase of financial fees resulting from the Enviroquip and Copa acquisitions. The amortization of intangible assets represent a major new factor in the results that creates some distortion in comparing the financial performance of New GLV's operating units with the previous year, especially since unlike property, plant and equipment, intangible assets do not have to be regularly renewed by way of new investments.

Comprehensive Income

(in thousands of $)	1st Quarters Ended June 30,	
	2007	2006
Net earnings (loss)	(578)	2,428
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations (net of related taxes)	503	(300)
Comprehensive income (loss)	**(75)**	2,128

CICA Handbook Section 1530 introduces the concept of comprehensive income, which is calculated by including other comprehensive income with net income. For the commercial activities transferred into New GLV, other comprehensive income for the three-month period ended June 30, 2007 pertains exclusively to translation adjustments related to self-sustaining foreign operations. *(For further information, see note 3(a) of the combined carve-out financial statements accompanying this Interim Management's Report.)*

FINANCIAL POSITION

Summary Cash Flows

(in thousands of $)	1st Quarters Ended June 30,	
	2007	2006
Operating activities:		
Net earnings (loss)	(578)	2,428
Non-cash items in earnings (loss)	3,255	332
Net change in operating assets and liabilities	(15,763)	(12,287)
Total	**(13,086)**	(9,527)
Financing activities	**(1,064)**	31,832
Investing activities	**(453)**	(24,628)
Impact of exchange rate fluctuations on cash and cash equivalents	*(1,452)*	*(719)*
Net decrease in cash and cash equivalents	**(16,055)**	(3,042)
Cash and cash equivalents, end of period	**4,344**	19,952

Cash flows from **operating activities** (before net change in operating assets and liabilities) totalled $2.7 M in 2007, compared with $2.8 M in 2006, the period's net loss having been partially offset by the increase in non-cash earnings items, including amortization of intangible assets and stock-based compensation expense. Excluding the impact of business acquisitions for the previous year, net change in operating assets and liabilities used cash flows of $15.8 M in the first quarter of fiscal 2008, compared with $12.3 M in the same period a year earlier. It should be pointed out that the first quarter generally yields a negative change in operating assets and liabilities as a result of the payment of certain accounts payable, including prior-year income taxes. The change in operating assets and liabilities also reflects the end-of-period status of contracts in progress less progress billings and the payment to suppliers, as well as the increase in operational requirements arising from the growth of the commercial activities transferred into New GLV since the end of the last fiscal year. It should be noted that considering the magnitude of certain contracts executed by the Water Treatment and Pulp and Paper groups, normal course funding requirements can vary significantly from year to year, and even from one quarter to another. Consequently, operating activities used net cash flows of $13.1 M in the first quarter of fiscal 2008, compared with $9.5 M in the same quarter last year.

In regard to **investing activities**, $1.2 M was invested to purchase property, plant and equipment in the normal course of business, partially financed by the receipt of advances of $0.7 M due by companies under common control. Investments for the corresponding period of fiscal 2007 relate primarily to the June 30, 2006 acquisition of Enviroquip.

As for **financing activities,** transactions with another GL&V group and companies under common control used net cash flows of $1.0 M. After accounting for the period's cash inflows and outflows as well as the impact of exchange rate fluctuations, cash and cash equivalents decreased from $20.0 M as at March 31, 2007 to $4.3 M as at June 30, 2007.

Summary Combined Carve-Out Balance Sheet

(in thousands of $)	**June 30, 2007**	March 31, 2007
Current assets	237,113	250,246
Long-term assets	112,252	121,177
Total	**349,365**	371,423
Current liabilities	111,481	123,035
Long-term liabilities	127,488	131,970
Invested equity	110,396	116,418
Total	**349,365**	371,423

In addition to the impact of currency fluctuations on the value of assets and liabilities, the changes in the combined carve-out financial position of the commercial activities transferred into New GLV between March 31 and June 30, 2007 primarily reflect the first-quarter operational funding requirements, including the end-of-period status of contracts in progress less progress billings and payment to suppliers. These funding requirements were financed by available cash and advances from companies under common control.

Tables showing changes in current balance sheet items and indebtedness, along with comments, are presented below. The decrease in **long-term assets** is mainly attributable to the amortization of property, plant, equipment and intangible assets, as well as translation adjustments which lowered the total value of goodwill and intangible assets by $4.6 M.

Changes in Current Balance Sheet Items

(in thousands of $, except ratio)	**June 30, 2007**	March 31, 2007
Current assets:		
Cash, cash equivalents and temporary investments	5,195	21,242
Accounts receivable	131,520	130,944
Inventories	29,116	27,942
Contracts in progress ((less progress billings)	56,598	59,088
Prepaid expenses and future income tax assets	14,684	11,030
Total	**237,113**	250,246
Current liabilities:		
Accounts payable and accrued liabilities	108,886	121,916
Income taxes payable and future income tax liabilities	2,595	1,119
Total	**111,481**	123,035
Working capital	**125,632**	127,211
Current ratio	***2.13:1***	*2.03:1*

Changes in working capital primarily reflect the payment of accounts payable, including income taxes payable, by using available cash.

Indebtedness

(in thousands of $, except ratio)	**June 30, 2007**	March 31, 2007
Total net debt:		
Advances from companies under common control and long-term debt (including current portions)	105,877	110,350
Less cash, cash equivalents and temporary investments	*(5,195)*	*(21,242)*
Total debt net of cash	**100,682**	89,108
Total net debt to invested capital ratio:		
Invested capital:		
Net owner's equity and translation adjustments	110,396	116,418
Total net debt	100,682	89,108
Total	**211,078**	205,526
Total net debt/invested capital ratio	***47.7%***	*43.4%*

The increase in **total net debt** between March 31 and June 30, 2007 can be explained by the period's working capital requirements related to the growth in business and payment of accounts payable, as well as by translation adjustments. The decrease in **net owner's equity and translation adjustments** reflects the transactions with other GL&V entities, the impact of translation adjustments and the period's net loss.

It should be noted that the combined carve-out capital structure of the transferred commercial activities as at June 30, 2007 does not reflect that in place upon the closing of the Arrangement between GL&V, its shareholders and FLS effective August 8, 2007, when all advances from companies under common control were converted into New GLV shares or settled in cash by way of bank indebtedness. (*This transaction is described in note 9 to the interim combined carve-out financial statements accompanying this Management's Report.)* As at August 10, 2007, New GLV therefore had owner's equity of approximately $150 M and total net debt of approximately $52 M, for a total net debt/invested capital ratio of only 26%. New GLV therefore has a strong financial position to carry on its operations and development projects.

In addition, New GLV benefits from a credit facility of $175 M, consisting of two secured non-reducing revolving credits. Of that amount, $125 M may be used to finance business acquisitions, meet day-to-day funding requirements and issue letters of credit, and the remaining $50 M may be used to issue letters of credit guaranteed by Export and Development Canada (*EDC*).

Information on New GLV's Share Capital as at August 13, 2007

As at August 13, 2007, after the closing of the Arrangement, share capital New GLV's consisted of 2,607,359 Class B multiple voting shares and 22,781,521 Class A subordinate voting shares, for a total of 25,388,880 voting and participating issued and outstanding.

On June 18, 2007, Board of Directors New GLV's set up a stock option plan for the directors, officers and key employees of New GLV, subject to approval by GL&V's shareholders. Pursuant to this plan, which is described in Appendix "F" of the Circular available on SEDAR (www.sedar.com), approximately 10% of New GLV's shares outstanding as at August 13, 2007 are reserved. On July 27, 2007, New GLV's Board of Directors agreed to amend the stock option plan to add a restriction limiting the number of shares that may be issued to non-officer directors, at any time, to 1% of the total number of shares issued and outstanding of New GLV. The same day, at GL&V's Special General Meeting, shareholders approved the amended stock option plan.

Contractual Commitments

In addition to the debts appearing in the combined carve-out balance sheet as at June 30, 2007, operating leases for premises and equipment allocated to the commercial activities transferred to New GLV, expiring at various dates until 2015, have total minimum lease payments of approximately $20.0 M as at June 30, 2007 ($22.6 M as at March 31, 2007). Management believes that the cash and cash equivalents, capital resources and net cash flows from operations of the commercial activities transferred to New GLV will suffice to finance the capital expenditures, working capital requirements, pension plan contributions, and interest and principal payments on long-term debt in a foreseeable future.

Minimum annual lease payments on the operating leases for the next five years and thereafter are as follows:

(in thousands of $)	
2008 (nine months)	3,644
2009	3,754
2010	3,107
2011	2,680
2012	2,323
2013 and thereafter	4,444
Total	**19,952**

New GLV is also committed under letters of credit and corporate guarantees for the achievement of contracts, for an amount that totalled $105.2 M as at June 30, 2007 ($91.0 M as at March 31, 2007).

Pursuant to the agreement with FLS, New GLV shall indemnify GL&V and each of its subsidiaries for any taxes arising out of or connected with any carve-out transactions in excess of $13 M.

On August 8, 2007, all advances to companies under common control were converted into share capital and all the long-term debt existing as at June 30, 2007 was repaid as part of the carve-out transactions.

Related-Party Transactions in the Normal Course of Business

(in thousands of $)	1st Quarters Ended June 30,	
Revenues:	**2007**	2006
Sales	**630**	629
Expenses:		
Purchases	**1**	25
Financial Expenses	**1,578**	168

These transactions were measured at the exchange amount which is the amount established and accepted by the related parties.

Transitional Services Agreement

Transitional Services

Pursuant to the Transitional Services Agreement: (i) GLV Inc. shall and shall cause its subsidiaries to provide GL&V and its subsidiaries during the Transitional Period (as defined below) with certain specific services and administrative, corporate, operational and support services required to carry on the GL&V Process Group business substantially as it was carried on prior to the Arrangement closing date; and (ii) GL&V shall cause its subsidiaries to provide GLV Inc. and its subsidiaries during the Transitional Period with certain services and administrative, corporate, operational and support services required to carry on the Excluded Divisions business substantially as they were carried on prior to the Arrangement closing date.

Fees

Pursuant to the Transitional Services Agreement, the person receiving the Transitional Services will pay to the provider of such services the actual cost of the services provided plus a mark-up, subject to any particular fees specifically agreed to in the Transitional Services Agreement.

Transitional Period

The Transitional Services Agreement will have a term varying between six to nine months depending upon the services (the “Transitional Period”), subject to the right of the party receiving the Transitional Services to terminate the Transitional Services Agreement in whole, or only in respect of selected services provided, upon a 30-day prior notice.

Financial Instruments

Derivative Financial Instruments

To reduce the risks related to currency fluctuations, New GLV will use derivative financial instruments such as forward exchange contracts. New GLV will not hold or issue any derivative financial instruments for speculative purposes. The derivative financial instruments will be subject to normal credit terms and conditions, financial controls and risk monitoring procedures. In management's opinion, none of the parties to the existing derivative financial instruments are expected to default on their obligations since they are large financial institutions. Forward exchange contracts will be recorded at their fair value. *(For further information, see note 3(b) to the combined carve-out financial statements accompanying this Interim Management's Report.)*

Fair Value

As described in the combined carve-out financial statements, the carrying amounts of cash and cash equivalents, temporary investments, accounts receivable and accounts payable and accrued liabilities approximate their fair value, as these items will be realized or paid within one year.

Forward exchange contracts are recognized at their positive fair value of $1.5 M as at June 30, 2007 (positive fair value of $1.2 M as at March 31, 2007).

The fair values of financial liabilities are mainly estimated based on discounted cash flows using year-end market yields or market values of similar instruments having the same maturity. The fair values of derivative financial instruments are estimated using year-end market rates, and reflect the amount New GLV would receive or pay if the instruments were closed out at those dates.

The fair value of the advances to companies under common control and advances from companies under common control could not be determined since it is practically impossible to find financial instruments on the market having substantially the same economic characteristics and because these amounts were settled and refinanced when the transaction with FLS is completed.

The fair value of long-tem debt is equivalent to the carrying amount since it bears interest at a rate that varies with the market rate.

OUTLOOK

Order Backlogs
(in thousands of $)

	June 30, 2007	March 31, 2007	December 31, 2006	September 31, 2006	June 30, 2006
Water Treatment Group	**185,308**	169,140	174,384	131,862	114,891
Pulp and Paper Group	**171,430**	95,552	93,934	75,886	75,462
Other and eliminations (1)	(31,489)	(17,655)	(11,759)	(4,575)	(6,012)
Total	**325,249**	247,037	256,559	203,173	184,341

(1) Includes the Manufacturing Unit's order backlog.

As at June 30, 2007, the order backlog of the commercial activities transferred into New GLV reached a record high of $325.2 M (after inter-segment eliminations), an increase of approximately 32% over March 31, 2007 and approximately 76% over June 30, 2006.

- The **Water Treatment Group's** order backlog grew by close to 10% within the past three months to $185.3 M as at June 30, 2007, due partly to the postponed delivery of certain orders and partly to the group's solid performance. This group's order backlog has grown by more than 61% over last year. This growth was particularly strong in North America, Europe and Asia, and is primarily attributable to the acquisition of Brackett Green, Enviroquip and Copa. The group thereby gained new technologies for which the demand is growing. Operations derived from more conventional technologies are posting slower growth, which attests to the relevance of this group's strategy of acquiring companies with newer technologies.

  After two years of strong expansion through acquisitions, fiscal 2008 will be transition phase during which the Water Treatment Group's objectives will be to complete the integration of the cultures and operations resulting from its latest acquisitions and to reinforce its operational and financial management in order to improve its profitability. To that end, the group recently restructured its business in the United Kingdom. It is also striving to expand its outsourcing networks in order to transfer the manufacturing of such contracts to regions with lower costs.

  Over the longer term, the global water treatment industry holds considerable potential. In recent years, major efforts have been rolled out, first to set up Water Treatment Group, and then to provide it with new technologies so as to position it more solidly and competitively in promising niches of this still fragmented industry which is expected to undergo a consolidation in the coming years. Management is therefore confident about this group's outlook over the long term, as it continue to expand through growth and acquisitions that will allow it to complete its technological portfolio.

- The **Pulp and Paper Group's** order backlog has increased by more than 79% since March 31, 2007 to reach $171.4 M as at June 30, 2007, driven by the booking of several new equipment and complete systems contracts (including the $60 M order in Portugal and another worth $20 M in Asia), combined with solid aftermarket activity in North America and Europe. However, it should be pointed out that profit margins on such large-scale contracts are weaker than the traditional margins posted by the Pulp and Paper Group.

The past two years have been very constructive for the Pulp and Paper Group, as it has taken initiatives that have enhanced its positioning and started to have a positive impact on its operating results. For instance, the acquisition of Perplas, KanEng, J&L Fiber and Huyck, coupled with its internal development efforts, broadened its portfolio of aftermarket products and services, whereas the December 2006 purchase of certain Kværner and Metso technologies provided it with the know-how to offer comprehensive value-added pulp processing solutions adapted to new market trends worldwide. This group has also achieved significant progress in recent quarters in developing and optimizing its international outsourcing organization, which should contribute to raise its future profitability.

The Pulp and Paper Group's principal objectives and challenges in upcoming quarters will be to integrate and optimize its new technology centre in Karlstad (Sweden), and to continue improving its operating profitability by lowering its operating costs, standardizing and further strengthening its project management practices, and optimizing its outsourcing networks.

Based on the order backlog, market conditions and the acquisitions of the past year, management expects GLV to achieve revenues of $500 M to $545 M for its first twelve months of operations. However, management wishes to remain investors that New GLV's short-term profit growth will likely be slower and less consistent than that shown by GL&V in previous quarters. First, it is building the Water Treatment Group to make it a world leader, and such as expansion and consolidation effort could put pressure on its profit margins and create some volatility in its earnings in upcoming quarters. As for the Pulp and Paper Group, it lately adopted a more aggressive strategy to position itself in certain key markets with new-generation technologies. This recently allowed it to garner large-scale contracts that will provide it with an excellent international showcase for its future growth, but for which profit margins are lower than for its other operations. Furthermore, setting up its new technology centre will bring about other additional costs in the next two quarters.

As management has disclosed in its previous communications, it intends to build New GLV based on a long-term vision. Therefore, all business decisions will be motivated by its commitment to maximize its groups' long-term value in the best interests of its shareholders, which could lead to slower growth in their short-term profitability. Management is determined to make New GLV an influential player on the international scene as a provider of targeted industrial and municipal solutions, with special expertise in water treatment technologies. To do so, it will replicate the same strategies that have proven successful for the former GL&V, namely: (1) achieve sustained growth through the acquisition and efficient integration of businesses, international development and the focus on value-added operations and products; and (2) optimize its profitability by controlling its expenses and maintaining a profitable and flexible cost structure, in part through manufacturing outsourcing.

OTHER

Critical Accounting Estimates

The preparation of financial statements in conformity with Canadian GAAP requires the Company to make estimates and assumptions which affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. The Ontario Securities Commission defines critical accounting estimates as those requiring assumptions made about matters that are highly uncertain at the time the estimate is made, and when the use of different reasonable estimates or changes to the accounting estimates would have a material impact on a Company's financial condition or operating results. The critical accounting estimates identified by management according to this definition are described in detail in the Circular available on SEDAR.

Changes in Accounting Policies

Effective April 1, 2007, GL&V adopted four new accounting standards released in April 2005 and July 2006 by the Canadian Institute of Chartered Accountants ("CICA"), specifically Handbook Section 1506, *"Accounting Changes"*, Section 1530, *"Comprehensive Income"*, Section 3855, *"Financial Instruments – Recognition and Measurement"* and Section 3865, *"Hedges".* These changes are described in note 3 to the interim combined carve-out financial statements accompanying the Management's Report. Briefly:

- Section 1506, which describes how to apply changes in accounting policies, did not have an impact on the operating results or financial position for the first quarter of fiscal 2007.

- A comprehensive income statement is henceforth presented, which is the subject of a section in this Management's Report titled *"Comprehensive Income"*. This new policy is also described in detail in note 3(a) to the interim combined carve-out financial statements.

- According to Section 3855, all financial assets and liabilities are carried at fair value in the interim combined carve-out balance sheet, except for loans, receivables and financial liabilities held for purposes other than the transaction, which are recognized at amortized cost using the effective interest method *(see note 3(b) to the interim combined carve-out financial statements).* The adoption of this standard did not have an impact on the interim combined carve-out balance sheet and interim combined carve-out statement of owner's net equity as at April 1, 2007 and as at June 30, 2007.

- Finally, as described in note 3(c) to the financial statements, Section 3865 indicates that when the Company uses derivative financial instruments to manage its exposures, it must determine for each of them whether hedge accounting is appropriate. The adoption of this standard did not have an impact on the operating results or the interim combined carve-out balance sheet as at June 30, 2007.

Recent Accounting Development in Canada

In June 2007, the Canadian Institute of Chartered Accountants ("CICA") issued a new accounting standard for Handbook Section 3031, *Inventories*, which replaces the existing standard for Inventories, Section 3030. The main features of the new standard are as follows:

- measurement of inventories at the lower of cost and net realizable value,
- consistent use of either first-in, first-out or weighted average cost formula to measure costs, and
- reversal of previous write-downs of net realizable value when there is a subsequent increased to the value of inventories.

The new standard is effective for the Group beginning April 1, 2008. The Group is currently assessing the impact on the interim combined carve-out financial statements.

In December 2006, the CICA issued three new accounting standards: Handbook Section 1535, Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*.

Section 1535 requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objective, policies and processes for managing capital.

Section 3862 and Section 3863 will replace Section 3861, *Financial Instruments – Disclosure and Presentation* once adopted. These new Sections revise and enhance the disclosure requirements in Section 3861 and carry forward unchanged its presentation requirements.

These new standards are effective for the Group beginning April 1, 2008. The Group is currently assessing the impact on the interim combined carve-out financial statements.

Principal Risk Factors

The principal risk factors to which New GLV is exposed are described in detail in the Circular available on SEDAR.

Supplementary Information

Supplementary information about New GLV and the former GL&V, including that related to the Arrangement between GL&V, its shareholders and FLS and the combined carve-out financial statements of the last three fiscal years, is available on SEDAR's website (www.sedar.com) and GLV's website (www.glv.com).

(SIGNED)
Laurent Verreault
Chairman of the Board and Chief Executive Officer

(SIGNED)
Marc Barbeau, CA
Executive Vice-President and Chief Financial Officer

August 16, 2007