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PRESS RELEASE

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FOR IMMEDIATE RELEASE

January 11, 2018

VELAN INC. REPORTS ITS THIRD QUARTER 2017/18 FINANCIAL RESULTS

MONTREAL, QUEBEC

Velan Inc. (TSX: VLN) (the "Company"), a world-leading manufacturer of industrial valves, announced today its financial results for its third quarter ended November 30, 2017.

Highlights

- **Sales of US$87.7 million for the quarter**
- **Net earnings[1] of US$0.3 million for the quarter**
- **Net new orders ("Bookings") of US$83.3 million for the quarter**
- **Order backlog of US$485.2 million at the end of the quarter, of which US$182.0 million is scheduled for delivery beyond the next 12 months**
- **Net cash[2] of US$73.3 million at the end of the quarter**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended November 30		Nine-month periods ended November 30	
	2017	2016	2017	2016
Sales	$87.7	$80.4	$235.4	$228.9
Gross Profit	22.7	21.7	51.2	59.6
Gross profit %	*25.9%*	*27.0%*	*21.8%*	*26.0%*
Net income (loss) attributable to Multiple and Subordinate Voting Shares	0.3	1.5	(9.6)	4.0
Net income (loss) per share – basic and diluted	0.02	0.07	(0.44)	0.19

Third Quarter Fiscal 2018 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the third quarter of fiscal 2017):

- Net earnings[1] amounted to $0.3 million or $0.02 per share compared to $1.5 million or $0.07 per share last year. After two consecutive quarters of losses, the Company returned to a profitable position in the current quarter due primarily to improved profitability at its French and Italian operations, which offset continued weakness in the Company's North American operations, where fierce competition and tight market conditions were a drag on its results and margins.

- Sales amounted to $87.7 million, an increase of $7.3 million or 9.1% from the prior year. Sales were positively impacted by an increase in shipments from the Company's French and Italian subsidiaries resulting from the large project orders that were booked in the prior fiscal year. This increase was partially offset by decreased shipments from the Company's North American operations, where delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues, and lower shipments of non-project commodity valves negatively impacted its operations.
- Bookings amounted to $83.3 million, a decrease of $51.6 million or 38.3% compared to last year. This decrease is due primarily to lower project orders booked by the Company's French and German subsidiaries, both of which had recorded significant large project orders in the prior year quarter. This decrease was partially offset by improved bookings in the Company's North American operations. The Company's decision to restructure its global sales force along vertical market lines rather than geographic lines earlier in the current fiscal year is beginning to have a positive impact.
- Gross profit percentage amounted to 25.9% compared to 27.0% last year. Despite the fact that the gross profit percentage decreased by 110 basis points when compared to the prior year quarter, it represented a significant improvement when compared to the percentage of the first and second quarters of the current fiscal year, namely an increase of 690 basis points when compared to the first quarter and a 620 basis point improvement when compared to the second quarter. While product mix and material costs savings positively impacted its margins, the improved gross profit percentage in the current quarter when compared to the immediately preceding two quarters was also due to the effect of the higher sales volume covering fixed production overhead costs.
- The proportionately high fixed production overhead costs and its effect on the Company's margins highlight the need for the Company to implement its global cost reduction and efficiency initiative, which was announced in the first quarter of the current fiscal year. The goal of this initiative is to reduce annual supply chain, production and overhead costs by approximately $20 million by the end of the fiscal year ended February 29, 2020. The Company began a detailed assessment of its global manufacturing footprint, supply chain and cost structure in the second quarter as per its Velocity 2020 strategic plan. The Company is also accelerating the improvement initiatives undertaken in its North American operations to transform and modernize its processes in an effort to increase its competitiveness in project manufacturing. The Company expects to complete this assessment by the end of the current fiscal year and begin implementing its cost reduction plan.
- The Company ended the period with net cash[2] of $73.3 million, an increase of $5.1 million or 7.5% since the beginning of the current quarter. This increase is primarily attributable to positive non-cash working capital movements, particularly a decrease in accounts receivable and an increase in accounts payable and accrued liabilities.

First Nine Months Fiscal 2018 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first nine months of fiscal 2017):

- Net loss[1] amounted to $9.6 million or $0.44 per share compared to net earnings[1] of $4.0 million or $0.19 per share last year. Fierce competition and continued market weakness were a drag on the results and margins of the Company's North American operations, causing an erosion of the non-project commodity valve business, as well as reduced pricing in the highly-competitive project valve business. While the Company realized improved sales in certain market segments, such as nuclear energy and cryogenics, sales in its North American operations continued to lag, particularly in the oil and gas sector, as a result of a poor order backlog at the beginning of the current fiscal year.
- Sales amounted to $235.4 million, an increase of $6.5 million or 2.8% from the prior year. Sales were positively impacted by an increase in shipments from the Company's French and Italian subsidiaries, which were offset by decreased shipments from the Company's North American operations. Delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational

issues, and lower shipments of non-project commodity valves negatively impacted the Company's North American operations.

- Bookings amounted to $248.0 million, a decrease of $74.3 million or 23.1% compared to last year. This decrease is due primarily to lower project orders booked by the Company's French, German and Italian subsidiaries, all of which had recorded significant large project orders in the prior year period. This decrease was partially offset by improved bookings in the Company's North American operations.
- As a result of bookings outpacing sales in the period, the Company ended the period with a backlog of $485.2 million, an increase of $47.0 million or 10.7% since the beginning of the current fiscal year. In addition to the positive book-to-bill ratio, the backlog was positively impacted by the strengthening of the euro against the U.S. dollar over the course of the period.
- Gross profit percentage decreased by 420 basis points from 26.0% to 21.8%. This decrease is due primarily to the Company's North American operations in the first six months of the current fiscal year, which shipped a product mix with a greater proportion of projects with lower margins, coupled with pricing pressure brought on by fierce competition and continued weakness in certain markets; this loss of margin was only partially offset by the material cost savings achieved by the Company's supply chain improvement initiatives. Furthermore, the Company's North American operations were impacted by a significant backlog of project valves which it was not able to deliver due to various customer-related issues.
- Administration costs amounted to $62.7 million, an increase of $5.8 million or 10.2%. This increase is primarily attributable to an increase in sales commissions, due to the increased sales volume in the Company's French and Italian operations, an increase in technology license fees paid on the sale of certain highly-engineered cryogenic valves by the Company's French operations, and an increase in costs recognized in connection with the Company's ongoing asbestos litigation. The fluctuation in asbestos costs for the period is due more to the timing of settlement payments in these two periods rather than to changes in long-term trends. This increase was partially offset by a decrease in administration costs at the Company's North American operations where the Company continues its cost reduction efforts.
- Foreign currency impacts:
  - Based on average exchange rates, the euro strengthened 2.1% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits and bookings from its European subsidiaries being reported as higher U.S. dollar amounts in the current period.
  - Based on average exchange rates, the Canadian dollar strengthened 0.8% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's Canadian dollar expenses being reported as higher U.S. dollar amounts in the current period.
  - Based on spot exchange rates, the euro strengthened 11.8% against the U.S. dollar when compared to the rate at the end of the last fiscal year. This strengthening resulted in losses of $1.5 million incurred on foreign exchange forward contracts used by the Company to hedge the net monetary position of its European subsidiaries. This strengthening also resulted in a positive cumulative translation adjustment of $12.5 million which was recorded directly in equity through other comprehensive income.
  - The net impact of the above currency swings was generally unfavourable on the Company's net earnings[1], although it was generally favourable on the Company's equity.

"We are pleased that our third quarter saw a return to profitability," said John Ball, CFO of Velan Inc. "We saw improvements in sales, gross margin and backlog in the quarter, and we maintained our strong balance sheet and cash position. Like many other companies, we are currently studying the recent U.S. tax law changes, enacted late in December, and are awaiting the detailed regulations. The initial impact on earnings will be negative, though largely non-cash. Going forward, we expect a slightly beneficial impact from the lower rates, but not materially so from the viewpoint of consolidated earnings."

Yves Leduc, President and CEO of Velan Inc., said, "The current quarter's improved performance was not enough to offset the Company's disappointing results of the first two quarters of the current fiscal year, as we continue to feel the effects of weak market conditions, which are causing an erosion of the non-project commodity valve business, as well as reduced pricing in the highly-competitive project valve business. We are continuing to implement operational improvements, initiated under our Velocity 2020 strategic plan, and, as reported in the first quarter of the current fiscal year, the Company is seeking to drive out $20 million of annual costs in three years. Our goal is to improve the Company's competitiveness and simplify its global supply chain, while aggressively pursuing market share growth in high-margin segments where our severe service product and innovation capabilities can be fully exploited. This is why we have re-structured our global sales force this year to align it with the vertical markets where we see growth potential. While the Company's financial performance for this fiscal year will be difficult, we are encouraged by the surge in our backlog, which has increased 10.7% since the beginning of the current fiscal year."

Dividend

The Board declared an eligible quarterly dividend of CDN$0.10 per share, payable on March 29, 2018, to all shareholders of record as at March 15, 2018.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the third quarter conference call to be held on Thursday, January 11, 2018, at 4:30 p.m. (EDT). The toll free call-in number is 1-800-672-0241, access code 21879256. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21879256.

About Velan

Founded in Montreal in 1950, Velan Inc. (www.velan.com) is one of the world's leading manufacturers of industrial valves, with sales of US$331.8 million in its last reported fiscal year. The Company employs over 1,800 people and has manufacturing plants in 9 countries. Velan Inc. is a public company with its shares listed on the Toronto Stock Exchange under the symbol VLN.

Safe harbour statement

This news release 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, which 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 news release are expressly qualified by this cautionary statement.

Non-IFRS measures

In this press release, the Company presented measures of performance and financial condition that are not defined under International Financial Reporting Standards ("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. In addition, they provide readers of the Company's consolidated financial statements with enhanced understanding of its results and financial condition, and increase transparency and clarity into the operating results of its core business.

The term "net cash" is defined as cash and cash equivalents plus short-term investments less bank indebtedness, short-term bank loans, and current portion of long-term bank borrowings. Refer to the "Reconciliations of Non-IFRS Measures" section in the Company's Management Discussion and Analysis included in its Interim Report for the quarter ended November 30, 2017 for a detailed calculation of this measure.

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

[2] *Non-IFRS measures – see explanation above.*

Velan Inc.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited)

(in thousands of U.S. dollars)

As At	November 30, 2017 $	February 28, 2017 $
Assets		
Current assets		
Cash and cash equivalents	88,241	84,019
Short-term investments	1,461	974
Accounts receivable	112,719	125,512
Income taxes recoverable	16,085	7,145
Inventories	183,940	173,089
Deposits and prepaid expenses	5,045	3,391
Derivative assets	322	1,202
	407,813	395,332
Non-current assets		
Property, plant and equipment	90,323	91,535
Intangible assets and goodwill	20,101	19,023
Deferred income taxes	13,638	12,951
Other assets	414	456
	124,476	123,965
Total assets	532,289	519,297
Liabilities		
Current liabilities		
Bank indebtedness	12,220	7,792
Short-term bank loans	1,086	1,650
Accounts payable and accrued liabilities	64,361	60,641
Income taxes payable	1,683	946
Dividend payable	1,678	1,631
Customer deposits	46,650	43,953
Provisions	12,018	10,600
Accrual for performance guarantees	30,316	26,943
Derivative liabilities	825	799
Current portion of long-term debt	7,640	7,115
	178,477	162,070
Non-current liabilities		
Long-term debt	14,402	15,318
Deferred income taxes	2,856	2,784
Other liabilities	7,686	7,214
	24,944	25,316
Total liabilities	203,421	187,386
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,090	73,584
Contributed surplus	6,047	6,017
Retained earnings	266,581	281,343
Accumulated other comprehensive loss	(23,239)	(35,550)
	322,479	325,394
Non-controlling interest	6,389	6,517
Total equity	328,868	331,911
Total liabilities and equity	532,289	519,297

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Condensed Interim Consolidated Statements of Income (Loss)

(Unaudited)

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	Three-month periods ended November 30		Nine-month periods ended November 30	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Sales	87,738	80,396	235,356	228,942
Cost of sales	65,069	58,664	184,120	169,305
Gross profit	22,669	21,732	51,236	59,637
Administration costs	22,582	21,120	62,735	56,918
Other expense (income)	28	(1,189)	1,547	(987)
Operating profit (loss)	59	1,801	(13,046)	3,706
Finance income	193	184	561	664
Finance costs	328	186	694	443
Finance income (costs) – net	(135)	(2)	(133)	221
Income (Loss) before income taxes	(76)	1,799	(13,179)	3,927
Provision for (Recovery of) income taxes	(248)	25	(3,324)	(301)
Net income (loss) for the period	172	1,774	(9,855)	4,228
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**305**	**1,501**	**(9,590)**	**4,030**
Non-controlling interest	(133)	273	(265)	198
	172	1,774	(9,855)	4,228
Net income (loss) per Subordinate and Multiple Voting Share				
Basic	0.02	0.07	(0.44)	0.19
Diluted	0.02	0.07	(0.44)	0.19
Dividends declared per Subordinate and Multiple Voting Share	0.08 (CA$0.10)	0.08 (CA$0.10)	0.23 (CA$0.30)	0.23 (CA$0.30)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,626,678	21,720,445	21,640,632	21,724,891
Diluted	21,632,731	21,725,673	21,646,105	21,731,029

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Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended November 30		Nine-month periods ended November 30	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Comprehensive income (loss)				
Net income (loss) for the period	172	1,774	(9,855)	4,228
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	678	(5,283)	12,489	(2,222)
Comprehensive income (loss)	850	(3,509)	2,634	2,006
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	825	(3,539)	2,721	1,553
Non-controlling interest	25	30	(87)	453
	850	(3,509)	2,634	2,006

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Condensed Interim Consolidated Statements of Changes in Equity

(Unaudited)

(in thousands of U.S. dollars, excluding number of shares)

	Equity attributable to the Subordinate and Multiple Voting shareholders							
	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total	Non-controlling interest	Total equity
Balance - February 28, 2017	21,667,235	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911
Net income (loss) for the period	-	-	-	-	(9,590)	(9,590)	(265)	(9,855)
Other comprehensive income (loss)	-	-	-	12,311	-	12,311	178	12,489
	21,667,235	73,584	6,017	(23,239)	271,753	328,115	6,430	334,545
Effect of share-based compensation	-	-	30	-	-	30	-	30
Share repurchase	(45,300)	(494)	-	-	(136)	(630)	-	(630)
Dividends								
Multiple Voting Shares	-	-	-	-	(3,603)	(3,603)	-	(3,603)
Subordinate Voting Shares	-	-	-	-	(1,433)	(1,433)	-	(1,433)
Non-controlling interest	-	-	-	-	-	-	(41)	(41)
Balance - November 30, 2017	21,621,935	73,090	6,047	(23,239)	266,581	322,479	6,389	328,868
Balance - February 29, 2016	21,737,135	74,345	5,941	(33,089)	280,380	327,577	5,542	333,119
Net income (loss) for the period	-	-	-	-	4,030	4,030	198	4,228
Other comprehensive income (loss)	-	-	-	(2,477)	-	(2,477)	255	(2,222)
	21,737,135	74,345	5,941	(35,566)	284,410	329,130	5,995	335,125
Effect of share-based compensation	-	-	57	-	-	57	-	57
Share repurchase	(27,100)	(295)	-	-	(59)	(354)	-	(354)
Dividends								
Multiple Voting Shares	-	-	-	-	(3,572)	(3,572)	-	(3,572)
Subordinate Voting Shares	-	-	-	-	(1,393)	(1,393)	-	(1,393)
Non-controlling interest	-	-	-	-	-	-	(49)	(49)
Balance - November 30, 2016	21,710,035	74,050	5,998	(35,566)	279,386	323,868	5,946	329,814

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Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended November 30		Nine-month periods ended November 30	
	2017 $	2016 $	2017 $	2016 $
Cash flows from				
Operating activities				
Net income for the period	172	1,774	(9,855)	4,228
Adjustments to reconcile net income to cash provided by operating activities	2,420	1,743	10,885	7,002
Changes in non-cash working capital items	5,727	(2,641)	5,990	(4,375)
Cash provided (used) by operating activities	8,319	876	7,020	6,855
Investing activities				
Short-term investments	(24)	1,620	(487)	3,076
Additions to property, plant and equipment	(1,457)	(2,718)	(4,372)	(5,991)
Additions to intangible assets	-	(19)	(405)	(79)
Proceeds on disposal of property, plant and equipment, and intangible assets	14	-	75	179
Net change in other assets	(8)	215	44	348
Cash provided (used) by investing activities	(1,475)	(902)	(5,145)	(2,467)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(1,720)	(1,649)	(4,989)	(4,952)
Dividends paid to non-controlling interest	(41)	(49)	(41)	(49)
Repurchase of shares	(94)	(195)	(630)	(354)
Short-term bank loans	(791)	(31)	(564)	(6)
Repayment of long-term debt	(793)	(2,051)	(2,352)	(5,323)
Cash provided (used) by financing activities	(3,439)	(3,975)	(8,576)	(10,684)
Effect of exchange rate differences on cash	568	(2,532)	6,495	(1,701)
Net change in cash during the period	3,973	(6,533)	(206)	(7,997)
Net cash – Beginning of the period	72,048	82,876	76,227	84,340
Net cash – End of the period	76,021	76,343	76,021	76,343
Net cash is composed of:				
Cash and cash equivalents	88,241	81,303	88,241	81,303
Bank indebtedness	(12,220)	(4,960)	(12,220)	(4,960)
	76,021	76,343	76,021	76,343
Supplementary information				
Interest received (paid)	(32)	64	89	288
Income taxes reimbursed (paid)	(1,363)	(2,070)	(4,122)	(5,275)