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PRESS RELEASE

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FOR IMMEDIATE RELEASE

May 24, 2018

VELAN INC. REPORTS ITS YEAR-END AND FOURTH 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 fiscal year and fourth quarter ended February 28, 2018.

Highlights

- **Sales of US$102.6 million for the quarter**
- **Net loss[1] of US$8.2 million for the quarter, including a one-time tax expense of US$4.3 million resulting from passage of U.S. tax reform legislation**
- **Order backlog of US$464.5 million at the end of the quarter**
- **Net new orders received ("Bookings") of US$72.9 million for the quarter**
- **Net cash[2] of US$61.0 million at the end of the quarter**
- **Returned US$1.7 million to shareholders in the quarter and US$7.3 million in the fiscal year by way of dividends and share repurchases**
- **Quarterly dividend reduced to CA$0.03 per share, payable June 29, 2018**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended February 28, 2018	Three-month periods ended February 28, 2017	Fiscal years ended February 28, 2018	Fiscal years ended February 28, 2017
Sales	$102.6	$102.8	$338.0	$331.8
Gross profit	17.3	28.9	68.6	88.5
Gross profit %	*16.9%*	*28.1%*	*20.3%*	*26.7%*
EBITDA[2]	(1.2)	12.6	(4.4)	26.2
EBITDA[2] per share – basic and diluted	*(0.05)*	*0.58*	*(0.20)*	*1.21*
Net earnings (loss)[1]	(8.2)	3.7	(17.8)	7.7
Net earnings (loss)[1] per share – basic and diluted	*(0.38)*	*0.17*	*(0.82)*	*0.36*

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

- Net loss[1] amounted to $8.2 million or $0.38 per share compared to net earnings[1] of $3.7 million or $0.17 per share last year. EBITDA[2] amounted to a negative balance of $1.2 million or $0.05 per share compared to a positive balance of $12.6 million or $0.58 per share last year. The $11.9 million decrease in net earnings[1] is primarily attributable to significantly weaker margins, increased administration costs and the negative effects of the U.S. tax reform legislation passed during the current quarter, which resulted in a one-time tax expense inclusion of $4.3 million.
- Sales remained relatively stable for the quarter, decreasing by $0.2 million or 0.2% from the prior year. While sales were lower in the current quarter when compared to the comparative period in the prior year, they were stronger when compared to the previous three quarters of the current fiscal year. Sales for the quarter were improved in the Company's Italian subsidiary, while its North American operations realized lower sales due to delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues.
- Bookings decreased by $53.0 million or 42.1% for the quarter. The decrease in bookings is primarily attributable to the Company's French operations which had won $55 million in large project orders in the prior year comparable quarter to supply valves towards the construction of a nuclear power plant in the U.K. While bookings remained relatively flat if these orders are not taken into account, the Company's North American operations continue to struggle as the current highly competitive environment in many of its markets continues to put downward pressure on pricing and lead times, despite the fact that the outlook in most of these markets are beginning to show signs of improvement.
- Gross profit percentage decreased by 1,120 basis points from the prior year quarter. Despite the fact that sales remained relatively stable and that the Company maintained control over its labour and overhead costs, the gross profit percentage decreased significantly due primarily to shipping a product mix with a greater proportion of projects with lower margins, a decrease in production which reduced the amount of current period direct labour and production overhead costs that could be capitalized, and warranty provisions. In addition, shipping delays due to customer-related and internal operational issues resulted in an increase in provisions for inventory ageing, which had a direct negative impact on the Company's margins. The lingering pricing pressure and the Company's inherent fixed overhead costs due to its large global manufacturing footprint continue to have a negative impact on its gross profit percentage, particularly in its North American operations which saw a 320 basis point increase in its material cost as a percentage of sales in the quarter. The Company aims to address these latter issues through its strategic initiatives, namely materials management, targeting higher margin segments and overhead reduction.
- Administration costs for the quarter increased by $3.7 million or 19.5% for the quarter. The increase is primarily attributable to an increase in sales commissions and freight charges as well as an increase in costs associated with the Company's ongoing asbestos litigation. The fluctuation in asbestos costs is due more to the timing of settlement payments than to changes in long-term trends.

Year Ended Fiscal 2018 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year):

- EBITDA[2] amounted to a negative balance of $4.4 million or $0.20 per share compared to a positive balance of $26.2 million or $1.21 per share last year. Despite an increase in sales, the $30.6 million decrease in EBITDA[2] is primarily attributable to significantly weaker margins and increased administration costs.
- Net loss[1] amounted to $17.8 million or $0.82 per share compared to net earnings[1] of $7.7 million or $0.36 per share last year. The $25.5 million decrease in net earnings[1] is primarily attributable to a lower EBITDA[2] and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the current fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million.

- Sales amounted to $338.0 million, an increase of $6.2 million or 1.9% compared to last year. Sales were positively impacted by an increase in shipments from the Company's Italian subsidiary, 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 $320.9 million, a decrease of $127.3 million or 28.4% 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.
- Despite the fact that sales outpaced bookings in the year, the Company ended the year with a backlog of $464.5 million, an increase of $26.3 million or 6.0% since the beginning of the current fiscal year. This increase in backlog was substantially due to the positive impact of the strengthening of the euro spot rate against the U.S. dollar over the course of the year.
- Gross profit percentage decreased by 640 basis points from 26.7% to 20.3%. This decrease is due primarily to the Company's North American operations, 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 and internal operational issues.
- Administration costs amounted to $85.4 million, an increase of $9.5 million or 12.5%. This increase is primarily attributable to an increase in sales commissions and freight charges resulting from the higher sales volume, 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 year is due more to the timing of settlement payments in these two years rather than to changes in long-term trends.
- The Company ended the year with net cash[2] of $61.0 million, a decrease of $11.5 million or 15.9% since the beginning of the year. This decrease is primarily attributable to cash used in operations, investments in property, plant and equipment, long-term debt repayments as well as distributions to shareholders via dividends and share repurchases.
- Foreign currency impacts:
    - Based on average exchange rates, the euro strengthened 4.9% 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 year.
    - Based on average exchange rates, the Canadian dollar strengthened 1.8% 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 year.
    - Based on spot exchange rates, the euro strengthened 15.3% against the U.S. dollar when compared to the rate at the end of the last fiscal year. This strengthening resulted in losses of $1.8 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 $15.9 million which was recorded directly in equity through other comprehensive income (loss).

- The net impact of the above currency swings was generally unfavourable on the Company's net loss[1], although it was generally favourable on the Company's equity.

"Fiscal year 2018 was a very challenging year in terms of both sales and net earnings[1]. Margins were negatively impacted by both lower volumes and competitive pressures, in spite of some of our cost savings efforts. In addition, our fourth quarter tax provisions also reflected the costs of the recent US tax reform changes," said John Ball, CFO of Velan Inc. ". Regardless, our balance sheet remains strong as we made efforts to conserve cash and manage working capital. For this reason, the quarterly dividend has been adjusted to CA$0.03 per share, effective June 2018. The challenge for fiscal year 2019 is to follow through on a number of strategic sales and cost reduction initiatives."

Yves Leduc, President and CEO of Velan Inc., said, "Fiscal year 2018 was my first year as CEO of the Company and it was by far the most challenging. Our results are deeply disappointing as we suffered a loss on slightly increasing revenues. The poor bookings experienced by our North American operations in the prior year were not followed with the expected recovery this year. The usual strong performance of our French operations, coupled with the impressive sales recovery of our Italian operations, could not offset our performance in North America. Meanwhile, the complexity of our project manufacturing business keeps increasing at a pace faster than our improvements. This, combined with sharply contracting margins in project valves, contributed to a notable margin decline, again mostly in our North American operations. While we are making progress in transforming the Company through our strategic plan, Velocity 2020, which was launched last year, such improvements are overshadowed by our business results. As such, we are currently re-assessing our strategic plan to determine how it can be adapted to include ways to simplify our business and rapidly broaden our cost reduction initiatives. Simply put, we will need to make important changes to improve our operating results."

Dividend

The Board declared an eligible quarterly dividend of CA$0.03 per share, payable on June 29, 2018, to all shareholders of record as at June 15, 2018.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the fourth quarter conference call to be held on Thursday, May 24, 2018, at 4:30 p.m. (EDT). The toll free call-in number is 1-800-672-0241, access code 21889742. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21889742.

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$338 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 "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, plus net finance costs plus income tax provision. Refer to the "Reconciliations of Non-IFRS Measures" section in the Company's Management Discussion and Analysis included in its Annual Report for the fiscal year ended February 28, 2018 for a detailed calculation of this measure.

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 Annual Report for the fiscal year ended February 28, 2018 for a detailed calculation of this measure.

[1] *Net earnings or loss refer 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	**February 28, 2018 $**	**February 28, 2017 $**
Assets		
Current assets		
Cash and cash equivalents	85,391	84,019
Short-term investments	647	974
Accounts receivable	137,382	125,512
Income taxes recoverable	8,012	7,145
Inventories	170,790	173,089
Deposits and prepaid expenses	4,222	3,391
Derivative assets	604	1,202
	407,048	395,332
Non-current assets		
Property, plant and equipment	89,864	91,535
Intangible assets and goodwill	20,210	19,023
Deferred income taxes	22,034	12,951
Other assets	1,037	456
	133,145	123,965
Total assets	540,193	519,297
Liabilities		
Current liabilities		
Bank indebtedness	20,848	7,792
Short-term bank loans	1,074	1,650
Accounts payable and accrued liabilities	63,441	60,641
Income taxes payable	2,186	946
Dividend payable	1,678	1,631
Customer deposits	48,963	43,953
Provisions	10,798	10,600
Accrual for performance guarantees	32,655	26,943
Derivative liabilities	1,615	799
Current portion of long-term debt	8,151	7,115
	191,409	162,070
Non-current liabilities		
Long-term debt	13,978	15,318
Income taxes payable	2,078	-
Deferred income taxes	2,889	2,784
Other liabilities	8,222	7,214
	27,167	25,316
Total liabilities	218,576	187,386
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,090	73,584
Contributed surplus	6,057	6,017
Retained earnings	256,668	281,343
Accumulated other comprehensive loss	(19,790)	(35,550)
	316,025	325,394
Non-controlling interest	5,592	6,517
Total equity	321,617	331,911
Total liabilities and equity	540,193	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 February 28		Fiscal years ended February 28	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Sales	102,607	102,835	337,963	331,777
Cost of sales	85,258	73,944	269,378	243,249
Gross profit	17,349	28,891	68,585	88,528
Administration costs	22,702	18,950	85,437	75,868
Other expense (income)	(84)	579	1,463	(408)
Operating profit (loss)	(5,269)	9,362	(18,315)	13,068
Finance income	541	328	1,102	992
Finance costs	(605)	(623)	(1,299)	(1,066)
Finance income (costs) – net	(64)	(295)	(197)	(74)
Income (Loss) before income taxes	(5,333)	9,067	(18,512)	12,994
Provision for (Recovery of) income taxes	3,685	4,981	361	4,680
Net income (loss) for the period	(9,018)	4,086	(18,873)	8,314
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**(8,221)**	**3,707**	**(17,811)**	**7,737**
Non-controlling interest	(797)	379	(1,062)	577
	(9,018)	4,086	(18,873)	8,314
Net income (loss) per Subordinate and Multiple Voting Share				
Basic	(0.38)	0.17	(0.82)	0.36
Diluted	(0.38)	0.17	(0.82)	0.36
Dividends declared per Subordinate and Multiple Voting Share	0.08 (CA$0.10)	0.08 (CA$0.10)	0.31 (CA$0.40)	0.31 (CA$0.40)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,621,935	21,698,670	21,640,632	21,722,089
Diluted	21,621,935	21,703,812	21,640,632	21,727,697

Velan Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended February 28		Fiscal years ended February 28	
	2018 **$**	**2017** **$**	**2018** **$**	**2017** **$**
Comprehensive income (loss)				
Net income (loss) for the period	(9,018)	4,086	(18,873)	8,314
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	3,449	208	15,938	(2,014)
Comprehensive income (loss)	(5,569)	4,294	(2,935)	6,300
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(4,772)	3,723	(2,051)	5,276
Non-controlling interest	(797)	571	(884)	1,024
	(5,569)	4,294	(2,935)	6,300

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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	-	-	-	-	(17,811)	(17,811)	(1,062)	(18,873)
Other comprehensive income (loss)	-	-	-	15,760	-	15,760	178	15,938
	21,667,235	73,584	6,017	(19,790)	263,532	323,343	5,633	328,976
Effect of share-based compensation	-	-	40	-	-	40	-	40
Share repurchase	(45,300)	(494)	-	-	(136)	(630)	-	(630)
Dividends								
Multiple Voting Shares	-	-	-	-	(4,824)	(4,824)	-	(4,824)
Subordinate Voting Shares	-	-	-	-	(1,904)	(1,904)	-	(1,904)
Non-controlling interest	-	-	-	-	-	-	(41)	(41)
Balance - February 28, 2018	21,621,935	73,090	6,057	(19,790)	256,668	316,025	5,592	321,617
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	-	-	-	-	7,737	7,737	577	8,314
Other comprehensive income (loss)	-	-	-	(2,461)	-	(2,461)	447	(2,014)
	21,737,135	74,345	5,941	(35,550)	288,117	332,853	6,566	339,419
Effect of share-based compensation	-	-	76	-	-	76	-	76
Share repurchase	(69,900)	(761)	-	-	(165)	(926)	-	(926)
Dividends								
Multiple Voting Shares	-	-	-	-	(4,745)	(4,745)	-	(4,745)
Subordinate Voting Shares	-	-	-	-	(1,864)	(1,864)	-	(1,864)
Non-controlling interest	-	-	-	-	-	-	(49)	(49)
Balance - February 28, 2017	21,667,235	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911

Velan Inc.

Condensed Interim Consolidated Statements of Cash Flow

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

	Three-month periods ended February 28		Fiscal years ended February 28	
	2018 $	2017 $	2018 $	2017 $
Cash flows from				
Operating activities				
Net income for the period	(9,018)	4,086	(18,873)	8,314
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities	(3,891)	3,265	6,994	10,267
Changes in non-cash working capital items	3,996	(7,059)	9,986	(11,434)
Cash provided by (used in) operating activities	(8,913)	292	(1,893)	7,147
Investing activities				
Short-term investments	814	(825)	327	2,251
Additions to property, plant and equipment	(1,830)	(1,730)	(6,202)	(7,721)
Additions to intangible assets	(32)	(831)	(437)	(910)
Proceeds on disposal of property, plant and equipment, and intangible assets	66	220	141	399
Net change in other assets	(551)	134	(507)	482
Cash provided by (used in) investing activities	(1,533)	(3,032)	(6,678)	(5,499)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(1,692)	(1,632)	(6,681)	(6,584)
Dividends paid to non-controlling interest	-	-	(41)	(49)
Repurchase of shares	-	(572)	(630)	(926)
Short-term bank loans	(12)	337	(576)	331
Increase in long-term debt	-	5,079	-	5,079
Repayment of long-term debt	(854)	(581)	(3,206)	(5,904)
Cash provided by (used in) financing activities	(2,558)	2,631	(11,134)	(8,053)
Effect of exchange rate differences on cash	1,526	(7)	8,021	(1,708)
Net change in cash during the period	(11,478)	(116)	(11,684)	(8,113)
Net cash – Beginning of the period	76,021	76,343	76,227	84,340
Net cash – End of the period	64,543	76,227	64,543	76,227
Net cash is composed of:				
Cash and cash equivalents	85,391	84,019	85,391	84,019
Bank indebtedness	(20,848)	(7,792)	(20,848)	(7,792)
	64,543	76,227	64,543	76,227
Supplementary information				
Interest received (paid)	443	353	532	641
Income taxes reimbursed (paid)	370	(2,447)	(3,752)	(7,722)