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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS THIRD QUARTER 2018/19 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, 2018.

Highlights

- **Sales of US$92.3 million for the quarter**
- **Net loss[1] of US$0.2 million for the quarter**
- **EBITDA[2] of US$3.4 million for the quarter**
- **Net new orders ("Bookings") of US$100.8 million for the quarter**
- **Order backlog of US$471.5 million at the end of the quarter, of which US$172.9 million is scheduled for delivery beyond the next 12 months**
- **Net cash of US$50.0 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	
	2018	2017	2018	2017
Sales	$92.3	$87.7	$261.5	$235.4
Gross Profit[3]	22.6	23.2	59.7	52.8
Gross profit[3] %	*24.5%*	*26.5%*	*22.8%*	*22.4%*
EBITDA[2]	3.4	3.4	3.3	(3.3)
EBITDA[2] per share – basic and diluted	*0.16*	*0.16*	*0.15*	*(0.15)*
Net earnings (loss)[1]	(0.2)	0.3	(6.4)	(9.6)
Net earnings (loss)[1] per share – basic and diluted	*(0.01)*	*0.02*	*(0.30)*	*(0.44)*

Third Quarter Fiscal 2019 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the third quarter of fiscal 2018):

- Sales amounted to $92.3 million, an increase of $4.6 million or 5.2% from the prior year. Sales were positively impacted by an increase in shipments of large project orders and in improved MRO business for the Company's North American operations. This increase was partially offset by decreased shipments in the Company's French and Italian operations who had shipped large project orders in the prior fiscal year. The decrease in sales for both subsidiaries is primarily attributable to the timing of the shipments of these large project orders.

- Net loss[1] amounted to $0.2 million or $0.01 per share compared to net earnings[1] of $0.3 million or $0.02 per share last year. The slight decrease is primarily due to a lower profitability of the Company's French and Italian operations. The gross profit percentage decreased despite the overall higher volume of shipments that occurred in the quarter compared to last year. Nonetheless, the Company was almost able to reach a break even profitability despite the fierce competition that continues to apply pressure on the Company's overall results. The Company is still pursuing its global cost reduction and transformation initiatives.
- EBITDA[2] amounted to $3.4 million or $0.16 per share compared to $3.4 million or $0.16 per share last year. The current quarter EBITDA[2], which is identical to the EBITDA[2] obtained during the prior fiscal year, was obtained primarily due to a higher sales volume and stable administration costs despite a lower gross profit percentage.
- Gross profit percentage decreased by 200 basis points from 26.5% to 24.5%. The decrease in gross profit percentage is mainly attributable to the lower sales volume of the Company's Italian and French operations in relation to their current production overheads. In addition, the French operations of the Company also shipped a product mix with a greater proportion of lower margin product sales during the current quarter. This decrease was partially offset by improved margins by 660 basis points in the Company's North American operations attributable to a significantly higher sales volume.
- Administration costs amounted to $22.5 million, a decrease of $0.6 million or 2.6% compared to last year. The Company was able to decrease its administration costs in the quarter despite an increase in sales commissions and freight costs for certain overseas project customers due to the increased sales volume in the Company's North American operations as well as the need to incur air freight costs on a large delayed export order. The Company has also invested $0.5 million in its current transformation initiative, Velocity 2020. The costs recognized related to the Company's ongoing asbestos litigation has also increased by 10% in the current quarter. The fluctuation in asbestos costs for the period is due more to the timing of settlements in these two periods rather than to changes in long-term trends.
- Net new orders received ("bookings") amounted to $100.8 million, an increase of $17.5 million or 21.0% compared to last year. This increase is due primarily to new orders booked by the Company's Italian operations, which continued to record significant project orders relating to the upstream oil and gas industry during the quarter.
- The Company ended the quarter with net cash of $50.0 million, a decrease of $1.3 million or 2.5% since the beginning of the quarter. The decrease in net cash is due primarily to cash used in operating activities, investments in property, plant and equipment, long-term debt repayments, as well as distributions to shareholders via dividends, partially offset by an increase in long-term debt.

First Nine Months Fiscal 2019 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first nine months of fiscal 2018):

- Sales amounted to $261.5 million, an increase of $26.1 million or 11.1% from the prior year. Sales were positively impacted by an increase in shipments from the Company's North American operations, which were partially offset by decreased shipments from the Company's Italian and German operations. Sales were positively impacted by an increase in shipments of large project orders and in improved MRO business for the Company's North American operations, although they were negatively impacted by delays in the shipments of certain large project orders in both the Italian and German operations of the Company due to various customer-related and timing issues.
- Net loss[1] amounted to $6.4 million or $0.30 per share compared to $9.6 million or $0.44 per share last year. The $3.2 million improvement is primarily attributable to a higher gross profit percentage, partially offset by an increase of administration costs. At the current sales level, the Company was not able to generate a gross margin sufficient to cover its current administration and other costs.

- Gross profit percentage increased by 40 basis points from 22.4% to 22.8%. This slight steady improvement for the fiscal year is mainly due to a significantly higher sales volume in the Company's North American operations, which was partially offset by a lower gross profit percentage due to a lower sales volume in the Company's Italian operations. The Company's North American Operations was able to maintain the stronger margins from its MRO business while continuing to search for margin improvements in the more challenging project business.
- EBITDA[2] amounted to $3.3 million or $0.15 per share compared to a negative $3.3 million or $0.15 per share last year. The $6.6 million improvement in EBITDA[2] is primarily attributable to a higher sales volume with slightly improved margins, partially offset by an increase in administration costs.
- Bookings amounted to $290.4 million, an increase of $42.4 million or 17.1% compared to last year. This increase is due primarily to higher orders booked by the Company's Italian and North American subsidiaries, particularly in the oil and gas sector. Furthermore, the Company noted a significant increase of its non-project valve order bookings in its North American operations for the current year. Even with the positive bookings figure, the Company is continuing its global cost reduction and efficiency transformation initiative with the goal of reducing supply chain, production and overhead costs.
- As a result of bookings outpacing sales in the period, the Company ended the period with a backlog of $471.5 million, an increase of $7.0 million or 1.5% since the beginning of the current fiscal year. The positive book-to-bill ratio was in part negatively impacted by the weakening of the euro spot rate against the U.S. dollar at quarter end.
- Administration costs amounted to $66.2 million, an increase of $1.9 million or 3.0% compared to last year. The increase is primarily attributable to an increase in sales commissions and freight costs for certain overseas project customers due to the increased sales volume in the Company's North American operations as well as the need to incur air freight costs on a large delayed export order. The Company has also invested $1.0 million in its current transformation initiative, Velocity 2020. This increase in administration costs was partially offset by the reduction of the costs recognized related to the Company's ongoing asbestos litigation. The fluctuation in asbestos costs for the period is due more to the timing of settlements in these two periods rather than to changes in long-term trends.
- The Company ended the period with net cash of $50.0 million, a decrease of $14.5 million or 22.5% since the beginning of the year. This decrease, most of which occurred in the first quarter as cash remained almost flat ever since, is primarily attributable to cash used in operating activities, investments in property, plant and equipment, long-term debt repayments, as well as distributions to shareholders via dividends, partially offset by an increase in long-term debt. Net cash was also negatively impacted by the weakening of the euro spot rate against the U.S. dollar over the course of the current year.
- The increase in bookings and the improved sales performance was achieved thanks to the recovery observed in the oil and gas markets benefitting mainly MRO and upstream valve bookings, and also in part by the realignment in the prior year of the global sales force along vertical market lines rather than geographic lines. Meanwhile in markets other than oil and gas, like power, the pricing pressure on margins remains extremely challenging.
- Foreign currency impacts:
  - Despite the drop of the euro spot rate at quarter end, the average exchange rates of the euro strengthened 3.4% 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 weakened 0.3% against the U.S. dollar when compared to the same period last year. This weakening resulted in the Company's Canadian dollar expenses being reported as lower U.S. dollar amounts in the current period.
  - The net impact of the above currency swings was generally favourable on the Company's results.

“Although our third quarter was essentially break-even, we noted that the trend of higher order bookings and sales continued. Our SG&A costs decreased for the quarter both in absolute terms and as a percentage of sales, in spite of some heavy freight charges for a large export order as well as continued investment in our transformation initiative,” said John Ball, CFO of Velan Inc. “Our balance sheet remains solid, and we reduced our investment in receivables and inventory even with an increase in sales and backlog. The backlog increase was achieved despite being negatively impacted by the weakening of the euro spot rate against the U.S. dollar since the beginning of the year. Our quarter end net book value per share was US$14.25 per share, which includes cash of US$2.31 per share.”

Yves Leduc, President and CEO of Velan Inc., said, “Once again, we noted improvements on several fronts this quarter. Our sales and bookings were significantly higher than last year, and our backlog has also improved since the beginning of the fiscal year. We recently reorganized into strategic business units to better serve our customers. We are also undertaking several transformative initiatives to return to profitability, including the very important decision to consolidate the Company’s valve manufacturing facilities in Quebec (Canada) from three plants into two as disclosed in a separate press release issued today”

Dividend

The Board declared an eligible quarterly dividend of CDN$0.03 per share, payable on March 29, 2019, to all shareholders of record as at March 15, 2019.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the third quarter conference call to be held on Friday, January 12, 2019, at 10:00 a.m. (EDT). The toll free call-in number is 1-800-785-6380, access code 21913385. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21913385.

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 Interim Report for the quarter ended November 30, 2018 for a detailed calculation of this measure. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

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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.*

[3] *In accordance with the current fiscal year's presentation, the comparative figures were adjusted to reflect a more accurate allocation of cost of sales and administration costs.*