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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FIRST 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 first quarter ended May 31, 2018.

Highlights

- **Sales of US$77.9 million for the quarter**
- **Net loss[1] of US$3.7 million for the quarter**
- **Net new orders ("Bookings") of US$86.2 million for the quarter**
- **Order backlog of US$459.9 million at the end of the quarter, of which US$164.8 million is scheduled for delivery beyond the next 12 months**
- **Net cash[2] of US$47.9 million at the end of the quarter**

	Three-month periods ended	
(millions of U.S. dollars, excluding per share amounts)	May 31, 2018	May 31, 2017
Sales	$77.9	$71.1
Gross Profit	17.7	13.5
Gross profit %	*22.7%*	*19.0%*
EBITDA[2]	(1.5)	(2.5)
EBITDA[2] per share – basic and diluted	*(0.07)*	*(0.12)*
Net earnings (loss)[1]	(3.7)	(4.3)
Net earnings (loss)1 per share – basic and diluted	*(0.17)*	*(0.20)*

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

- Sales amounted to $77.9 million, an increase of $6.8 million or 9.6% from the prior year. Sales were positively impacted by an increase in shipments in the Company's North American, French and Italian operations. Despite the higher sales volume for the quarter, delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues continued to be an issue. Fierce competition continues to have a negative impact in most of the Company's markets which increased the importance for the Company to target discrete market segments where its engineering know-how and agile design capabilities can be a leverage for future growth.

- Bookings amounted to $86.2 million, an increase of $14.0 million or 19.5% compared to last year. This increase is due primarily to higher orders booked by the Company's North American and Italian subsidiaries, particularly in the oil and gas sector. The Company also noted an increase in non-project valve orders in the current quarter.
- The Company ended the period with a backlog of $459.9 million, a decrease of $4.6 million or 1.0% since the beginning of the current fiscal year. Despite a positive book-to-bill ratio of 1.11 in the quarter, the decrease in backlog is primarily attributable to the weakening of the euro spot rate against the U.S. dollar over the course of the current quarter.
- Gross profit percentage increased by 370 basis points from 19.0% to 22.7%. The increase in the gross profit percentage is mainly attributable to the higher sales volume as well as a product mix with a higher proportion of higher margin product sales, such as spare parts and cost items. However, the continued pressure on pricing continues to cause an erosion of the Company's margins, particularly in its North American operations.
- Administration costs amounted to $22.3 million, an increase of $3.2 million or 16.8% compared to last year. The increase is primarily attributable to the planned investment in sales force, engineering and information technology expenses as well as increased costs for freight to customers.
- EBITDA[1] amounted to a negative balance of $1.5 million or $0.07 per share compared to a negative balance of $2.5 million or $0.12 per share last year. The $1.0 million improvement in EBITDA[1] is primarily attributable to a higher sales volume and a higher gross profit percentage.
- Net loss[1] amounted to $3.7 million or $0.17 per share compared to $4.3 million or $0.20 per share last year. Despite a higher sales volume and improved margins, continued weakness in the Company's North American operations dragged down its overall results, highlighting the need to accelerate its global cost reduction and transformation initiatives.
- The Company ended the quarter with net cash[1] of $47.9 million, a decrease of $13.1 million or 21.5% since the beginning of the current fiscal year. This decrease is primarily attributable to negative non-cash working capital movements of $6.2 million, dividend payments to shareholders and non-controlling interests of $2.5 million, and additions of property, plant and equipment of $2.0 million. Net cash[1] was also negatively impacted by the weakening of the euro spot rate against the U.S. dollar over the course of the current quarter.
- Foreign currency impacts:
    - Based on average exchange rates, the Euro strengthened 12.2% 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 quarter.
    - Based on average exchange rates, the Canadian dollar strengthened 4.9% 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 quarter.
    - The net impact of the above currency swings was not significant on the Company's net loss[2].

"While we had a slight improvement in quarterly sales and margin over last year, as well as a positive book-to-bill ratio, we fully acknowledge the need to transform our business model and return to bottom line profitability, which is an ongoing process," said John Ball, CFO of Velan Inc. "We are also placing renewed emphasis on treasury and working capital conservation as we manage through this challenging period."

Yves Leduc, President and CEO of Velan Inc., said, "We believe our strategic direction is right and have been laying the foundation for the future in the midst of a shifting business environment. We are reducing complexity where it hinders our ability to drive improvements, as we sharpen our focus on products and markets with greater margins. As I stated in May, we are working to make important changes to improve our operating results."

Dividend

The Board declared an eligible quarterly dividend of CDN$0.03 per share, payable on September 28, 2018, to all shareholders of record as at September 14, 2018.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the first quarter conference call to be held on Thursday, July 12, 2018, at 4:30 p.m. (EDT). The toll free call-in number is 1-800-672-0241, access code 21892120. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21892120.

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 May 31, 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 Interim Report for the quarter ended May 31, 2018 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.*

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Condensed Interim Consolidated Statements of Financial Position

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

As At	May 31, 2018 $	February 28, 2018 $
Assets		
Current assets		
Cash and cash equivalents	77,969	85,391
Short-term investments	596	647
Accounts receivable	132,076	137,382
Income taxes recoverable	9,732	8,012
Inventories	172,166	170,790
Deposits and prepaid expenses	4,547	4,222
Derivative assets	197	604
	397,283	407,048
Non-current assets		
Property, plant and equipment	88,395	89,864
Intangible assets and goodwill	19,038	20,210
Deferred income taxes	21,707	22,034
Other assets	435	1,037
	129,575	133,145
Total assets	526,858	540,193
Liabilities		
Current liabilities		
Bank indebtedness	26,342	20,848
Short-term bank loans	1,039	1,074
Accounts payable and accrued liabilities	63,217	63,441
Income taxes payable	1,190	2,186
Dividend payable	501	1,678
Customer deposits	46,423	48,963
Provisions	9,850	10,798
Accrual for performance guarantees	31,187	32,655
Derivative liabilities	1,685	1,615
Current portion of long-term debt	7,496	8,151
	188,930	191,409
Non-current liabilities		
Long-term debt	13,763	13,978
Income taxes payable	2,033	2,078
Deferred income taxes	2,694	2,889
Other liabilities	8,315	8,222
	26,805	27,167
Total liabilities	215,735	218,576
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,090	73,090
Contributed surplus	6,061	6,057
Retained earnings	252,476	256,668
Accumulated other comprehensive income (loss)	(25,231)	(19,790)
	306,396	316,025
Non-controlling interests	4,727	5,592
Total equity	311,123	321,617
Total liabilities and equity	526,858	540,193

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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 May 31	
	2018 **$**	**2017** **$**
Sales	77,874	71,087
Cost of sales	60,137	57,596
Gross profit	17,737	13,491
Administration costs	22,224	19,139
Other expense (income)	(16)	296
Operating profit (loss)	(4,471)	(5,944)
Finance income	142	128
Finance costs	174	152
Finance income (costs) – net	(32)	(24)
Income (Loss) before income taxes	(4,503)	(5,968)
Income taxes	(829)	(1,382)
Net income (loss) for the period	(3,674)	(4,586)
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(3,727)**	**(4,304)**
Non-controlling interest	53	(282)
	(3,674)	(4,586)
Net income (loss) per Subordinate and Multiple Voting Share		
Basic	(0.17)	(0.20)
Diluted	(0.17)	(0.20)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA$0.10)	0.07 (CA$0.10)
Total weighted average number of Subordinate and Multiple Votng Shares		
Basic	21,621,935	21,665,337
Diluted	21,621,935	21,665,337

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Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

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

	Three-month periods ended May 31	
	2018	**2017**
	$	**$**
Comprehensive income (loss)		
Net income (loss) for the period	(3,674)	(4,586)
Other comprehensive income (loss)		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(5,432)	6,273
Comprehensive income (loss)	(9,106)	1,687
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(9,168)	1,926
Non-controlling interest	62	(239)
	(9,106)	1,687

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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, 2018	21,621,935	73,090	6,057	(19,790)	256,668	316,025	5,592	321,617
Net income (loss) for the period	-	-	-	-	(3,727)	(3,727)	53	(3,674)
Other comprehensive income (loss)	-	-	-	(5,441)	-	(5,441)	9	(5,432)
	21,621,935	73,090	6,057	(25,231)	252,941	306,857	5,654	312,511
Effect of share-based compensation	-	-	4	-	-	4	-	4
Dividends								
Multiple Voting Shares	-	-	-	-	(335)	(335)	-	(335)
Subordinate Voting Shares	-	-	-	-	(130)	(130)	-	(130)
Non-controlling interest	-	-	-	-	-	-	(927)	(927)
Balance - May 31, 2018	21,621,935	73,090	6,061	(25,231)	252,476	306,396	4,727	311,123
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	-	-	-	-	(4,304)	(4,304)	(282)	(4,586)
Other comprehensive income (loss)	-	-	-	6,230	-	6,230	43	6,273
	21,667,235	73,584	6,017	(29,320)	277,039	327,320	6,278	333,598
Effect of share-based compensation	-	-	9	-	-	9	-	9
Share repurchase	(2,500)	(27)	-	-	(7)	(34)	-	(34)
Dividends								
Multiple Voting Shares	-	-	-	-	(1,163)	(1,163)	-	(1,163)
Subordinate Voting Shares	-	-	-	-	(445)	(445)	-	(445)
Balance - May 31, 2017	21,664,735	73,557	6,026	(29,320)	275,424	325,687	6,278	331,965

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Condensed Interim Consolidated Statements of Cash Flow

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

	Three-month periods ended May 31	
	2018	2017
	$	$
Cash flows from		
Operating activities		
Net loss for the period	(3,674)	(4,586)
Adjustments to reconcile net loss to cash provided by (used in) operating activities	3,550	5,345
Changes in non-cash working capital items	(6,205)	(10,862)
Cash provided by (used in) operating activities	(6,329)	(10,103)
Investing activities		
Short-term investments	51	(524)
Additions to property, plant and equipment	(2,012)	(1,587)
Additions to intangible assets	(96)	(147)
Proceeds on disposal of property, plant and equipment, and intangible assets	10	59
Net change in other assets	527	55
Cash provided by (used in) investing activities	(1,520)	(2,144)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(1,642)	(1,631)
Dividends paid to non-controlling interest	(927)	-
Repurchase of shares	-	(34)
Short-term bank loans	(35)	(255)
Increase in long-term debt	607	-
Repayment of long-term debt	(662)	(738)
Cash provided by (used in) financing activities	(2,659)	(2,658)
Effect of exchange rate differences on cash	(2,408)	3,298
Net change in cash during the period	(12,916)	(11,607)
Net cash – Beginning of the period	64,543	76,227
Net cash – End of the period	51,627	64,620
Net cash is composed of:		
Cash and cash equivalents	77,969	87,360
Bank indebtedness	(26,342)	(22,740)
	51,627	64,620
Supplementary information		
Interest received (paid)	(36)	(19)
Income taxes reimbursed (paid)	(1,933)	(1,552)