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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS YEAR-END AND FOURTH 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 fiscal year and fourth quarter ended February 28, 2019.

Highlights

- **Sales of US$105.3 million for the quarter**
- **Net earnings[1] of US$1.5 million for the quarter**
- **EBITDA[2] of US$3.8 million for the quarter**
- **Order backlog of US$449.7 million at the end of the quarter**
- **Net new orders received ("Bookings") of US$82.0 million for the quarter**
- **Net cash of US$40.9 million at the end of the quarter**
- **Returned US$0.5 million to shareholders in the quarter and US$3.1 million in the fiscal year by way of dividends**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended February 28, 2019	Three-month periods ended February 28, 2018	Fiscal years ended February 28, 2019	Fiscal years ended February 28, 2018
Sales	$105.3	$102.6	$366.9	$338.0
Gross profit[3]	25.9	18.1	85.6	70.9
Gross profit %	*24.6%*	*17.6%*	*23.3%*	*21.0%*
EBITDA[2]	3.8	(1.2)	7.1	(4.4)
EBITDA[2] per share – basic and diluted	*0.18*	*(0.05)*	*0.33*	*(0.20)*
Net earnings (loss)[1]	1.5	(8.2)	(4.9)	(17.8)
Net earnings (loss)[1] per share – basic and diluted	*0.07*	*(0.38)*	*(0.23)*	*(0.82)*

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

- Net earnings[1] amounted to $1.5 million or $0.07 per share compared to a net loss[1] of $8.2 million or $0.38 per share last year. EBITDA[2] amounted to $3.8 million or $0.18 per share compared to a negative $1.2 million or negative $0.05 per share last year. The $9.7 million increase in net earnings[1] is primarily attributable to a higher sales volume combined with better margins and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million in fiscal 2018.
- Sales increased by $2.7 million or 2.6% for the quarter. The sales volume for the quarter is the highest of any quarter of the past two fiscal years. Sales for the quarter were improved in the Company's Italian, Korean and Indian subsidiaries, while its North American operations realized lower sales for the quarter. The sales volume and mix for the quarter were sufficient for the Company to reach profitability with the current state of its cost structure.
- Bookings increased by $9.1 million or 12.5% for the quarter. Bookings in the quarter were negatively impacted by the cancellation of a $36.3 million large project order, booked in a prior fiscal year, to supply valves to the power market in Vietnam. If the effect of this order cancellation is removed, bookings would have increased by $45.4 million or 62.3% in the quarter. The increase in bookings for the quarter is due primarily to higher orders booked by the Company's Italian and French subsidiaries for the supply of valves to the upstream oil and gas sector and the nuclear power market.
- Gross profit percentage increased by 700 basis points from the prior year quarter. The gross profit was obtained due to the higher sales volume in the Company's Italian, Korean and Indian subsidiaries combined with the shipment of a product mix with a greater proportion of projects with higher margins by the Company's North American and French operations. The increase in gross profit was also obtained due to the Company's reduction of its production costs during the course of the quarter. As such, the higher sales volume combined with the lower level of production costs allowed for the Company to achieve a significant improvement in gross profit. For the quarter, the Company kept its focus on MRO sales where stronger margins are achievable and was also able to deliver good margins on its project business.
- Administration costs for the quarter increased by $3.7 million or 15.8% for the quarter. The increase is attributable to retirement packages that were offered to certain employees in order for the Company to reduce its administration costs and to a higher bad debt expense in the Company's German operations caused by a specific customer in financial difficulty. Finally, the increase is also due to an increase in sales commissions 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 settlements than to changes in long-term trends.

Year Ended Fiscal 2019 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year):

- Net loss[1] amounted to $4.9 million or $0.23 per share compared to $17.8 million or $0.82 per share last year. EBITDA[2] amounted to $7.1 million or $0.33 per share compared to a negative $4.4 million or negative $0.20 per share last year. The $12.9 million decrease in net loss[1] is primarily attributable to a higher sales volume combined with better margins and the negative effects of the U.S. tax reform legislation passed during the fourth quarter of the prior fiscal year, which resulted in a one-time tax expense inclusion of $4.3 million in fiscal 2018.
- Sales amounted to $366.9 million, an increase of $28.9 million or 8.6% compared to last year. Sales were positively impacted by an increase in shipments from the Company's North American, Korean and Indian operations, which was partially offset by decreased shipments from the Company's German operations. The Company was able to notably improve its MRO business as well as increasing its shipments related to large project orders. The Company's North American operations had also suffered last year from delays in shipments of certain large project orders caused by various customer-related issues.

- Bookings amounted to $372.4 million, an increase of $51.5 million or 16.0% compared to last year. Excluding the effect of an order of $36.3 million, booked in a prior year and cancelled in the fourth quarter of the current fiscal year, bookings would have increased by $87.8 million or 27.4% in the year. This increase is due primarily to higher orders booked by the Company's Italian and French subsidiaries, which recorded significant project orders relating to the upstream oil and gas and nuclear power industries.
- Despite the fact that bookings slightly outpaced sales in the year, the Company ended the year with a backlog of $449.7 million, a decrease of $14.8 million or 3.2% since the beginning of the current fiscal year. This decrease in backlog was substantially due to the negative impact of the weakening of the euro spot rate against the U.S. dollar over the course of the year as well as the cancellation of the $36.3 million order.
- Gross profit percentage increased by 230 basis points from 21.0% to 23.3%. This increase is due primarily to the higher sales volume of the Company's North American, Korean and Indian operations combined with the shipment of a more efficient product mix by the Company's French operations, which was partially offset by the lower sales volume shipped by the Company's German operations. The Company's North American operations were able to maintain the stronger margins in its MRO business while continuing to search for margin improvements in the more challenging project business.
- Administration costs amounted to $93.3 million, an increase of $5.6 million or 6.4%. This increase is attributable to an increase in bad debt, selling expenses, retirement expenses and freight charges for certain overseas project customers resulting from the higher sales volume as well as the need to incur air freight costs on a large delayed order. The Company has also invested $1.0 million in its current transformation initiative, Velocity 2020. The Company also experienced 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 settlements in these two years rather than to changes in long-term trends.
- The Company announced in January that it had reorganized into business units, allowing the Company to significantly reinforce its market positioning by improving its operational efficiency and optimizing its manufacturing footprint in North America. The Company is making a significant strategic investment in the next two fiscal years to carry out these changes, namely an amount of $15 million in fiscal 2020. The benefits of this investment will be realized in subsequent years.
- The Company ended the year with net cash of $40.9 million, a decrease of $23.6 million or 36.6% since the beginning of the year. This decrease is primarily attributable to negative non-cash working capital movements, investments in property, plant and equipment, investments in intangible assets, 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 year.
- Foreign currency impacts:
  - Despite the drop of the euro spot rate over the course of the year, the average exchange rates of the euro strengthened 1.0% 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. The drop of the euro spot rate in the current fiscal year resulted in a $9.3 million loss in accumulated other comprehensive loss.
  - Based on average exchange rates, the Canadian dollar weakened 1.5% 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 year.
  - The net impact of the above currency swings was generally favourable on the Company's net loss[1].

"There is no doubt that Fiscal 2019 was a challenging year; however, there were improvements made on a number of fronts," said John Ball, CFO of Velan Inc. "Sales, gross margin and EBITDA[2] all improved in 2019, as did order bookings. We were pleased to see a stronger finish to the year than in past quarters, resulting in a quarterly net income of $1.5 million, our best quarter in over two years. Regardless, there is much work still to be done as we are moving forward with the plan that was approved by the Board to address the Company's competitiveness."

Yves Leduc, President and CEO of Velan Inc., said, "The highlights of fiscal year 2019 could be stated from two different perspectives. First the Company's financial performance has improved versus the previous year's disappointing results, thanks in large part to the recovering performance in sales and margins of our replacement valve business in North America, as well as the continuing strong performance of France and Italy. The second perspective is to consider fiscal year 2019 an important milestone in the Company's history. Earlier this year, we announced measures to reorganize into focused business units to better serve our customers and to better leverage our state-of-the art facility in India. Our priority is now execution, which involves driving change on several parallel fronts. We already are in full deployment and our employees are mobilized behind the plan."

Dividend

The Board declared an eligible quarterly dividend of CA$0.03 per share, payable on June 28, 2019, to all shareholders of record as at June 14, 2019.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the fourth quarter conference call to be held on Friday, May 17, 2019, at 11:00 a.m. (EDT). The toll free call-in number is 1-800-757-8473, access code 21923091. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21923091.

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$366.9 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, 2019 for a detailed calculation of this measure.

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[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.*

[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.*

Velan Inc.

Condensed Interim Consolidated Statements of Financial Position

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

As At	February 28, 2019 $	February 28, 2018 $
Assets		
Current assets		
Cash and cash equivalents	70,673	85,391
Short-term investments	658	647
Accounts receivable	137,520	137,382
Income taxes recoverable	16,863	8,012
Inventories	165,583	170,790
Deposits and prepaid expenses	4,612	4,222
Derivative assets	189	604
	396,098	407,048
Non-current assets		
Property, plant and equipment	83,537	89,864
Intangible assets and goodwill	18,146	20,210
Deferred income taxes	25,947	22,034
Other assets	629	1,037
	128,259	133,145
Total assets	524,357	540,193
Liabilities		
Current liabilities		
Bank indebtedness	29,807	20,848
Short-term bank loans	2,172	1,074
Accounts payable and accrued liabilities	74,910	63,441
Income taxes payable	495	2,186
Dividend payable	497	1,678
Customer deposits	40,240	48,963
Provisions	8,494	10,798
Accrual for performance guarantees	23,014	32,655
Derivative liabilities	83	1,615
Current portion of long-term debt	8,609	8,151
	188,321	191,409
Non-current liabilities		
Long-term debt	13,242	13,978
Income taxes payable	1,742	2,078
Deferred income taxes	3,738	2,889
Other liabilities	8,481	8,222
	27,203	27,167
Total liabilities	215,524	218,576
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,090	73,090
Contributed surplus	6,074	6,057
Retained earnings	254,606	256,668
Accumulated other comprehensive loss	(28,990)	(19,790)
	304,780	316,025
Non-controlling interest	4,053	5,592
Total equity	308,833	321,617
Total liabilities and equity	524,357	540,193

Velan Inc.

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	
	2019 **$**	**2018** **$**	**2019** **$**	**2018** **$**
Sales	105,345	102,607	366,865	337,963
Cost of sales	79,479	84,594	281,270	267,102
Gross profit	25,866	18,013	85,595	70,861
Administration costs	27,185	23,366	93,336	87,713
Other expense (income)	(654)	(84)	(741)	1,463
Operating loss	(665)	(5,269)	(7,000)	(18,315)
Finance income	372	541	865	1,102
Finance costs	395	605	1,560	1,299
Finance costs – net	(23)	(64)	(695)	(197)
Loss before income taxes	(688)	(5,333)	(7,695)	(18,512)
Provision for (Recovery of) income taxes	(1,865)	3,685	(2,301)	361
Net income (loss) for the period	1,177	(9,018)	(5,394)	(18,873)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**1,519**	**(8,221)**	**(4,882)**	**(17,811)**
Non-controlling interest	(342)	(797)	(512)	(1,062)
	1,177	(9,018)	(5,394)	(18,873)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic	0.07	(0.38)	(0.23)	(0.82)
Diluted	0.07	(0.38)	(0.23)	(0.82)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA$0.03)	0.08 (CA$0.10)	0.09 (CA$0.12)	0.31 (CA$0.40)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,621,935	21,621,935	21,621,935	21,640,632
Diluted	21,621,935	21,621,935	21,621,935	21,640,632

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	
	2019 $	2018 $	2019 $	2018 $
Comprehensive income (loss)				
Net income (loss) for the period	1,177	(9,018)	(5,394)	(18,873)
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	(24)	3,449	(9,300)	15,938
Comprehensive income (loss)	1,153	(5,569)	(14,694)	(2,935)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	1,500	(4,772)	(14,082)	(2,051)
Non-controlling interest	(347)	(797)	(612)	(884)
	1,153	(5,569)	(14,694)	(2,935)

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of loss.

Velan Inc.

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
Adjustment related to the transition to IFRS 15	-	-	-	-	4,741	4,741	-	4,741
Adjusted balance - March 1, 2018	21,621,935	73,090	6,057	(19,790)	261,409	320,766	5,592	326,358
Net loss for the period	-	-	-	-	(4,882)	(4,882)	(512)	(5,394)
Other comprehensive loss	-	-	-	(9,200)	-	(9,200)	(100)	(9,300)
	21,621,935	73,090	6,057	(28,990)	256,527	306,684	4,980	311,664
Effect of share-based compensation	-	-	17	-	-	17	-	17
Dividends								
Multiple Voting Shares	-	-	-	-	(1,427)	(1,427)	-	(1,427)
Subordinate Voting Shares	-	-	-	-	(494)	(494)	-	(494)
Non-controlling interest	-	-	-	-	-	-	(927)	(927)
Balance - February 28, 2019	21,621,935	73,090	6,074	(28,990)	254,606	304,780	4,053	308,833
Balance - February 28, 2017	21,667,235	73,584	6,017	(35,550)	281,343	325,394	6,517	331,911
Net loss for the period	-	-	-	-	(17,811)	(17,811)	(1,062)	(18,873)
Other comprehensive income	-	-	-	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

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	
	2019 $	2018 $	2019 $	2018 $
Cash flows from				
Operating activities				
Net income (loss) for the period	1,177	(9,018)	(5,394)	(18,873)
Adjustments to reconcile net income to cash provided by operating activities	(2,561)	(3,891)	7,118	6,994
Changes in non-cash working capital items	(2,812)	3,996	(11,311)	9,986
Cash used by operating activities	(4,196)	(8,913)	(9,587)	(1,893)
Investing activities				
Short-term investments	(511)	814	(11)	327
Additions to property, plant and equipment	(1,109)	(1,830)	(7,510)	(6,202)
Additions to intangible assets	(1,029)	(32)	(1,141)	(437)
Proceeds on disposal of property, plant and equipment, and intangible assets	-	66	144	141
Net change in other assets	(193)	(551)	403	(507)
Cash used by investing activities	(2,842)	(1,533)	(8,115)	(6,678)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(488)	(1,692)	(3,102)	(6,681)
Dividends paid to non-controlling interest	-	-	(927)	(41)
Repurchase of shares	-	-	-	(630)
Short-term bank loans	(313)	(12)	1,098	(576)
Increase in long-term debt	-	-	3,989	-
Repayment of long-term debt	(926)	(854)	(3,586)	(3,206)
Cash used by financing activities	(1,727)	(2,558)	(2,528)	(11,134)
Effect of exchange rate differences on cash	(325)	1,526	(3,447)	8,021
Net change in cash during the period	(9,090)	(11,478)	(23,677)	(11,684)
Net cash – Beginning of the period	49,956	76,021	64,543	76,227
Net cash – End of the period	40,866	64,543	40,866	64,543
Net cash is composed of:				
Cash and cash equivalents	70,673	85,391	70,673	85,391
Bank indebtedness	(29,807)	(20,848)	(29,807)	(20,848)
	40,866	64,543	40,866	64,543
Supplementary information				
Interest received (paid)	142	443	26	532
Income taxes reimbursed (paid)	(1,683)	370	(10,459)	(3,752)