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PRESS RELEASE

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FOR IMMEDIATE RELEASE

October 12, 2017

VELAN INC. REPORTS ITS SECOND 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 second quarter ended August 31, 2017.

Highlights

- **Sales of US$76.5 million for the quarter**
- **Net loss[1] of US$5.6 million for the quarter**
- **Net new orders ("Bookings") of US$92.5 million for the quarter**
- **Order backlog of US$488.7 million at the end of the quarter, of which US$189.6 million is scheduled for delivery beyond the next 12 months**
- **Net cash[2] of US$68.2 million at the end of the quarter**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended August 31		Six-month periods ended August 31	
	2017	2016	2017	2016
Sales	$76.5	$71.1	$147.6	$148.5
Gross Profit	15.1	19.2	28.6	37.9
Gross profit %	*19.7%*	*27.0%*	*19.4%*	*25.5%*
Net income (loss) attributable to Multiple and Subordinate Voting Shares	(5.6)	2.0	(9.9)	2.5
Net income (loss) per share – basic and diluted	(0.26)	0.10	(0.46)	0.12

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

- Net loss[1] amounted to $5.6 million or $0.26 per share compared to net earnings[1] of $2.0 million or $0.10 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 poor order bookings in the past.

- In the first quarter of the current fiscal year, the Company announced a global cost reduction and efficiency initiative with the goal of reducing annual supply chain, production and overhead costs by approximately $20 million by the end of the fiscal year ended February 29, 2020. The current quarter's depressed results highlight the need for this initiative and the Company began a detailed assessment of its global manufacturing footprint, supply chain and cost structure 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 over the remainder of the current fiscal year and begin implementing its cost reduction plan.
- Bookings amounted to $92.5 million, an increase of $15.1 million or 19.5% compared to last year. This increase is due primarily to new project orders booked by the Company's North American and Italian operations, which was partially offset by a decrease in orders booked in the Company's French operations, which had recorded significant large project orders in the prior year quarter.
- Sales amounted to $76.5 million, an increase of $5.4 million or 7.6% 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.
- In order to improve its bookings and sales performance, the Company restructured its global sales force along vertical market lines rather than geographic lines in order to focus its sales resources on those niche market segments where its engineering know-how and agile design capabilities allow for premium positioning of its products over its competitors.
- Gross profit percentage decreased by 730 basis points from 27.0% to 19.7%. 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 shippable project valves which it was not able to deliver due to various customer-related issues.
- The Company ended the period with net cash[2] of $68.2 million, an increase of $6.6 million or 10.7% 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.

First Half Year Fiscal 2018 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first half year of fiscal 2017):

- Net loss[1] amounted to $9.9 million or $0.46 per share compared to net earnings[1] of $2.5 million or $0.12 per share last year. The $12.4 million increase in net loss[1] is primarily attributable to a lower gross profit percentage and increased administration costs.
- Sales remained relatively stable, amounting to $147.6 million, a decrease of $0.9 million or 0.6% 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 $164.7 million, a decrease of $22.7 million or 12.1% compared to last year. This decrease is due primarily to lower project orders booked by the Company's French and Italian subsidiaries, both of which had recorded significant large project orders in the prior year period.
- As a result of bookings outpacing sales in the period, the Company ended the period with a backlog of $488.7 million, an increase of $50.5 million or 11.5% 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 610 basis points from 25.5% to 19.4%. The decrease in the gross profit percentage is mainly attributable to a product mix with a greater proportion of lower margin product sales, a significant backlog of shippable project valves which were not delivered due to various customer-related issues, and pricing pressure brought on by fierce competition and continued weakness in some of the Company's markets.
- Administration costs amounted to $40.1 million, an increase of $4.3 million or 12.0%. 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.
- Foreign currency impacts:
  - Based on average exchange rates, the euro weakened 0.4% against the U.S. dollar when compared to the same period last year. This weakening resulted in the Company's net profits and bookings from its European subsidiaries being reported as lower U.S. dollar amounts in the current period.
  - Based on average exchange rates, the Canadian dollar weakened 1.4% 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.
  - Based on spot exchange rates, the euro strengthened 11.6% against the U.S. dollar when compared to the rate at the end of the last fiscal year. This strengthening resulted in losses of $1.7 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 $11.8 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.

"Our second quarter was similar in many ways to our first quarter, suffering principally from a lack of sales in our North American operations, resulting, in turn, from a lack of orders in previous quarters. The competitive environment in North America also depressed our margins," said John Ball, CFO of Velan Inc. "We are encouraged, however, by the $50 million increase in our backlog since the start of the fiscal year. We also note that the balance sheet and equity have remained strong, in spite of the year to date operating loss."

Yves Leduc, President and CEO of Velan Inc., said, "Market conditions are causing an erosion of the non-project commodity valve business, as well as reduced pricing in the highly-competitive project valve business. In response, and as announced last quarter, the Company seeks to drive out $20 million of annual costs in three years, which it will invest in improving its competitiveness, while aggressively pursuing market share growth in high-margin segments where fewer competitors can match its product capabilities. We are talking about a transformation, initiated under our Velocity 2020 strategic plan, and an important milestone was achieved last month with the re-organization of our global sales force, moving from a geographic structure to a focus on our customers and markets. This fiscal year will be difficult, due to the low bookings in North America last year and in the earlier part of this year, but we are confident that the recent surge in our backlog, combined with our strategic efforts, will improve our overall position."

A.K. Velan, founder of the Company, passed away last week at the age of ninety-nine, after a full and remarkable life. Through both good and challenging times, A.K. built the Company into the global valve industry leader it is today. Although he was no longer actively involved in the Company, he continues to be an inspiration to the many people whose lives he touched.

Dividend

The Board declared an eligible quarterly dividend of CDN$0.10 per share, payable on December 29, 2017, to all shareholders of record as at December 15, 2017.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the second quarter conference call to be held on Thursday, October 12, 2017, at 4:30 p.m. (EDT). The toll free call-in number is 1-800-672-0241, access code 21860050. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21860050.

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 August 31, 2016 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	August 31, 2017 $	February 28, 2017 $
Assets		
Current assets		
Cash and cash equivalents	90,562	84,019
Short-term investments	1,437	974
Accounts receivable	116,377	125,512
Income taxes recoverable	13,891	7,145
Inventories	184,366	173,089
Deposits and prepaid expenses	5,163	3,391
Derivative assets	866	1,202
	412,662	395,332
Non-current assets		
Property, plant and equipment	91,241	91,535
Intangible assets and goodwill	20,478	19,023
Deferred income taxes	12,997	12,951
Other assets	408	456
	125,124	123,965
Total assets	537,786	519,297
Liabilities		
Current liabilities		
Bank indebtedness	18,514	7,792
Short-term bank loans	1,877	1,650
Accounts payable and accrued liabilities	60,865	60,641
Income taxes payable	954	946
Dividend payable	1,729	1,631
Customer deposits	47,314	43,953
Provisions	11,986	10,600
Accrual for performance guarantees	30,110	26,943
Derivative liabilities	1,634	799
Current portion of long-term debt	7,830	7,115
	182,813	162,070
Non-current liabilities		
Long-term debt	14,637	15,318
Deferred income taxes	2,927	2,784
Other liabilities	7,597	7,214
	25,161	25,316
Total liabilities	207,974	187,386
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,162	73,584
Contributed surplus	6,037	6,017
Retained earnings	267,967	281,343
Accumulated other comprehensive loss	(23,759)	(35,550)
	323,407	325,394
Non-controlling interest	6,405	6,517
Total equity	329,812	331,911
Total liabilities and equity	537,786	519,297

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 August 31		Six-month periods ended August 31	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Sales	76,531	71,137	147,618	148,546
Cost of sales	61,455	51,897	119,051	110,641
Gross profit	15,076	19,240	28,567	37,905
Administration costs	21,014	17,032	40,153	35,798
Other expense (income)	1,223	309	1,519	202
Operating profit (loss)	(7,161)	1,899	(13,105)	1,905
Finance income	240	215	368	480
Finance costs	214	132	366	257
Finance income (costs) – net	26	83	2	223
Income (Loss) before income taxes	(7,135)	1,982	(13,103)	2,128
Provision for (Recovery of) income taxes	(1,694)	102	(3,076)	(326)
Net income (loss) for the period	(5,441)	1,880	(10,027)	2,454
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**(5,591)**	**2,001**	**(9,895)**	**2,529**
Non-controlling interest	150	(121)	(132)	(75)
	(5,441)	1,880	(10,027)	2,454
Net income (loss) per Subordinate and Multiple Voting Share				
Basic	(0.26)	0.10	(0.46)	0.12
Diluted	(0.26)	0.10	(0.46)	0.12
Dividends declared per Subordinate and Multiple Voting Share	0.08 (CA$0.10)	0.07 (CA$0.10)	0.15 (CA$0.20)	0.15 (CA$0.20)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,646,695	21,731,871	21,642,740	21,729,924
Diluted	21,651,792	21,736,983	21,646,938	21,735,703

Velan Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands of U.S. dollars)

	Three-month periods ended August 31		Six-month periods ended August 31	
	2017 **$**	**2016** **$**	**2017** **$**	**2016** **$**
Comprehensive income (loss)				
Net income (loss) for the period	(5,441)	1,880	(10,027)	2,454
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	5,538	(56)	11,811	3,061
Comprehensive income (loss)	97	1,824	1,784	5,515
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	(30)	1,640	1,896	5,092
Non-controlling interest	127	184	(112)	423
	97	1,824	1,784	5,515

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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	-	-	-	-	(9,895)	(9,895)	(132)	(10,027)
Other comprehensive income (loss)	-	-	-	11,791	-	11,791	20	11,811
	21,667,235	73,584	6,017	(23,759)	271,448	327,290	6,405	333,695
Effect of share-based compensation	-	-	20	-	-	20	-	20
Share repurchase	(38,700)	(422)	-	-	(114)	(536)	-	(536)
Dividends								
Multiple Voting Shares	-	-	-	-	(2,394)	(2,394)	-	(2,394)
Subordinate Voting Shares	-	-	-	-	(973)	(973)	-	(973)
Balance - August 31, 2017	21,628,535	73,162	6,037	(23,759)	267,967	323,407	6,405	329,812
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	-	-	-	-	2,529	2,529	(75)	2,454
Other comprehensive income (loss)	-	-	-	2,563	-	2,563	498	3,061
	21,737,135	74,345	5,941	(30,526)	282,909	332,669	5,965	338,634
Effect of share-based compensation	-	-	38	-	-	38	-	38
Share repurchase	(11,800)	(128)	-	-	(31)	(159)	-	(159)
Dividends								
Multiple Voting Shares	-	-	-	-	(2,402)	(2,402)	-	(2,402)
Subordinate Voting Shares	-	-	-	-	(953)	(953)	-	(953)
Balance - August 31, 2016	21,725,335	74,217	5,979	(30,526)	279,523	329,193	5,965	335,158

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Condensed Interim Consolidated Statements of Cash Flow

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

	Three-month periods ended August 31		Six-month periods ended August 31	
	2017 $	2016 $	2017 $	2016 $
Cash flows from				
Operating activities				
Net income for the period	(5,441)	1,880	(10,027)	2,454
Adjustments to reconcile net income to cash provided by operating activities	3,120	4,752	8,465	5,259
Changes in non-cash working capital items	11,125	(13,539)	263	(1,734)
Cash provided (used) by operating activities	8,804	(6,907)	(1,299)	5,979
Investing activities				
Short-term investments	61	299	(463)	1,456
Additions to property, plant and equipment	(1,328)	(1,937)	(2,915)	(3,273)
Additions to intangible assets	(258)	(10)	(405)	(60)
Proceeds on disposal of property, plant and equipment, and intangible assets	2	46	61	179
Net change in other assets	(3)	(29)	52	133
Cash provided (used) by investing activities	(1,526)	(1,631)	(3,670)	(1,565)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	(1,638)	(1,697)	(3,269)	(3,303)
Repurchase of shares	(502)	(159)	(536)	(159)
Short-term bank loans	482	152	227	25
Repayment of long-term debt	(821)	(1,311)	(1,559)	(3,272)
Cash provided (used) by financing activities	(2,479)	(3,015)	(5,137)	(6,709)
Effect of exchange rate differences on cash	2,629	(581)	5,927	831
Net change in cash during the period	7,428	(12,134)	(4,179)	(1,464)
Net cash – Beginning of the period	64,620	95,010	76,227	84,340
Net cash – End of the period	72,048	82,876	72,048	82,876
Net cash is composed of:				
Cash and cash equivalents	90,562	89,872	90,562	89,872
Bank indebtedness	(18,514)	(6,996)	(18,514)	(6,996)
	72,048	82,876	72,048	82,876
Supplementary information				
Interest received (paid)	140	112	121	224
Income taxes reimbursed (paid)	(1,207)	(1,285)	(2,759)	(3,205)