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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FIRST 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 first quarter ended May 31, 2017.

Highlights

- Sales of US\$71.1 million for the quarter
- Net loss¹ of US\$4.3 million for the quarter
- Global improvement initiative with goal to reduce annual costs by US\$20 million by 2020
- Net new orders (“Bookings”) of US\$72.2 million for the quarter
- Order backlog of US\$456.6 million at the end of the quarter, of which US\$168.1 million is scheduled for delivery beyond the next 12 months
- Net cash² of US\$61.6 million at the end of the quarter

	Three-month periods ended	
	May 31, 2017	May 31, 2016
<i>(millions of U.S. dollars, excluding per share amounts)</i>		
Sales	\$71.1	\$77.4
Gross Profit	13.5	18.7
Gross profit %	19.0%	24.1%
Net income (loss) attributable to Multiple and Subordinate Voting Shares	(4.3)	0.5
Net earnings (loss) ¹ per share – basic and diluted	(0.20)	0.02

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

- Net loss¹ amounted to \$4.3 million or \$0.20 per share compared to net earnings¹ of \$0.5 million or \$0.02 per share last year. The \$4.8 million increase in net loss¹ is primarily attributable to a lower sales volume, a lower gross profit percentage and increased costs recognized in connection with the Company’s ongoing asbestos litigation.
- In response to the disappointing results and the current business environment, the Company has accelerated the assessment of its global manufacturing footprint, supply chain and cost structure as per its Velocity 2020 strategic plan. Consequently, the Company has begun 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.

- Sales amounted to \$71.4 million, a decrease of \$6.3 million or 8.1% from the prior year. Sales were negatively impacted by the lack of shippable backlog, particularly in the Company's North American operations, and delays in shipments of certain large project orders caused by various customer-related, supply chain and internal operational issues. Sales were also negatively impacted by lower shipments of non-project commodity valves due to fierce competition and continued weakness in the oil and gas sector, thus increasing 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 \$72.2 million, a decrease of \$37.8 million or 34.4% 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 quarter.
- The Company ended the period with a backlog of \$456.6 million, an increase of \$18.4 million or 4.2% since the beginning of the current fiscal year. While bookings were marginally higher than shipments in the quarter, the increase in backlog is due primarily to the strengthening of the euro spot rate against the U.S. dollar over the course of the current quarter.
- Gross profit percentage decreased by 510 basis points from 24.1% to 19.0%. The decrease in the gross profit percentage is mainly attributable to the lower sales volume as well as a product mix with a lower proportion of higher margin product sales, such as spare parts.
- Administration costs amounted to \$19.1 million, an increase of \$0.3 million or 1.6%. The increase is due to an increase in costs recognized in connection with the Company's ongoing asbestos litigation, which was partially offset by lower sales commissions. The fluctuation in asbestos costs for the quarter is due more to the timing of settlement payments in these two periods rather than to changes in long-term trends.
- The Company ended the quarter with net cash² of \$61.6 million, a decrease of \$10.9 million or 15.0% since the beginning of the current fiscal year. This decrease is primarily attributable to negative non-cash working capital movements, particularly an increase in inventories and accounts receivable, partially offset by an increase in customer deposits.
- Foreign currency impacts:
 - Based on average exchange rates, the Euro weakened 3.9% 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 quarter.
 - Based on average exchange rates, the Canadian dollar weakened 3.6% 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 quarter.
 - The net impact of the above currency swings was not significant on the Company's net earnings¹.

"This was a very difficult quarter in terms of sales and order bookings, principally in our North American operations, and the loss for the quarter was a disappointment," said John Ball, CFO of Velan Inc. "While some of our overseas operations continue to perform well, it was not sufficient to counter the soft sales in North America. It is, however, highlighting the need to continue to drive for operational efficiencies in all parts of our operations."

Yves Leduc, President and CEO of Velan Inc., said, "We are responding to the tough market conditions with an ambitious three-year plan to both drive out \$20 million of annual costs, which we will invest in improving our competitiveness, and invest at the same time in growing our market share in under-developed high-margin key target markets. In pursuing these priorities, the Company intends to accelerate the transformation initiated under our Velocity 2020 strategic plan, building an organization that is more agile, delivering greater value to its customers through superior products and tailored solutions, and disciplined market development."



Dividend

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

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the first quarter conference call to be held on Thursday, July 13, 2017, at 4:30 p.m. (EDT). The toll free call-in number is 1-800-672-3665, access code 21855021. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21855021.

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 May 31, 2017 for a detailed calculation of this measure. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

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	May 31, 2017 \$	February 28, 2017 \$
Assets		
Current assets		
Cash and cash equivalents	87,360	84,019
Short-term investments	1,498	974
Accounts receivable	130,812	125,512
Income taxes recoverable	9,787	7,145
Inventories	181,761	173,089
Deposits and prepaid expenses	3,766	3,391
Derivative assets	284	1,202
	<u>415,268</u>	<u>395,332</u>
Non-current assets		
Property, plant and equipment	91,815	91,535
Intangible assets and goodwill	19,757	19,023
Deferred income taxes	13,292	12,951
Other assets	403	456
	<u>125,267</u>	<u>123,965</u>
Total assets	<u>540,535</u>	<u>519,297</u>
Liabilities		
Current liabilities		
Bank indebtedness	22,740	7,792
Short-term bank loans	1,395	1,650
Accounts payable and accrued liabilities	58,475	60,641
Income taxes payable	591	946
Dividend payable	1,608	1,631
Customer deposits	49,631	43,953
Provisions	10,860	10,600
Accrual for performance guarantees	28,549	26,943
Derivative liabilities	1,859	799
Current portion of long-term debt	7,410	7,115
	<u>183,118</u>	<u>162,070</u>
Non-current liabilities		
Long-term debt	15,136	15,318
Deferred income taxes	2,863	2,784
Other liabilities	7,453	7,214
	<u>25,452</u>	<u>25,316</u>
Total liabilities	<u>208,570</u>	<u>187,386</u>
Equity		
Equity attributable to the Subordinate and Multiple Voting shareholders		
Share capital	73,557	73,584
Contributed surplus	6,026	6,017
Retained earnings	275,424	281,343
Accumulated other comprehensive income (loss)	(29,320)	(35,550)
	<u>325,687</u>	<u>325,394</u>
Non-controlling interest	<u>6,278</u>	<u>6,517</u>
Total equity	<u>331,965</u>	<u>331,911</u>
Total liabilities and equity	<u>540,535</u>	<u>519,297</u>

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 May 31	
	2017	2016
	\$	\$
Sales	71,087	77,409
Cost of sales	<u>57,596</u>	<u>58,744</u>
Gross profit	13,491	18,665
Administration costs	19,139	18,766
Other expense (income)	<u>296</u>	<u>(107)</u>
Operating profit (loss)	(5,944)	6
Finance income	128	265
Finance costs	<u>152</u>	<u>125</u>
Finance income (costs) – net	<u>(24)</u>	<u>140</u>
Income (Loss) before income taxes	(5,968)	146
Income taxes	<u>(1,382)</u>	<u>(428)</u>
Net income (loss) for the period	<u>(4,586)</u>	<u>574</u>
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(4,304)	528
Non-controlling interest	<u>(282)</u>	<u>46</u>
	<u>(4,586)</u>	<u>574</u>
Net income (loss) per Subordinate and Multiple Voting Share		
Basic	(0.20)	0.02
Diluted	<u>(0.20)</u>	<u>0.02</u>
Dividends declared per Subordinate and Multiple Voting Share	0.07	0.08
	<u>(CA\$0.10)</u>	<u>(CA\$0.10)</u>
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic	21,665,337	21,737,135
Diluted	<u>21,671,213</u>	<u>21,743,540</u>

Velan Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(in thousands of U.S. dollars)

	Three-month periods ended May 31	
	2017 \$	2016 \$
Comprehensive income (loss)		
Net income (loss) for the period	(4,586)	574
Other comprehensive income (loss)		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	6,273	3,117
Comprehensive income (loss)	1,687	3,691
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	1,926	3,452
Non-controlling interest	(239)	239
	1,687	3,691

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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						Non-controlling interest	Total equity
	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total		
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
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	-	-	-	-	528	528	46	574
Other comprehensive income (loss)	-	-	-	2,924	-	2,924	193	3,117
	21,737,135	74,345	5,941	(30,165)	280,908	331,029	5,781	336,810
Effect of share-based compensation	-	-	19	-	-	19	-	19
Dividends								
Multiple Voting Shares	-	-	-	-	(1,174)	(1,174)	-	(1,174)
Subordinate Voting Shares	-	-	-	-	(484)	(484)	-	(484)
Balance - May 31, 2016	21,737,135	74,345	5,960	(30,165)	279,250	329,390	5,781	335,171

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Condensed Interim Consolidated Statements of Cash Flow

(Unaudited)

(in thousands of U.S. dollars)

	Three-month periods ended May 31	
	2017	2016
	\$	\$
Cash flows from		
Operating activities		
Net income for the period	(4,586)	574
Adjustments to reconcile net income to cash provided by operating activities	5,345	507
Changes in non-cash working capital items	(10,862)	11,805
Cash provided (used) by operating activities	(10,103)	12,886
Investing activities		
Short-term investments	(524)	1,157
Additions to property, plant and equipment	(1,587)	(1,336)
Additions to intangible assets	(147)	(50)
Proceeds on disposal of property, plant and equipment, and intangible assets	59	133
Net change in other assets	55	162
Cash provided (used) by investing activities	(2,144)	66
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	(1,631)	(1,606)
Repurchase of shares	(34)	-
Short-term bank loans	(255)	(127)
Repayment of long-term debt	(738)	(1,961)
Cash provided (used) by financing activities	(2,658)	(3,694)
Effect of exchange rate differences on cash	3,298	1,412
Net change in cash during the period	(11,607)	10,670
Net cash – Beginning of the period	76,227	84,340
Net cash – End of the period	64,620	95,010
Net cash is composed of:		
Cash and cash equivalents	87,360	101,556
Bank indebtedness	(22,740)	(6,546)
	64,620	95,010
Supplementary information		
Interest received (paid)	(19)	112
Income taxes reimbursed (paid)	(1,552)	(1,920)