

VELAN INC.

MAJORITY VOTING POLICY

The board of directors of Velan Inc. believes that each of its members should carry the confidence and support of its shareholders. To this end, the directors have adopted this statement of policy. Future nominees for election to the board will be asked to subscribe to this statement before their names are put forward.

Forms of proxy for the vote at a shareholders' meeting where directors are to be elected will enable the shareholder to vote in favour of, or to withhold from voting, separately for each nominee. At the meeting, the Chair will call for a vote by ballot and the scrutineers will record with respect to each nominee the number of shares in his or her favour and the number of shares withheld from voting. Prior to receiving the scrutineer's report on the ballot, the Chair may announce the vote result based on the number of proxies received by the Company. At the conclusion of the meeting, the final scrutineer's report on the ballot must be filed on SEDAR.

If, with respect to any particular nominee, the number of shares withheld exceeds the number of shares voted in favour of the nominee (a "**Majority Withheld Vote**"), then for purposes of this policy the nominee shall be considered not to have received the support of the shareholders, even though duly elected as a matter of corporate law.

A person who has received a Majority Withheld Vote shall immediately submit to the board of directors his or her resignation, to take effect upon acceptance by the board of directors. The board will have 90 days from the meeting to make and publicly disclose its decision. The board shall accept a resignation absent exceptional circumstances. If the board determines not to accept a resignation, the news release in respect thereof must fully state the reasons for that decision. A director who tenders a resignation pursuant to this policy will not participate in any meeting of the board at which the resignation is considered, provided that if the directors who received a majority of votes in favour of their election do not constitute a quorum for a board meeting, then all directors may participate in the determination of whether or not to accept the resignation offers. A resignation will be effective when accepted by the board.

Subject to any corporate law restrictions, the board of directors may leave the resultant vacancy unfilled until the next annual general meeting. Or it may fill the vacancy through the appointment of a new director whom the board considers to merit the confidence of the shareholders. Or it may call a special meeting of shareholders at which there will be presented a management slate to fill the vacant position or positions.

This policy does not apply in any case where the election involves a contested election -- i.e., where proxy material is circulated in support of one or more nominees who are not part of the slate supported by the board of directors.

Dated January 11, 2012