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PRESS RELEASE

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FOR IMMEDIATE RELEASE

October 8, 2020

VELAN INC. REPORTS ITS SECOND QUARTER 2020/21 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, 2020.

Highlights

- **Net new orders ("Bookings") of US$101.3 million for the quarter**
- **Order backlog of US$462.7 million at the end of the quarter, representing an increase of 8.7% for the quarter, of which US$173.3 million is scheduled for delivery beyond the next 12 months**
- **Net cash of US$60.4 million at the end of the quarter**
- **Sales of US$68.3 million for the quarter**
- **Gross profit percentage of 25.0% for the quarter**
- **Net loss[1] of US$5.1 million for the quarter**
- **Operating loss before restructuring and transformation costs[2] of US$4.0 million for the quarter**
- **Adjusted EBITDA of US$-0.8 million for the quarter, and US$3.0 million year-to-date**

(millions of U.S. dollars, excluding per share amounts)	Three-month periods ended August 31		Six-month periods ended August 31	
	2020	2019	2020	2019
Sales	$68.3	$85.5	$145.0	$169.3
Gross Profit	17.1	22.0	35.4	38.1
Gross profit %	*25.0%*	*25.7%*	*24.4%*	*22.5%*
Net earnings (loss)[1]	(5.1)	1.4	(7.0)	(4.5)
Net earnings (loss)[1] per share – basic and diluted	*(0.24)*	*0.06*	*(0.32)*	*(0.21)*
Operating profit (loss) before restructuring and transformation costs[2]	(4.0)	2.6	(3.3)	(4.2)
Adjusted EBITDA[2]	(0.8)	5.8	3.0	2.0
Adjusted EBITDA[2] per share – basic and diluted	*(0.04)*	*0.27*	*0.14*	*0.09*

Second Quarter Fiscal 2021 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the second quarter of fiscal 2020):

- Bookings amounted to $101.3 million, an increase of $24.6 million or 32.1% compared to the first quarter of the current fiscal year and $10.6 million or 11.7% compared to last year. This increase is primarily attributable to higher orders recorded by the Company's French and North American operations, particularly in the nuclear and downstream oil and gas industries.
- Sales amounted to $68.3 million, a decrease of $17.2 million or 20.1% from the prior year. Sales were negatively impacted by reduced shipments primarily attributable to supply chain issues created by the novel coronavirus ("COVID-19") pandemic as well as inefficiencies experienced in reconfiguring the Canadian plants under the V20 program which caused production delays. The decrease in sales for the quarter is also due to the reduction of non-project orders delivered by the Company's North American operations due to the unfavorable market conditions triggered by the COVID-19 pandemic which significantly affected the Company's distribution channel.
- Gross profit percentage decreased by 70 basis points from 25.7% to 25.0%. The decrease in the gross profit percentage is mainly attributable to the aforementioned lower sales volume that was insufficient to allow the Company to cover its fixed costs efficiently. Furthermore, the Company's gross profit percentage was negatively impacted by a $1.0 million unfavorable movement in unrealized foreign exchange losses primarily attributable to the weakening of the U.S. dollar against the euro and the Canadian dollar over the course of the quarter. The decrease in gross profit percentage for the quarter was partially offset by the Company's recording of $2.3 million of wage subsidies. The subsidies were put in place by government authorities to prevent further job losses in the context of the COVID-19 pandemic by offering wage relief to companies negatively impacted by the market distress caused by the virus.
- Other expenses amounted to $1.4 million, an increase of $1.4 million or 100.0% compared to last year. The increase in other expenses is due to land clean-up costs of a former factory. These costs are unrelated to the upcoming sale of the Montreal plant on MacArthur street.
- Net loss[1] amounted to $5.1 million or $0.24 per share compared to net earnings[1] of $1.4 million or $0.06 per share last year. The increase in net loss[1] for the quarter is primarily attributable to a lower gross profit, a $1.7 million unfavorable movement in unrealized foreign exchange losses, an increase in other expenses as well as an increase in restructuring and transformation costs, partially offset by the Company's recording of $4.3 million of wage subsidies which were allocated between cost of sales, administration expenses and restructuring and transformation costs.
- Operating loss before restructuring and transformation costs[2] amounted to $4.0 million compared to an operating profit of $2.6 million last year. Adjusted EBITDA[2] amounted to a negative $0.8 million or $0.04 per share compared to a positive $5.8 million or $0.27 per share last year. The decrease in operating profit before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to a lower gross profit, an increase in unrealized foreign exchange losses as well as an increase in other expenses, partially offset by the Company's recording of wage subsidies.
- During the quarter, the Company agreed to the sale of its Montreal plant on MacArthur Street, which will be effective October 31, 2020. The closing of the plant was planned as part of the V20 reconfiguration of the Company's North American manufacturing footprint. Gross proceeds will be $13.3 million and all underlying conditions to the sale were satisfied.

First Six Months Fiscal 2021 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first six months of fiscal 2020):

- Bookings amounted to $178.0 million, an increase of $23.1 million or 14.9% compared to last year. This increase is primarily attributable to large project orders booked in the Company's North American and French operations, notably in the process, nuclear and downstream oil and gas markets. This increase was partially offset by a decrease in non-project orders booked in the Company's North American operations.

- The Company ended the period with a backlog of $462.7 million, an increase of $55.9 million or 13.7% 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 spot rate against the U.S. dollar over the course of the period. The backlog also increased for the period due to the delays in shipments created by the impact the COVID-19 pandemic and the reconfiguration of the Canadian plants under the V20 program has had on the Company's operations. The Company had to manage many disruptions related to its supply chain which caused significant delays on certain customer orders, and due to travel restrictions, experienced difficulties in getting inspection clearance to deliver certain large project orders.
- The Company ended the period with net cash of $60.4 million, an increase of $29.4 million or 94.8% since the beginning of the year. This increase is primarily attributable to positive non-cash working capital movements, particularly in accounts receivables, and an increase in long-term debt, partially offset by investments in property, plant and equipment, long-term debt repayments and V20 related disbursements. Net cash was positively impacted by the strengthening of the euro spot rate against the U.S. dollar over the course of the period.
- Sales amounted to $145.0 million, a decrease of $24.3 million or 14.4% from the prior year. The decreased sales volume for the period is attributable to the negative impact that the COVID-19 pandemic had on the global economy as well as the production delays caused by the inefficiencies experienced while reconfiguring the Canadian plants under the V20 program. The decrease in sales for the half year period is also due to lower non-project valve sales caused by the negative impact the global pandemic has had on the Company's distribution channel.
- Gross profit percentage increased by 190 basis points from 22.5% to 24.4%. Despite the lower sales volume, the increase in gross profit percentage is primarily attributable to a product mix with a greater proportion of higher margin product sales as well as labour and overhead savings stemming from the Company's restructuring and transformation initiatives which started in the prior fiscal year. In addition, project manufacturing margins in the Company's North American operations have substantially improved in the last year, the consequence of the Company's sustained efforts to target profitable segments initiated under the V20 transformation program. These efforts, highlighted in previous quarterly reports, are bearing fruits and bringing sustainable margin improvements to the Company's project business, while successfully growing the Company's project backlog. The increase is also attributable to the Company's recording of $4.2 million of wage subsidies. This increase was partially offset by a $1.8 million unfavorable movement in unrealized foreign exchange losses primarily attributable to the weakening of the U.S. dollar against the euro and Canadian dollar over the course of the period combined with a lower gross profit percentage in the Company's French operations due to the shipment of a less profitable product mix for the period.
- Administration costs amounted to $37.4 million, a decrease of $5.0 million or 11.8% compared to last year. The decrease is primarily attributable to the on-going effort to reduce administration overhead expenses under the V20 plan, a $3.4 million reduction of administration employee salaries provided by wage subsidies as well as a general reduction in administration expenses, such as travel expenses and office maintenance costs, caused principally by the downturn of the market conditions as well as the travel restrictions and social distancing measures that were enforced in a majority of countries over the course of the period. Furthermore, in an effort to avoid layoffs and protect its talent in the current pandemic context, the Company's North American operations have implemented a temporary salary reduction program from staff employees to board members over the course of the quarter. The decrease in administration costs was partially offset by a $1.9 million increase in the 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 settlements in these two periods rather than to changes in long-term trends.

- Net loss[1] amounted to $7.0 million or $0.32 per share compared to $4.5 million or $0.21 per share last year. The increase in net loss[1] for the half year is primarily attributable to a $2.6 million unfavorable movement in unrealized foreign exchange losses, the Company's lower gross profit, the increase in other expenses and restructuration and transformation costs combined with an unfavorable movement in income taxes, partially offset by a reduction in administration costs as well as the Company's recording of $7.9 million of wage subsidies which were allocated between cost of sales, administration expenses and restructuring and transformation costs.
- Operating loss before restructuring and transformation costs[2] amounted to $3.3 million compared to $4.2 million last year. Adjusted EBITDA[2] amounted to $3.0 million or $0.14 per share compared to $2.0 million or $0.09 per share last year. The improvement in operating loss before restructuring and transformation costs[2] and adjusted EBITDA[2] is primarily attributable to lowered administration costs, improved margins and the Company's recording of wage subsidies, partially offset by an increase in unrealized foreign exchange losses, higher other expenses and a lower gross profit.
- The net impact of currency swings for the period was generally unfavourable on the Company's net loss, although it was generally favourable on the Company's equity.

"Our second quarter results were deeply affected by a lower sales volume mainly explained by delays in shipments, mainly in North America, caused by COVID-19 related supply chain issues, as well as the inefficiencies caused by the implementation of changes to our manufacturing footprint in Quebec under our V20 transformation plan" said Réjean Ostiguy, CFO of Velan Inc. "Nonetheless, on a year-to date basis, despite notably lower sales, our results land near last year's results, and on an adjusted basis, even exceed them. We were also pleased to present impressive improvements in gross profit percentage and significant reductions in administration expenses. Additionally, we were encouraged to see our backlog increase, thanks to strong bookings performance in our North American and French operations. We also want to mention our efforts to protect and increase our cash since the beginning of the fiscal year."

Yves Leduc, CEO of Velan Inc., said, "We are navigating through very rough waters and we could not escape the impact that the pandemic has had on MRO bookings, heavily dependent on a healthy oil and gas sector, and on our Asian supply chain, all of which greatly affected our production and shipments in the second quarter. However, through the storm, we see bursts of light, starting with our employees, who are showing incredible resilience and resolve through the pandemic, making our operations and work environment safer, while keeping their eyes on serving our customers and growing the business. Our backlog has grown near 14% in the first two quarters thanks to a strong bookings performance in the second quarter of the current fiscal year which represented a 32.1% improvement compared to the previous quarter, and 25% if you include the major breakthrough orders won in the first month of the third quarter, in South East Asia and the Middle East. Meanwhile, we are reaping early benefits of our V20 plan, evidenced by a substantial reduction in production overhead, and even more encouraging, in the impressive increase in project manufacturing margins, so weak back in 2018, that they prompted the Company to launch the V20 transformation. Going forward, we are turning greater attention to growing our business.

To conclude, the business shows encouraging signs of improving its core fundamentals, but we are not out of the woods yet, fighting through an indefinite global economic crisis, remaining vigilant during the unrelenting pandemic, with still much to do to successfully adapt our North American operations to a new manufacturing model. Our employees, with whom Bruno Carbonaro, our president, and I are constantly communicating, are energized and up to the challenge. In May, I said our aim was to get out of the storm stronger than before it hit the world economy. I like our odds."

Dividend

At the end of the fiscal year ended February 29, 2020, the Board of Directors deemed appropriate to suspend the quarterly dividend. The decision remains unchanged and will be reviewed on a quarterly basis.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the second quarter conference call to be held on Friday, October 9, 2020, at 11:00 a.m. (EDT). The toll free call-in number is 1-800-747-0365, access code 21970275. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21970275.

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$371.6 million in its last reported fiscal year. The Company employs over 1,775 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. Reconciliations of these amounts can be found on the following page.

Operating profit (loss) before restructuring and transformation costs and Adjusted net earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month period ended August 31, 2020	Three-month period ended August 31, 2019	Six-month period ended August 31, 2020	Six-month period ended August 31, 2019
Operating profit (loss)	(5.7)	2.0	(6.2)	(5.3)
Adjustment for:				
Restructuring and transformation costs	1.7	0.6	2.9	1.1
Operating profit (loss) before restructuring and transformation costs	**(4.0)**	**2.6**	**(3.3)**	**(4.2)**
Net income (loss)[1]	(5.1)	1.4	(7.0)	(4.5)
Adjustments for:				
Depreciation of property, plant and equipment	2.5	2.6	5.0	5.2
Amortization of intangible assets	0.6	0.5	1.2	1.0
Finance costs (income) – net	-	(0.2)	0.3	0.1
Provision for (Recovery of) income taxes	(0.5)	0.9	0.6	(0.9)
EBITDA	**(2.5)**	**5.2**	**0.1**	**0.9**
Adjustment for:				
Restructuring and transformation costs	1.7	0.6	2.9	1.1
Adjusted EBITDA	**(0.8)**	**5.8**	**3.0**	**2.0**

The term “operating profit or loss before restructuring and transformation costs” is defined as operating profit or loss plus restructuring and transformation costs. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

The term “adjusted EBITDA” is defined as net income or loss attributable to Subordinate and Multiple Voting Shares plus restructuring and transformation costs, depreciation of property, plant & equipment, plus amortization of intangible assets, plus net finance costs plus income tax provision. 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	August 31, 2020 $	February 29, 2020 $
Assets		
Current assets		
Cash and cash equivalents	86,894	75,327
Short-term investments	1,154	627
Accounts receivable	117,005	135,242
Income taxes recoverable	8,598	8,747
Inventories	181,558	170,265
Deposits and prepaid expenses	6,965	5,191
Derivative assets	39	555
Assets held for sale	2,865	-
	405,078	395,954
Non-current assets		
Property, plant and equipment	95,952	98,179
Intangible assets and goodwill	17,719	17,148
Deferred income taxes	27,937	26,702
Other assets	1,009	513
	142,617	142,542
Total assets	547,695	538,496
Liabilities		
Current liabilities		
Bank indebtedness	26,529	44,317
Short-term bank loans	2	1,379
Accounts payable and accrued liabilities	75,271	74,271
Income taxes payable	1,104	1,493
Customer deposits	57,085	47,208
Provisions	15,155	14,963
Provision for performance guarantees	21,461	21,127
Derivative liabilities	730	1,169
Current portion of long-term lease liabilities	1,629	1,621
Current portion of long-term debt	7,995	8,311
	206,961	215,859
Non-current liabilities		
Long-term lease liabilities	14,124	13,722
Long-term debt	25,106	10,986
Income taxes payable	1,411	1,576
Deferred income taxes	2,879	2,869
Other liabilities	8,715	8,623
	52,235	37,776
Total liabilities	259,196	253,635
Total equity	288,499	284,861
Total liabilities and equity	547,695	538,496

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	
	2020 $	2019 $	2020 $	2019 $
Sales	68,340	85,467	144,993	169,283
Cost of sales	51,287	63,485	109,548	131,207
Gross profit	17,053	21,982	35,445	38,076
Administration costs	19,687	19,430	37,354	42,384
Restructuring and transformation costs	1,723	565	2,899	1,074
Other expense (income)	1,369	4	1,393	(53)
Operating profit (loss)	(5,726)	1,983	(6,201)	(5,329)
Finance income	298	595	414	735
Finance costs	342	409	776	876
Finance income (costs) – net	(44)	186	(362)	(141)
Income (Loss) before income taxes	(5,770)	2,169	(6,563)	(5,470)
Provision for (Recovery of) income taxes	(505)	851	608	(968)
Net income (loss) for the period	(5,265)	1,318	(7,171)	(4,502)
Net income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	**(5,112)**	**1,369**	**(6,998)**	**(4,455)**
Non-controlling interest	(153)	(51)	(173)	(47)
	(5,265)	1,318	(7,171)	(4,502)
Net income (loss) per Subordinate and Multiple Voting Share				
Basic	(0.24)	0.06	(0.32)	(0.21)
Diluted	(0.24)	0.06	(0.32)	(0.21)
Dividends declared per Subordinate and Multiple Voting Share	- (CA$ -)	0.02 (CA$0.03)	- (CA$-)	0.04 (CA$0.06)
Total weighted average number of Subordinate and Multiple Voting Shares				
Basic	21,585,635	21,621,935	21,585,635	21,621,935
Diluted	21,585,635	21,621,935	21,585,635	21,621,935

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	
	2020 $	2019 $	2020 $	2019 $
Comprehensive income (loss)				
Net income (loss) for the period	(5,265)	1,318	(7,171)	(4,502)
Other comprehensive income (loss)				
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	9,903	(1,719)	10,809	(4,570)
Comprehensive income (loss)	4,638	(401)	3,638	(9,072)
Comprehensive income (loss) attributable to:				
Subordinate Voting Shares and Multiple Voting Shares	4,707	(316)	3,777	(8,853)
Non-controlling interest	(69)	(85)	(139)	(219)
	4,638	(401)	3,638	(9,072)

Other comprehensive income (loss) is composed solely of items that may be reclassified subsequently to the consolidated statement of income (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, 2019	21,621,935	73,090	6,074	(28,990)	254,606	304,780	4,053	308,833
Net loss for the period	-	-	-	-	(4,455)	(4,455)	(47)	(4,502)
Other comprehensive loss	-	-	-	(4,398)	-	(4,398)	(172)	(4,570)
Effect of share-based compensation	-	-	2	-	-	2	-	2
Dividends								
Multiple Voting Shares	-	-	-	-	(696)	(696)	-	(696)
Subordinate Voting Shares	-	-	-	-	(270)	(270)	-	(270)
Balance - August 31, 2019	21,621,935	73,090	6,076	(33,388)	249,185	294,963	3,834	298,797
Balance - February 29, 2020	21,585,635	72,695	6,260	(34,047)	236,269	281,177	3,684	284,861
Net loss for the period	-	-	-	-	(6,998)	(6,998)	(173)	(7,171)
Other comprehensive income	-	-	-	10,775	-	10,775	34	10,809
Balance - August 31, 2020	21,585,635	72,695	6,260	(23,272)	229,271	284,954	3,545	288,499

Velan Inc.

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	
	2020 $	2019 $	2020 $	2019 $
Cash flows from				
Operating activities				
Net income (loss) for the period	(5,265)	1,318	(7,171)	(4,502)
Adjustments to reconcile net income (loss) to cash provided (used) by operating activities	633	4,230	5,259	6,913
Changes in non-cash working capital items	4,492	(4,315)	21,015	544
Cash provided (used) by operating activities	(140)	1,233	19,103	2,955
Investing activities				
Short-term investments	610	(1,634)	(527)	(1,638)
Additions to property, plant and equipment	(1,405)	(966)	(3,936)	(1,714)
Additions to intangible assets	(266)	(111)	(523)	(133)
Proceeds on disposal of property, plant and equipment, and intangible assets	989	7	1,029	39
Net change in other assets	(467)	(1,341)	(489)	(1,328)
Cash used by investing activities	(539)	(4,045)	(4,446)	(4,774)
Financing activities				
Dividends paid to Subordinate and Multiple Voting shareholders	-	(486)	(482)	(962)
Short-term bank loans	(395)	(53)	(1,377)	(492)
Increase in long-term debt	14,305	1,122	14,305	1,122
Repayment of long-term debt	(1,299)	(1,143)	(2,058)	(1,859)
Repayment of long-term lease liabilities	(425)	(262)	(856)	(658)
Cash provided (used) by financing activities	12,186	(822)	9,532	(2,849)
Effect of exchange rate differences on cash	4,218	(853)	5,166	(1,288)
Net change in cash during the period	15,725	(4,487)	29,355	(5,956)
Net cash – Beginning of the period	44,640	39,397	31,010	40,866
Net cash – End of the period	60,365	34,910	60,365	34,910
Net cash is composed of:				
Cash and cash equivalents	86,894	78,267	86,894	78,267
Bank indebtedness	(26,529)	(43,357)	(26,529)	(43,357)
	60,365	34,910	60,365	34,910
Supplementary information				
Interest received (paid)	(115)	179	(463)	458
Income taxes reimbursed (paid)	(1,954)	1,676	(2,509)	3,507