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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FIRST QUARTER 2022/23 FINANCIAL RESULTS WITH SALES AND GROSS MARGINS COMPARABLE TO THE PRIOR YEAR

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, 2022.

Highlights:

- Sales for the quarter amounted to $75.0 million, an increase of $0.5 million or 0.6% compared to the same quarter of the previous fiscal year. Although comparable to prior year's first quarter performance, the Company continues to navigate through a volatile market where certain shipments for the quarter were delayed and are planned to be shipped later in the year.
- Gross profit for the quarter amounted to $20.1 million or 26.8%, stable compared to last year's $20.0 million of 26.8%. Gross profit improved for the quarter when considering the absence of Canada Emergency Wage Subsidies («CEWS») compared to $0.6 million last year. Prior year's gross profit percentage without the subsidies would have been 26.1% compared to 26.8% for the current quarter.
- Net loss[1] of $7.4 million and negative EBITDA[2] of $2.9 million for the quarter compared to a net loss[1] of $5.1 million and a negative EBITDA[2] of $0.9 million last year. The decrease in results is primarily attributable to an increase in administration costs, namely freight out costs and the absence of CEWS in the current quarter.
- Order backlog[2] remains strong at $506.0 million, an increase of $4.7 million or 0.9% since the beginning of the year. The portion of the current backlog[3] deliverable in the next twelve months is $339.2 million.
- Net new orders ("bookings")[2] of $93.4 million for the quarter, representing a book-to-bill ratio[2] of 1.25. The decrease in bookings[2] of $22.9 million or 19.7% compared to last year resulted mainly from the current geo-political uncertainties which created slower project awards. The Company nonetheless continues to observe a strong amount of activity ongoing.
- The Company's net cash amounted to a solid $47.7 million at the end of the quarter, a decrease of $5.8 million since the beginning of the fiscal year. The decrease in net cash for the quarter is primarily attributable to the lower EBITDA for the quarter. The shifting of revenues and related gross profits, as mentioned in the notes above have resulted in higher work in process and finished goods inventories by $16.3 million.

Bruno Carbonaro, CEO of Velan Inc., said, "We presented similar sales and gross profit as last year, but we were impacted by certain market volatility and governmental documentation delays which would have allowed us to realize improved results. We are nonetheless working very hard to resolve these delays, and as well are working on several strategic initiatives such as growing our pipeline of new products and improving our aftermarket business. Finally, we are always focusing time and attention to improve our operational flexibility and efficiency which is how we believe we can get to the next level in terms of financial results."

Financial Highlights

(thousands of U.S. dollars, excluding per share amounts)	Three-month periods ended May 31, 2022	May 31, 2021
Sales	$75,005	$74,529
Gross profit	20,073	19,994
Gross profit %	26.8%	26.8%
Net loss[2]	(7,352)	(5,073)
Net loss[2] per share – basic and diluted	(0.34)	(0.24)
EBITDA[1]	(2,878)	(941)
EBITDA[1] per share – basic and diluted	(0.13)	(0.04)

First Quarter Fiscal 2023 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first quarter of fiscal 2022):

- Sales were slightly higher for the quarter, increasing by $0.5 million or 0.6% compared to the same quarter last year. The increase in sales for the quarter is primarily attributable to increased shipments of large orders in the Company's Italian operations, partially offset by reduced shipments in the Company's North American operations. Although comparable to prior year's first quarter performance, sales were impacted in the quarter by supply chain delays, increased time to obtain government export documentation and final commercial negotiations on a handful of contracts. The revenues related to these contracts are expected to be recovered throughout the remainder of the fiscal year.
- Bookings[2] amounted to $93.4 million, a decrease of $22.9 million or 19.7% compared to the first quarter of last year. This decrease is primarily attributable to upstream oil and gas and nuclear orders recorded in the Company's Italian and French operations. The current geo-political uncertainties have created slower project awards resulting in lower bookings[2] for the Company in the current quarter. The Company nonetheless continues to observe a strong amount of activity ongoing.
- The total backlog[2] increased by $4.7 million or 0.9% since the beginning of the fiscal year, amounting to $506.0 million at the end of the quarter. The increase in backlog is primarily due to a strong book-to-bill ratio[2] of 1.25 as a result of bookings outpacing sales in the current quarter. Otherwise, the increase in backlog[2] was negatively impacted by the weakening of the euro spot rate against the U.S. dollar since the beginning of the fiscal year which represented $12.8 million at the end of the quarter.
- Gross profit remained stable for the quarter, totaling $20.1 million or 26.8% compared to last year's $20.0 million or 26.8%. Gross profit remained stable due to the delivery of a comparable sales profile to last year, a balanced product mix, and continued focus on project delivery execution. The Company's gross profit also benefited from favorable foreign exchange movements which were primarily made up of unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro and Canadian dollar when compared to similar movements from the previous year. The gross profit in the prior period was positively impacted by the recording of $0.6 million of CEWS while the Company did not qualify for such subsidies in the current fiscal year. The subsidies were allocated between cost of sales and administration costs. Prior year's gross profit percentage without CEWS would have been 26.1% compared to 26.8% for the current quarter.
- Administration costs for the quarter amounted to $25.8 million, an increase of $2.0 million or 8.5%. The increase in administration costs for the quarter is primarily attributable to higher outbound freight costs caused by the current global supply chain issues which are impacting freight costs and shipping delays.

The administration costs in the prior year benefited from the recording of $0.4 million of CEWS while the Company did not qualify for such subsidies in the current quarter. The subsidies were allocated between cost of sales and administration costs. The increase for the quarter was partially offset by lower sales commissions recorded on the delivery of large orders over the course of the quarter.

- Net loss[1] amounted to $7.4 million or $0.34 per share compared to $5.1 million or $0.24 per share last year. EBITDA[2] amounted to a negative $2.9 million or $0.13 per share compared to a negative $0.9 million or $0.04 per share last year. The unfavorable movement in EBITDA[2] for the quarter is primarily attributable to the previously explained increase in administration costs. The movement in net loss[1] was primarily attributable to the same factors as EBITDA[2] combined with unfavorable movements in income taxes, partially offset by a favorable movement in finance costs.

Dividend

For the current quarter, no dividend will be declared. The Company will revisit the declaration of dividends in subsequent quarters.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the first quarter conference call to be held on Friday, July 8, 2022, at 11:00 a.m. (EDT). The toll free call-in number is 1-800-754-1346, access code 22019459. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 22019459.

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$411.2 million in its last reported fiscal year. The Company employs approximately 1,650 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 and supplementary financial measures

In this press release, the Company has presented measures of performance or financial condition which are not defined under IFRS ("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 and are reconciled with the performance measures defined under IFRS. Company has also presented supplementary financial measures which are defined at the end of this report. Reconciliation and definition can be found on the next page.

Earnings (loss) before interest, taxes, depreciation and amortization ("EBITDA")

	Three-month periods ended	
(thousands, except amount per shares)	**May 31, 2022 $**	**May 31, 2021 $**
Net loss[2]	(7,352)	(5,073)
Adjustments for:		
Depreciation of property, plant and equipment	2,161	2,414
Amortization of intangible assets	568	558
Finance costs – net	236	529
Income taxes	1,509	631
EBITDA	**(2,878)**	**(941)**
EBITDA per share		
- Basic and diluted	(0.13)	(0.04)

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. The terms "EBITDA per share" is obtained by dividing EBITDA by the total amount of subordinate and multiple voting shares. The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Definitions of supplementary financial measures

The term "Net new orders" or "bookings" is defined as firm orders, net of cancellations, recorded by the Company during a period. Bookings are impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the Company's sales operation performance for a given period as well as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "backlog" is defined as the buildup of all outstanding bookings to be delivered by the Company. The Company's backlog is impacted by the fluctuation of foreign exchange rates for a given period. The measure provides an indication of the future operational challenges of the Company as well as an expectation of future sales and cash flows to be achieved on these orders.

The term "book-to-bill" is obtained by dividing bookings by sales. The measure provides an indication of the Company's performance and outlook for a given period.

The forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

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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 and supplementary financial measures – additional specifications at the end of this report*

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Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2022 $	February 28, 2022 $
Assets		
Current assets		
Cash and cash equivalents	49,621	54,015
Short-term investments	9,721	8,726
Accounts receivable	98,586	115,834
Income taxes recoverable	3,497	2,955
Inventories	228,882	223,198
Deposits and prepaid expenses	6,992	6,877
Derivative assets	650	553
	397,949	412,158
Non-current assets		
Property, plant and equipment	71,589	73,906
Intangible assets and goodwill	15,644	16,693
Deferred income taxes	4,267	4,774
Other assets	800	897
	92,300	96,270
Total assets	490,249	508,428
Liabilities		
Current liabilities		
Bank indebtedness	1,969	550
Accounts payable and accrued liabilities	78,882	80,503
Income taxes payable	2,605	3,806
Customer deposits	43,640	41,344
Provisions	17,979	18,444
Derivative liabilities	153	560
Current portion of long-term lease liabilities	1,425	1,360
Current portion of long-term debt	8,261	8,111
	154,914	154,678
Non-current liabilities		
Long-term lease liabilities	10,330	11,073
Long-term debt	23,858	22,927
Income taxes payable	1,244	1,244
Deferred income taxes	3,831	4,025
Customer deposits	24,468	30,139
Provisions	13,818	13,101
Other liabilities	5,450	5,731
	82,999	88,240
Total liabilities	237,913	242,918
Total equity	252,336	265,510
Total liabilities and equity	490,249	508,428

Consolidated Statements of Loss

(in thousands of U.S. dollars, excluding number of shares and per share amounts)

	Three-month periods ended	
	May 31, 2022 $	**May 31, 2021 $**
Sales	75,005	74,529
Cost of sales	54,932	54,535
Gross profit	20,073	19,994
Administration costs	25,812	23,779
Other expense (income)	(141)	121
Operating loss	(5,598)	(3,906)
Finance income	90	172
Finance costs	(326)	(701)
Finance costs – net	(236)	(529)
Loss before income taxes	(5,834)	(4,435)
Income tax expense	1,509	631
Net loss for the period	(7,343)	(5,066)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(7,352)**	**(5,073)**
Non-controlling interest	9	7
Net loss for the period	(7,343)	(5,066)
Net loss per Subordinate and Multiple Voting Share		
Basic and diluted	(0.34)	(0.24)
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic and diluted	21,585,635	21,585,635

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Consolidated Statements of Comprehensive Loss

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2022 $	**May 31, 2021 $**
Comprehensive loss		
Net loss for the period	(7,343)	(5,066)
Other comprehensive loss		
Foreign currency translation	(5,831)	1,395
Comprehensive loss	(13,174)	(3,671)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(13,182)	(3,702)
Non-controlling interest	8	31
Comprehensive loss	(13,174)	(3,671)

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

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Consolidated Statements of Changes in Equity

(in thousands of U.S. dollars, excluding number of shares)

	Equity attributable to the Subordinate and Multiple Voting shareholders						
	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total	Non-controlling interest	**Total equity**
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net income (loss) for the period	-	-	-	(5,073)	(5,073)	7	(5,066)
Other comprehensive income	-	-	1,371	-	1,371	24	1,395
Comprehensive income (loss)	-	-	1,371	(5,073)	(3,702)	31	(3,671)
Balance - May 31, 2021	72,695	6,260	(19,636)	234,063	293,382	3,168	296,550
Balance - February 28, 2022	72,695	6,260	(32,223)	218,092	264,824	686	265,510
Net income (loss) for the period	-	-	-	(7,352)	(7,352)	9	(7,343)
Other comprehensive loss	-	-	(5,830)	-	(5,830)	(1)	(5,831)
Comprehensive loss	-	-	(5,830)	(7,352)	(13,182)	8	(13,174)
Balance - May 31, 2022	72,695	6,260	(38,053)	210,740	251,642	694	252,336

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Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2022 $	May 31, 2021 $
Cash flows from		
Operating activities		
Net loss for the period	(7,343)	(5,066)
Adjustments to reconcile net loss to cash provided (used) by operating activities	(1,755)	2,412
Changes in non-cash working capital items	6,033	3,549
Cash provided (used) by operating activities	(3,065)	895
Investing activities		
Short-term investments	(1,288)	(186)
Additions to property, plant and equipment	(920)	(1,739)
Additions to intangible assets	(9)	(288)
Proceeds on disposal of property, plant and equipment	16	3,132
Net change in other assets	14	(12)
Cash provided (used) by investing activities	(2,187)	907
Financing activities		
Net change in revolving credit facility	-	9,626
Increase in long-term debt	2,160	-
Repayment of long-term debt	(569)	(3,167)
Repayment of long-term lease liabilities	(370)	(413)
Cash provided by financing activities	1,221	6,046
Effect of exchange rate differences on cash	(1,782)	436
Net change in cash during the period	(5,813)	8,284
Net cash – Beginning of the period	53,465	62,953
Net cash – End of the period	47,652	71,237
Net cash is composed of:		
Cash and cash equivalents	49,621	80,356
Bank indebtedness	(1,969)	(9,119)
Net cash – End of the period	47,652	71,237
Supplementary information		
Interest paid	(223)	(350)
Income taxes paid	(1,817)	(1,121)