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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FIRST QUARTER 2023/24 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, 2023.

Highlights:

- Order backlog[1] remains strong at $490.5 million, an increase of $26.2 million or 5.6% since the beginning of the year driven by strong net new orders ("bookings")[1] and the lower sales volume reported for the quarter. The portion of the current backlog[1] deliverable in the next twelve months is $335.8 million.
- Bookings[1] of $91.8 million for the quarter, representing a book-to-bill ratio[1] of 1.36. The bookings[1] remained relatively stable compared to the previous year.
- Sales for the quarter amounted to $67.7 million, a decrease of $7.3 million or 9.8% compared to the same quarter of the previous fiscal year. The decrease for the quarter is primarily attributable to accelerated shipments in the fourth quarter of the prior fiscal year as a result of customer demand and the Company's increased production ramp-up, delays on certain shipments in the current quarter caused by customer readiness issues, and finally a shortage of deliverable orders in the Company's Italian operations.
- Gross profit for the quarter amounted to $15.1 million or 22.2%, a decrease compared to last year's $20.1 million or 26.8%. The 460 basis points decrease in gross profit percentage is mainly due to the lower sales volume which impacted the absorption of fixed production overhear costs.
- Net loss[2] of $8.3 million and negative EBITDA[1] of $3.8 million for the quarter compared to a net loss[2] of $7.4 million and a negative EBITDA[1] of $2.9 million last year. The decrease in EBITDA[1] is primarily attributable to the decrease in gross profit, partially offset by a decrease in administration costs.
- The Company's net cash amounted to a solid $58.6 million at the end of the quarter, an increase of $8.4 million since the beginning of the fiscal year driven by continued improvements in operating cash flow generation.

Bruno Carbonaro, CEO of Velan Inc., said, "The start to fiscal 2024 was impacted by temporary shipment delays which negatively affected our results, but we are nevertheless pleased to report a significantly improved cash balance at the end of the quarter, thanks to continued focus on working capital management, pursuing on the trend realized in the last quarter of the previous fiscal year. Our backlog[1] also improved this quarter. We are committed to addressing the various operational issues encountered this quarter as execution remains our top priority in a somewhat-challenging environment. Finally, we are dedicating all the necessary resources and efforts to prepare a successful closing of the transaction with Flowserve."

Financial Highlights

(thousands of U.S. dollars, excluding per share amounts)	Three-month periods ended May 31, 2023	May 31, 2022
Sales	$67,659	$75,005
Gross profit	15,052	20,073
Gross profit %	22.2%	26.8%
Net loss[2]	(8,284)	(7,352)
Net loss[2] per share – basic and diluted	(0.38)	(0.34)
EBITDA[1]	(3,799)	(2,878)
EBITDA[1] per share – basic and diluted	(0.18)	(0.13)

First Quarter Fiscal 2024 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first quarter of fiscal 2023):

- Sales were lower for the quarter, decreasing by $7.3 million or 9.8% compared to the same quarter last year. The decrease in sales for the quarter is primarily attributable to decreased shipments of large orders in the Company's Italian and French operations. This decrease was caused by accelerated shipments in the fourth quarter of the prior fiscal year as a result of customer demand and the Company's increased production ramp-up, delays on certain shipments in the current quarter caused by customer readiness issues, and finally a shortage of deliverable orders in the Company's Italian operations. The decrease in sales for the quarter was partially offset by increased shipments in the Company's North American operations despite also being faced with multiple customer related issues.
- Bookings[1] amounted to $91.8 million, a decrease of $1.6 million or 1.7% compared to the first quarter of last year. This decrease is partially attributable to lower marine orders recorded in the Company's North American operations, partially offset by increased upstream oil and gas and nuclear orders recorded in the Company's Italian and French operations.
- The total backlog[1] increased by $26.2 million or 5.6% since the beginning of the fiscal year, amounting to $490.5 million at the end of the quarter. The increase in backlog[1] is primarily due to a strong book-to-bill ratio[1] of 1.36 as a result of bookings[1] outpacing sales in the current quarter.
- Gross profit decreased for the quarter, totaling $15.1 million or 22.2% compared to last year's $20.1 million or 26.8%. The decrease in gross profit percentage for the quarter is primarily attributable to the lower sales volume which impacted the absorption of fixed production overhead costs. The Company's gross profit was also negatively impacted by unfavorable unrealized foreign exchange translations related to the fluctuation of the U.S. dollar against the euro when compared to similar movements from the previous year. Finally, the decrease in gross profit was also due to the unfavorable effect of the product mix delivered.
- Administration costs for the quarter amounted to $21.5 million, a decrease of $4.3 million or 16.7%. The decrease in administration costs for the quarter is primarily attributable to the recording in the last quarter of the previous fiscal year of an asbestos provision for potential settlement value of future unknown claims. The settlement expense in the first quarter of fiscal 2023 amounted to $3.2 million. The decrease in administration costs for the quarter is also due to lower outbound freight costs which have now stabilized and sales commissions in reaction to the lower quarterly sales volume.
- Net loss[2] amounted to $8.3 million or $0.38 per share compared to $7.4 million or $0.34 per share last year. EBITDA[1] amounted to a negative $3.8 million or $0.18 per share compared to a negative $2.9 million or $0.13 per share last year. The unfavorable movement in EBITDA[1] for the quarter is primarily attributable to the

previously explained lower gross profit, partially offset by the decrease in administration costs. The movement in net loss[2] was primarily attributable to the same factors as for EBITDA[1] combined with an unfavorable movement in finance costs, partially offset by a favorable movement in income taxes.

Dividend

The Company opted to declare no dividend this quarter.

Conference call

Financial analysts, shareholders, and other interested individuals are invited to attend the first quarter conference call to be held on Friday, July 7, 2023, at 11:00 a.m. (EDT). The toll free call-in number is 1-800-926-7510, access code 22027398. The material that will be referenced during the conference call will be made available shortly before the event on the company's website under the *Investor Relation*s section (https://www.velan.com/en/company/investor_relations). A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 22027398.

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$370.4 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, 2023 $**	**May 31, 2022 $**
Net loss[2]	(8,284)	(7,352)
Adjustments for:		
Depreciation of property, plant and equipment	2,066	2,161
Amortization of intangible assets and financing costs	563	568
Finance costs – net	1,205	236
Income taxes	651	1,509
EBITDA	**(3,799)**	**(2,878)**
EBITDA per share		
- Basic and diluted	(0.18)	(0.13)

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 and financing costs, plus net finance costs plus income taxes. 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.

[1] *Non-IFRS and supplementary financial measures – see explanation above*
[2] *Net earnings or loss refer to net income or loss attributable to Subordinate and Multiple Voting Shares*

VELAN

Consolidated Statements of Financial Position

(in thousands of U.S. dollars)

	As at	
	May 31, 2023	February 28, 2023
	$	$
Assets		
Current assets		
Cash and cash equivalents	58,842	50,513
Short-term investments	17	37
Accounts receivable	90,755	121,053
Income taxes recoverable	6,700	6,195
Inventories	216,903	202,649
Deposits and prepaid expenses	7,912	7,559
Derivative assets	192	107
	381,321	388,113
Non-current assets		
Property, plant and equipment	67,553	68,205
Intangible assets and goodwill	16,159	16,153
Deferred income taxes	4,754	4,663
Other assets	654	723
	89,120	89,744
Total assets	470,441	477,857
Liabilities		
Current liabilities		
Bank indebtedness	212	260
Accounts payable and accrued liabilities	79,154	79,408
Income taxes payable	2,375	2,832
Customer deposits	30,459	28,201
Provisions	17,403	16,485
Derivative liabilities	93	299
Current portion of long-term lease liabilities	1,367	1,298
Current portion of long-term debt	8,312	8,177
	139,375	136,960
Non-current liabilities		
Long-term lease liabilities	9,191	9,458
Long-term debt	20,715	21,719
Income taxes payable	933	933
Deferred income taxes	4,052	3,966
Customer deposits	28,770	27,937
Provisions	69,165	70,924
Other liabilities	4,767	5,125
	137,593	140,062
Total liabilities	276,968	277,022
Total equity	193,473	200,835
Total liabilities and equity	470,441	477,857

Consolidated Statements of Loss

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

	Three-month periods ended	
	May 31, 2023 $	May 31, 2022 $
Sales	67,659	75,005
Cost of sales	52,607	54,932
Gross profit	15,052	20,073
Administration costs	21,499	25,812
Other income	(13)	(141)
Operating loss	(6,434)	(5,598)
Finance income	135	90
Finance costs	(1,340)	(326)
Finance costs – net	(1,205)	(236)
Loss before income taxes	(7,639)	(5,834)
Income tax expense	651	1,509
Net loss for the period	(8,290)	(7,343)
Net income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(8,284)**	**(7,352)**
Non-controlling interest	(6)	9
Net loss for the period	(8,290)	(7,343)
Net loss per Subordinate and Multiple Voting Share		
Basic and diluted	(0.38)	(0.34)
Dividends declared per Subordinate and Multiple Voting Share	0.02 (CA$0.03)	- (CA$-)
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, 2023 $	May 31, 2022 $
Comprehensive loss		
Net loss for the period	(8,290)	(7,343)
Other comprehensive income (loss)		
Foreign currency translation	1,408	(5,831)
Comprehensive loss	(6,882)	(13,174)
Comprehensive income (loss) attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(6,876)	(13,182)
Non-controlling interest	(6)	8
Comprehensive loss	(6,882)	(13,174)

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, 2022	72,695	6,260	(32,126)	217,995	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 income (loss)	-	-	(5,830)	(7,352)	(13,182)	8	(13,174)
Other	-	-	(97)	97	-	-	-
Balance - May 31, 2022	72,695	6,260	(38,053)	210,740	251,642	694	252,336
Balance - Ferbuary 28, 2023	72,695	6,260	(41,208)	162,142	199,889	946	200,835
Net loss for the period	-	-	-	(8,284)	(8,284)	(6)	(8,290)
Other comprehensive income	-	-	1,408	-	1,408	-	1,408
Comprehensive income (loss)	-	-	1,408	(8,284)	(6,876)	(6)	(6,882)
Dividends							
Multiple Voting Shares	-	-	-	(346)	(346)	-	(346)
Subordinate Voting Shares	-	-	-	(134)	(134)	-	(134)
Balance - May 31, 2023	72,695	6,260	(39,800)	153,378	192,533	940	193,473

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Consolidated Statements of Cash Flow

(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2023	**May 31, 2022**
	$	**$**
Cash flows from		
Operating activities		
Net loss for the period	(8,290)	(7,343)
Adjustments to reconcile net loss to cash provided (used) by operating activities	834	(1,755)
Changes in non-cash working capital items	18,150	6,033
Cash provided (used) by operating activities	10,694	(3,065)
Investing activities		
Short-term investments	19	(1,288)
Additions to property, plant and equipment	(1,109)	(920)
Additions to intangible assets	(384)	(9)
Proceeds on disposal of property, plant and equipment, and intangible assets	14	16
Net change in other assets	28	14
Cash used by investing activities	(1,432)	(2,187)
Financing activities		
Increase in long-term debt	-	2,160
Repayment of long-term debt	(926)	(569)
Repayment of long-term lease liabilities	(362)	(370)
Cash provided (used) by financing activities	(1,288)	1,221
Effect of exchange rate differences on cash	403	(1,782)
Net change in cash during the period	8,377	(5,813)
Net cash – Beginning of the period	50,253	53,465
Net cash – End of the period	58,630	47,652
Net cash is composed of:		
Cash and cash equivalents	58,842	49,621
Bank indebtedness	(212)	(1,969)
Net cash – End of the period	58,630	47,652
Supplementary information		
Interest paid	(49)	(223)
Income taxes paid	(2,610)	(1,817)