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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FIRST QUARTER 2021/22 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, 2021.

Highlights: Sales remained flat and results decreased due to higher administrative costs and other temporary factors, but the Company is encouraged by the notably improved margins of its global operations and its strengthening backlog.

- Order backlog[1] of US$ 607.2 million at the end of the quarter representing the highest backlog[1] for the Company since August 2012. The portion of the current backlog[1] deliverable in the next nine months is expected to be $323.1 million.
- Net new orders ("bookings")[1] of $116.4 million for the quarter, an increase of $39.6 million or 51.7%, which translated in a strong book-to-bill ratio[1] of 1.56 obtained primarily by the recording of significant orders in the marine, mining, and downstream oil and gas sectors.
- Sales for the quarter amounted to $74.5 million, a decrease of $2.1 million or 2.8% compared to the same quarter of the previous fiscal year. Quarterly sales can vary greatly based on the timing of the delivery of large project orders which are expected to be greater in the latter part of fiscal 2022; in particular, the shipment of some important large project orders by the Company's Italian operations, originally planned for this quarter, have shifted into the second quarter.
- Gross profit for the quarter of $20.0 million, an increase of $1.6 million or 280 basis points from the same quarter of the previous year driven by the margin improvement activities performed over the past fiscal years in the scope of the V20 restructuring and transformation plan.
- Net loss[2] of $5.1 million and negative EBITDA[1] of 0.9$ million for the quarter primarily attributable to an increase in administration costs and lower Canadian federal subsidies («CEWS»); these are the main two factors that drive lower results in the quarter compared to the previous year despite notably improved margins at similar sales level.
- The Company's net cash amounted to $71.2 million at the end of the quarter, an increase of $8.3 million since the beginning of the fiscal year, highlighting the Company's healthy financial position.

Yves Leduc, CEO of Velan Inc., said, “First I want to welcome Benoit Alain, who officially became our CFO on June 1; he is off to a terrific start and I will speak on his behalf today as this closing quarter occurred before his tenure.

On the coronavirus front, the situation is stable, aside from the situation in India which is being closely monitored. Our first concern is the wellbeing of our Indian employees, and so, we have implemented necessary measures to protect them. Meanwhile, the situation is seemingly coming back to normal after the Indian government announced a national three-day lockdown in May. Generally speaking, we observe a slow return to normality with the North American market showing early signs of a recovery by the end of the year; but the world’s economy is still hampered by the pandemic and constant disruptions in global logistics continue to affect our supply chain. We are not out of the woods yet, but our employees are doing a fantastic job dealing with the situation and our sales and operations have adapted incredibly well.

Our first quarter results were mixed: sales were flat for the quarter, caused primarily by temporary shipment delays and lower distribution channels orders in previous quarters. For example, our Italian operations, who are efficiently executing a record backlog, saw shipments of a few large orders delayed by customers or disruptions in global logistics, but are expected to deliver a notably improved performance in the upcoming part of the year. We are extremely encouraged by the company’s gross margin surging near 27% almost three points above last year, thanks in large part to our V20 program whose primary aim was precisely to drive North American operations’ margins up. We were nonetheless disappointed by the several non-operational factors that increased our administration costs to a notably higher level than last year, thereby overshadowing the improved business health of our global operations. Speaking of business health, we project our sales to grow thanks to another strong quarter in terms of bookings, as reflected by a 1.56 book-to-bill ratio, driving up our backlog to the highest level since August 2012. Our five strategic businesses are experiencing good success thanks to increased focus and inter-divisional cooperation, notably in the nuclear, mining, and downstream oil and gas sectors, as well in India and China, where our manufacturing operations are thriving.

In summary, thanks to our program of strategic initiatives undertaken in the last two years, we are advancing on the path of bringing back the company to sustained profitability. Our backlog is strong and growing, our increasingly flexible global manufacturing capacity is becoming a highly effective competitive advantage, and most notably, margins are at the highest level in recent memory. All of this allows us to turn a lot more attention to our growth strategy. »

Financial Highlights

	Three-month periods ended	
(thousands of U.S. dollars, excluding per share amounts)	**May 31, 2021**	**May 31, 2020**
Sales	$74,529	$76,653
Gross profit	19,994	18,392
Gross profit %	26.8%	24.0%
Net loss[2]	(5,073)	(1,886)
Net loss[2] per share – basic and diluted	(0.24)	(0.09)
EBITDA[1]	(941)	2,638
EBITDA[1] per share – basic and diluted	(0.04)	0.12

First Quarter Fiscal 2022 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the first quarter of fiscal 2021):

- Sales decreased by $2.1 million or 2.8% for the quarter. Sales were negatively impacted by temporary shipment delays in the Company's Italian operations due to various customer-related and global logistics factors. As a result, the shipment of some large orders by the Company's Italian operations, whose backlog is currently at a record high, is expected to shift into the second quarter of the current fiscal year. The shift had a negative impact on comparative sales given last year's very high first quarter sales by the Company's Italian operations. On the other hand, the increase in shipments from the Company's French operations partly offset the negative impact of the sales shift in Italy. Additionally, the Company's non-project sales for the quarter were negatively affected by the persistent unfavorable market conditions triggered by the novel coronavirus ("COVID-19") global pandemic which has significantly affected the Company's distribution channels' bookings in the previous fiscal year. The lower distribution channels' bookings in the latter part of the prior year translated in lower shipments of such orders in the current quarter.
- Bookings[1] increased by $39.6 million or 51.7% compared to last year. This increase is primarily attributable to large project orders recorded by the Company's North American and Italian operations, notably in the marine, mining, and downstream oil and gas markets.
- As a result of bookings[1] outpacing sales in the current quarter, the Company's book-to-bill ratio[1] was a strong 1.56 for the period. Furthermore, the total backlog[1] increased by $44.7 million or 7.9% since the beginning of the fiscal year, amounting to $607.2 million as at May 31, 2021.
- Gross profit increased by $1.6 million or 8.7% compared to the same quarter last year, while the gross profit percentage of 26.8% was an increase of 280 basis points from last year's 24.0%. The increase in gross profit percentage was such that it could more than offset the impact of a $1.3 million lower amount of Canada Emergency Wage Subsidies ("CEWS") compared to last year The subsidies were allocated between cost of sales and administration costs. The improvement in gross profit percentage was mainly attributable to a product mix with a greater proportion of higher margin product sales as well as improved margins stemming from the margin improvement activities implemented by the Company over the course of the past fiscal years in the scope of the V20 restructuring and transformation plan.
- Net loss[2] amounted to $5.1 million or $0.24 per share compared to $1.9 million or $0.09 per share last year. EBITDA[1] amounted to a negative $0.9 million or $0.04 per share compared to a positive $2.6 million or $0.12 per share last year. The unfavorable movement in net loss[1] and EBITDA[1] overshadows the improved profitability and margins of the Company's global operations. Despite sales being essentially flat compared to last year, the Company's gross profit percentage increased, reflecting the notably improved product mix and margins resulting from the Company's targeted efforts under V20. The Company also benefitted from a $1.2 million reduction of restructuring and transformation cost, also reflecting the progress made last year in the deployment of the Company's V20 program. These improvements could only partially offset the negative impact of the shift in shipments in the Company's Italian operations and an increase in administration costs of $6.1 million or 34.6%. The increase in administration costs was primarily attributable to an increase of $2.1 million in the costs recognized in connection with the Company's ongoing asbestos litigation, a decrease of $1.1 million in CEWS received by the Company compared to last year's first quarter and a general increase in administration expenses that had been significantly lowered when the global pandemic broke out last year. The fluctuation in asbestos costs for the quarter is due to the timing of settlements in these two periods rather than to changes in long-term trends. The subsidies received by the Company were allocated between cost of sales and administration costs.

- Foreign currency impacts:
    - Based on average exchange rates, the euro strengthened 9.7% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits and bookings from its European subsidiaries being reported as higher U.S. dollar amounts in the current quarter.
    - Based on average exchange rates, the Canadian dollar strengthened 12.7% 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 generally unfavourable on the Company's results.

Dividend

At the end of fiscal 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 first quarter conference call to be held on Wednesday, July 14, 2021, at 11:00 a.m. (EDT). The toll free call-in number is 1-800-747-9564, access code 21995868. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21995868.

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$302.1 million in its last reported fiscal year. The Company employs close to 1,700 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.

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

	Three-month periods ended	
(thousands, except amount per shares)	**May 31, 2021 $**	**May 31, 2020 $**
Net loss[2]	(5,073)	(1,886)
Adjustments for:		
Depreciation of property, plant and equipment	2,414	2,525
Amortization of intangible assets	558	568
Finance costs – net	529	318
Income taxes	631	1,113
EBITDA	**(941)**	**2,638**
EBITDA per share		
- Basic and diluted	(0.04)	0.12

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] *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

(Unaudited)
(in thousands of U.S. dollars)

	As at	
	May 31, 2021 $	February 28, 2021 $
Assets		
Current assets		
Cash and cash equivalents	80,356	74,688
Short-term investments	471	285
Accounts receivable	120,906	135,373
Income taxes recoverable	4,738	3,798
Inventories	236,585	204,161
Deposits and prepaid expenses	11,231	8,670
Derivative assets	194	196
	454,481	427,171
Non-current assets		
Property, plant and equipment	93,628	96,327
Intangible assets and goodwill	17,206	17,319
Income taxes recoverable	5,927	5,927
Deferred income taxes	33,366	33,140
Other assets	906	949
	151,033	153,662
Total assets	605,514	580,833
Liabilities		
Current liabilities		
Bank indebtedness	9,119	11,735
Accounts payable and accrued liabilities	106,290	90,840
Income taxes payable	1,474	1,609
Customer deposits	71,177	62,083
Provisions	29,382	29,515
Derivative liabilities	71	303
Current portion of long-term lease liabilities	1,635	1,578
Current portion of long-term debt	9,303	9,902
	228,451	207,565
Non-current liabilities		
Long-term lease liabilities	12,669	12,649
Long-term debt	55,562	48,189
Income taxes payable	1,410	1,410
Deferred income taxes	2,479	2,545
Other liabilities	8,393	8,254
	80,513	73,047
Total liabilities	308,964	280,612
Total equity	296,550	300,221
Total liabilities and equity	605,514	580,833

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Consolidated Statements of Loss

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

	Three-month periods ended	
	May 31, 2021 $	**May 31, 2020 $**
Sales	74,529	76,653
Cost of sales	54,535	58,261
Gross profit	19,994	18,392
Administration costs	23,779	17,667
Restructuring and transformation costs	-	1,176
Other expense	121	24
Operating loss	(3,906)	(475)
Finance income	172	116
Finance costs	(701)	(434)
Finance costs – net	(529)	(318)
Loss before income taxes	(4,435)	(793)
Income Taxes	631	1,113
Net loss for the period	(5,066)	(1,906)
Net loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	**(5,073)**	**(1,886)**
Non-controlling interest	7	(20)
Net loss for the period	(5,066)	(1,906)
Net loss per Subordinate and Multiple Voting Share		
Basic and diluted	(0.24)	(0.09)
Total weighted average number of Subordinate and Multiple Voting Shares		
Basic and diluted	21,585,635	21,585,635

Consolidated Statements of Comprehensive Loss

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2021 $	May 31, 2020 $
Comprehensive loss		
Net loss for the period	(5,066)	(1,906)
Other comprehensive income		
Foreign currency translation adjustment on foreign operations whose functional currency is other than the reporting currency (U.S. dollar)	1,395	906
Comprehensive loss	(3,671)	(1,000)
Comprehensive loss attributable to:		
Subordinate Voting Shares and Multiple Voting Shares	(3,702)	(930)
Non-controlling interest	31	(70)
Comprehensive loss	(3,671)	(1,000)

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

(Unaudited)

(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 29, 2020	72,695	6,260	(34,047)	236,269	281,177	3,684	284,861
Net loss for the year	-	-	-	(1,886)	(1,886)	(20)	(1,906)
Other comprehensive income (loss)	-	-	956	-	956	(50)	906
Balance - May 31, 2020	72,695	6,260	(33,091)	234,383	280,247	3,614	283,861
Balance - February 28, 2021	72,695	6,260	(21,007)	239,136	297,084	3,137	300,221
Net loss for the year	-	-	-	(5,073)	(5,073)	7	(5,066)
Other comprehensive income	-	-	1,371	-	1,371	24	1,395
Balance - May 31, 2021	72,695	6,260	(19,636)	234,063	293,382	3,168	296,550

Consolidated Statements of Cash Flow

(Unaudited)
(in thousands of U.S. dollars)

	Three-month periods ended	
	May 31, 2021 $	May 31, 2020 $
Cash flows from		
Operating activities		
Net loss for the period	(5,066)	(1,906)
Adjustments to reconcile net loss to cash provided by operating activities	2,412	4,626
Changes in non-cash working capital items	3,549	16,523
Cash provided by operating activities	895	19,243
Investing activities		
Short-term investments	(186)	(1,137)
Additions to property, plant and equipment	(1,739)	(2,531)
Additions to intangible assets	(288)	(257)
Proceeds on disposal of property, plant and equipment, and intangible assets	3,132	40
Net change in other assets	(12)	(22)
Cash provided (used) by investing activities	907	(3,907)
Financing activities		
Dividends paid to Subordinate and Multiple Voting shareholders	-	(482)
Short-term bank loans	-	(982)
Net change in revolving credit facility	9,626	-
Repayment of long-term debt	(3,167)	(759)
Repayment of long-term lease liabilities	(413)	(431)
Cash provided (used) by financing activities	6,046	(2,654)
Effect of exchange rate differences on cash	436	948
Net change in cash during the period	8,284	13,630
Net cash – Beginning of the period	62,953	31,010
Net cash – End of the period	71,237	44,640
Net cash is composed of:		
Cash and cash equivalents	80,356	84,426
Bank indebtedness	(9,119)	(39,786)
Net cash – End of the period	71,237	44,640
Supplementary information		
Interest received (paid)	(350)	(348)
Income taxes reimbursed (paid)	(1,121)	(555)