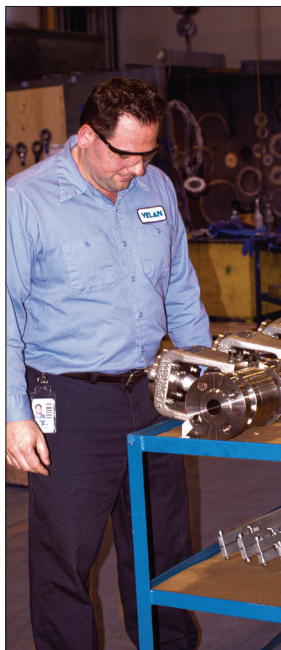


Code of Business Conduct and Ethics



VELAN

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1. INTRODUCTION

Velan has always been dedicated to the principles of ethical and legal business conduct. Because of the continuing emphasis being given to ethical corporate conduct together with the increasing complexity of legal requirements, management believes it is appropriate to revise and distribute a written Code of Business Conduct and Ethics to all Employees of the Velan group of companies (the "Company").

Everything the Company does is the direct result of the decisions made or actions taken by the Company's Employees (the "Employees"). The conduct of our business, the manner in which we discharge our obligations to those with whom we deal, the effectiveness and the good reputation of the entire organization—all depend upon the quality of our personnel and their commitment to a high standard of ethical behaviour.

Every Velan Employee must act with integrity, honesty and abide by the principles herein. Each Employee also has an obligation to ensure that fellow Employees and associates act in accordance with Velan's policies, and to report known or suspected ethical violations.

Compliance with these principles is a priority for Velan and all Employees and might be monitored by management. Failure to adhere to proper standards of conduct and ethics can be cause for disciplinary action, and in certain cases, dismissal for cause. Where such standards are required by law, violation may also result in civil or criminal liability.

The commitment of all Employees to the standards and principles of Velan is needed to ensure that Velan's reputation continues to be one of its most valuable business assets.

Whenever in this Code the masculine gender is used, it include all gender.

2. HEALTH AND SAFETY

Management of the Company is **vitaly** interested in the health and safety of its Employees. Protection of Employees from injury or occupational sickness is a **major** continuing objective. The Company will make every reasonable effort to provide a safe, healthy work environment. The dedication of all Employees is essential to the continuing objective of reducing risk of injury.

The Company, as employer, is conscious of its responsibility for worker health and safety. The management of the Company will take every reasonable precaution for the protection of all its Employees.

Supervisors are responsible to report any health and safety incident, any violation of a health and safety law or regulation and to ensure that machinery and equipment are safe and that Employees are in compliance with established safe work practices and procedures. Employees must receive adequate training in their specific work tasks to protect their health and safety.

Every Employee must report unsafe acts and protect his/her own health and safety and also take into account the safety of his/her co-workers by working in compliance with the law and with safe work practices and procedures established by the Company.

3. CONFLICT OF INTEREST POLICY

No Employee should be subject to influences, interests, or relationships which conflict with the best interests of the Company.

A conflict of interest exists when an Employee's duty to give his/her undivided commercial loyalty to the Company is prejudiced by actual or potential personal benefit from another source. Each Employee is expected to avoid any investment, interest or association which interferes, might interfere, or might be thought to interfere with the independent exercise of his/her judgment in the Company's best interest or with his/her work for the Company.

Disclosures of personal interests, disclose of other job or position held outside the Company, or of other circumstances which might be thought to cause actual or potential conflicts of interest are to be made promptly by the Employee one of the Senior Officers (listed in Section 17 below). Such disclosures will be held in confidence to the fullest extent consistent with the circumstances. In the event a conflict is found to be present, an arrangement will be made for resolution in a manner best suited to the interests of the Company and the Employee. It is essential to keep in mind that when an Employee is faced with a possible conflict of interest, prompt and full disclosure is the correct first step towards solving the problem. Managers and up who are full time Employee shall not engage in any other paid occupation without the approval from Senior Officers. Approval may not be granted.

a. Policy

All Employees shall maintain the highest ethical standards in the conduct of Company affairs. Employees are in a position of trust with respect to the Company and they are expected, in transactions with customers, suppliers, contractors and in all facets of their duties, to act in the best interests of the Company, to the exclusion of considerations of all personal preference or advantage. The Company will conduct its business on the basis of arm's length transactions and not through consideration of the personal interests of Employees of the Company.

b. Common sources of conflicts

Conflicts of interest arise in many situations. The following is a non-exclusive list of such situations:

- i. when an Employee, a member of his/her household or a trust company or other entity in which one of the foregoing has an interest, has a significant (more than one percent (1%) of the outstanding shares) direct or indirect financial interest in, or obligation to, an actual or potential customer, competitor or supplier of the Company;
- ii. when an Employee, a member of his/her household or a trust or company or other entity in which one of the foregoing has an interest, or any other person or entity designated by the Employee accepts gifts of more than token or nominal value from an actual or potential supplier;
- iii. when an Employee uses information obtained in the course of employment for his own or anyone else's personal benefit;

- iv. when an Employee, without the Company's consent, performs outside work or solicits any business on Company premises or while working on Company time;
- v. when an Employee, without the Company's consent, works as an Employee, consultant, officer or director for an organization, including self-employment, which competes directly or indirectly with the Company or negatively impacts his/her performance or attendance at Velan;
- vi. when an Employee is engaged in any outside activity where the skills and knowledge he develops or applies in his job with the Company is transferred or applied to such activity in a manner which might impair present or prospective business interests of the Company. In general, the Company's Employees shall not have any relationship with any other business enterprise which might affect the Employee's independence of judgment in transactions between the Company and the other business enterprise or otherwise conflicts with the proper performance of the Employee's duties at the Company.

This is not an exclusive listing. Conflicts of interest may arise in other situations than those outlined above.

c. Insider information

Confidential information about the Company's affairs shall not be used by Employees for their own gain, or for the gain of others. Individuals who are in possession of any such confidential information which is not generally available to the financial community—so-called "insider" information—are prohibited from disclosing it to any unauthorized person or using it as a basis for trading in the Company's securities or in the securities of any corporation which the Company is contemplating acquiring. Employees must also respect the confidential nature of any similar information concerning organizations with which the Company has business dealings as a supplier, customer or competitor.

Employees are to refer to the Velan Trading Policy and to the Velan Disclosure Policy for details.

4. CONFIDENTIALITY

a. Definition of confidential information

The Employee acknowledges that "confidential information" means all confidential information, of any nature whatsoever, which is communicated to the Employee or of which the Employee has acquired knowledge in the course of his/her employment with the Company, including, but not limited to:

- i. any and all information, written or verbal, revealed or disclosed to the Company or to its Employees by third parties with whom the Company or its Employees do business;
- ii. any and all documents, files, budgets, designs, sketches, drawings, patterns, correspondence, evaluations, notes, studies, know-how, market surveys, systems, programs, samples, prototypes, manuals, computer listings, processing information readable on either hard copy or computer, program-code and computer software object-code, ideas, projects, sources of supplies and list of suppliers and prices, trade secrets, sales contracts, personnel information relating to the Company; and

- iii. any purchasing, financial or operating or business information of any kind relating to the Company or any information concerning the compensation or benefits payable to the Employee or any Employee or consultant of the Company.

b. The duty not to disclose, use or communicate confidential information

During the period in which the Employee is employed by the Company and at all times thereafter, the Employee will keep confidential by protecting and not disclosing, using or communicating any confidential information, except as it may be required in the fulfillment of his/her duties as a loyal Employee of the Company and will not use any such information in a manner which might possibly be contrary to the best interests of the Company.

The Employee will not discuss confidential information, under any circumstances or with anyone; remove or allow to be removed any confidential information belonging to the Company or give such information to any third party without proper authorization.

Employees are also to refer to the Velan Trading Policy and to the Velan Disclosure Policy for details.

c. Intellectual property, trade secrets and inventions

No Employee may appropriate any Velan intellectual property and/or trade secrets which include without limitation any business or technical information, such as drawings, formulas, programs, methods, techniques, designs or compilation of information which are not generally known.

5. PERSONAL INFORMATION

The Company respects the privacy of its Employees and recognizes that much of the data collected in Company files pertains to the individual's background, family, income, and health information which is confidential in nature. Therefore, it is Company policy that personal information be released to non-Company persons only with Employee approval, except to satisfy legitimate investigatory or legal requirements. Employees who are responsible for maintaining personal information and those who are provided access to such information must ensure that private information is not disclosed in violation of the Company's policies or practices.

Employees should not search for or retrieve items from another Employee's workspace without prior approval of that Employee or management. However, personal items, messages or information that an Employee considers to be private should not be placed or kept in telephone systems, computer and/or electronic mail systems, office systems, offices, work spaces, desks, credenzas, or file cabinets. The Company reserves its right to access all such areas. Employees are to refer to the Velan Acceptable Use of Information Technology Policy for details on computer and telephone usage and restrictions.

6. COMPLIANCE WITH INSTRUCTIONS

An Employee is expected to comply as requested with all instructions, except any which would violate established Company rules and instructions or which would result in any imminent, abnormal danger to the Employee's health or safety. If, after complying with the instructions, an Employee is of the opinion that the instructions are unreasonable, a complaint may be lodged with the Supervisor, the Executive Vice-President Human Resources & General Counsel, and one of the Senior Officers (listed in Section 17 below).

If you are approached by anyone within or outside the Company with a request to do something which you consider may be illegal or unethical, you should refuse to do so. Tell the person making the improper request that such conduct is contrary to Company policy. Then report the incident to your supervisor who shall in turn report to a Senior Officer. No supervisor may under any circumstances require a subordinate to violate this Code of Business Conduct and Ethics.

7. POLICY AGAINST DISCRIMINATION AND HARASSMENT

Velan is unconditionally and fundamentally committed to maintaining a workplace that is free from intimidation, coercion, discrimination, harassment, or retaliation against Employees.

Velan Employees are expected to conduct themselves in a business-like manner at all times. Any behaviour that is coercive, intimidating, discriminatory, vexatious, harassing or sexual in nature is inappropriate and prohibited.

Incidents of discrimination, harassment or retaliation by Employees, managers, contractors, vendors, suppliers or customers will not be tolerated and should be promptly reported as outlined in this policy.

a. Definitions

Incidents of discrimination or harassment may be subjective in nature. To assist in understanding what may constitute discrimination or harassment, please read the following guidelines:

Discrimination

Discrimination is described as an act or other inappropriate behaviour which adversely affects employment, working conditions, benefits, privileges or any opportunity for training or promotion, based in whole or in part on a person's race, color, religion, gender, gender identity, sexual orientation, marital status, national origin or age (under particular laws) and results in an unfair treatment or has an unfair impact on individuals.

The Human Resources Department is responsible for ensuring that Velan's written policies, standard forms and Employee documentation are non-discriminatory both in letter and in spirit.

Harassment

Harassment is inappropriate behaviour that is likely to cause offence or humiliation to any Employee or that places a condition, unrelated to job requirements, skills, attitudes or capabilities, on employment, working conditions, benefits, privileges or on opportunity for training or promotion.

Harassment of either a psychological or a sexual nature is forbidden.

Psychological harassment

Psychological harassment is described as any vexatious behaviour in the form of repeated and hostile or unwarranted conduct, verbal comments, actions or failure to act, or gestures that may affect an Employee's dignity or integrity or that result in a harmful work environment for the Employee.

A vexatious behaviour is a humiliating or abusive behaviour that lowers a person's self-esteem or causes him/her torment; a behaviour that exceeds what the person considers to be appropriate and reasonable in the performance of his/her work.

Sexual harassment

Sexual harassment is defined as any unwelcome sexual advances, requests for sexual favors or other verbal or physical conduct of a sexual nature including, but not limited to, circumstances when:

- Submission to such conduct is explicitly made or implied to be a term or condition of an individual's employment;
- Submission to or rejection of such conduct by an individual is used as the basis for any employment decisions affecting such individual, including compensation and advancement; or
- Such conduct has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile or otherwise offensive working environment.

A single incident of such behaviour that has a lasting harmful effect on an Employee may also constitute harassment.

b. Information – managers' and supervisors' specific obligations

All managers and supervisors, in conjunction with the Human Resources Department, are responsible for and charged with ensuring that Company policies are known, understood and strictly enforced in their respective area of responsibility and for ensuring that they personally support these policies in manner, word and deed.

In addition, managers and supervisors are required to:

- neither condone nor permit harassment, discrimination or retaliation as defined in this policy on Company premises or at Company functions;
- promptly report to the Human Resources Department any Employee's concerns or complaints;

- deal, in conjunction with the Human Resources Department, with any Employee's concerns or complaints in this regard in a serious and prompt manner;
- collaborate with any Velan sponsored investigation;
- implement without delay any corrective or disciplinary action that may be recommended after investigation.

c. Reporting

Any Employee who harasses another Employee violates the Company's policies and engages in illegal conduct as defined by current employment legislation.

Managers and supervisors are responsible for maintaining a workplace that is free of discrimination and harassment, but all Employees are responsible for helping to ensure that harassment does not occur by conducting themselves in an appropriate manner and by reporting any and all harassment they may witness.

Any conduct which an Employee considers discrimination or harassment must be immediately reported to his/her immediate supervisor or to the Human Resources Department. All managers, supervisors and anyone who has witnessed discrimination or harassment must also immediately report the situation to the Human Resources Department.

The Company cannot deal with such conduct unless it has knowledge of this conduct. However, because false accusations can seriously affect the careers and lives of innocent people, Velan may take disciplinary action if the accusation proves to be unfounded, false or made in bad faith. This policy is not meant to discourage the reporting of incidents, but to protect those who are innocent of allegations of discrimination, harassment or retaliation.

See below the list of the contacts for reporting purposes.

d. Confidentiality

Any reported complaint will be kept as confidential as possible considering the needs of the investigation process. Velan will not use the information obtained through a complaint or the investigation process (see below) against the person who makes a good faith allegation of discrimination, harassment or retaliation.

e. Retaliatory actions are prohibited

Velan forbids retaliation of any kind against any Employee who complains in good faith about alleged discrimination or harassment, or provides information related to such complaints, and could take disciplinary action against anyone who is found guilty of such action.

Retaliatory actions are defined as any actions taken against the Employee reporting the harassment or the discrimination and may include:

- Disciplining, changing work assignments, providing inaccurate work information to, or refusing to cooperate or discuss work-related matters with any associate because that associate has complained about or resisted harassment, discrimination, or retaliation; or

- Intentionally pressuring, falsely denying, lying about or otherwise covering up or attempting to cover up conduct such as that described in any item above.

Any conduct which an Employee considers retaliatory must be immediately reported to his/her immediate supervisor or to the Human Resources Department. All managers, supervisors and anyone who has observed retaliation must immediately report the situation to the Human Resources Department.

f. Investigation

Any complaint will be promptly and fully investigated and the matter will be kept as confidential as possible.

If, after a thorough and prompt investigation of the matter, Velan determines that discrimination, harassment or retaliation has occurred, appropriate disciplinary action will be taken as warranted against any Employee found to be in violation of this policy.

In this policy, reference to disciplinary or corrective action means actions that may include counselling, monitoring, written warning, transfer, demotion, reduction of wages, suspension, discharge, or any other action deemed appropriate up to and including discharge for cause.

In the event that the complaining Employee is not satisfied with the action taken in response to the complaint, he/she may request a review of the matter by the Director or Manager of Human Resources and/or the Executive Vice-President Human Resources & General Counsel.

An effective anti-discrimination and anti-harassment policy requires the support of Velan personnel in all positions, particularly by those in authority. Any Employee, manager or supervisor who is made aware of alleged improper conduct, and fails to notify the Human Resources Department or fails to cooperate with Velan-sponsored investigations, or engages in retaliation, will be subjected to appropriate discipline, including counselling, monitoring, written warning, transfer, demotion, reduction of wages, suspension, discharge, or any other action deemed appropriate up to and including discharge as this will be considered an infringement of Velan policy.

8. BRIBES, KICKBACKS AND GIFTS

Employees shall not offer, deliver or pay for any inappropriate gift, entertainment or favor to a person in a position of influence that may affect Velan's business. Commissions and discounts may be given in the normal course of business according to Velan's policies and procedures.

Velan's policy is to avoid any relationship or activity which might affect a person's independent judgment or reflect adversely on the Company. Employees are prohibited from soliciting or accepting gifts, entertainment or favors from anyone doing business

with Velan. Employees and their families may not accept gifts that are inappropriate in value or nature or given outside the normal course of business. An Employee who receives such a gift should return it and notify the sender as to the Company's policy. All cash transactions must be handled so as to avoid any question of illegal or improper payments, or any suspicion of impropriety whatsoever. All transactions must be recorded in Velan's book of accounts.

Employees shall not engage in illegal or unethical conduct in order to make a sale or otherwise do business. All information that we provide about the products and services the Company has to offer must be clear, accurate and truthful. Attempting to obtain a competitor's confidential business information or trade secrets through any unlawful means is also prohibited. Employees are to refer to the Velan anti-bribery and anti-corruption policy for details.

9. REPORTING AND PREVENTION OF CORPORATE MISCONDUCT

Velan is committed to providing a work environment that is free from conduct that violates the securities laws, any rule or regulation or any provision of federal, state or provincial laws or regulations relating to fraud against shareholders (collectively, "Corporate Misconduct").

In support of this commitment, Velan encourages Employees to provide information, cause information to be provided, or otherwise assist in any investigation regarding any conduct which the Employee reasonably believes constitutes corporate misconduct, the whole as further detailed in the Company's Whistle Blowing policy.

10. EXPORT AND IMPORT COMPLIANCE

Velan is committed to comply with the applicable laws, regulations and restrictions pertaining to the import or export of Velan's products, services, information or technology, wherever Velan operates.

Although trade laws are complex, we depend on our Employees to support Velan's commitment to compliance and to comply with the applicable laws governing import, export and how business is conducted with foreign entities. Within these laws, there are limitations on the types of products that may be imported and the manner of importation. As an example, Velan cannot export products and/or services to countries that are embargoed or boycotted. Furthermore, Velan may not be allowed to sell to certain persons and entities for specific uses nor release certain types of technology. Velan must adhere to applicable anti-terrorism laws which forbid us from conducting business with individuals or entities who may be involved in terrorist activities.

Every Employee must ask questions to the Export Compliance manager when needed and report any known possible breach regarding export and import laws.

11. ACCURATE BOOKS AND RECORDS

Velan's books and records are required to accurately reflect all measurable transactions affecting Velan, including the disposition of Velan's assets. Employees who have the responsibility to receive or disburse money have a special obligation to follow established procedures, which have been designed to protect Employees, as well as the Company's assets. All receipts and expenditures must be fully and properly accounted for and recorded in Velan's records. Approval of expenditures should be given only when the amounts are correct and proper. Employees who prepare records and reports for the company are obligated, ethically and legally, to assure such documents are accurate and complete, safeguarded from loss or destruction, retained for specific periods and maintained in confidence. Records shall not be delivered to any person other than to other Employees who need such records to perform their jobs or in response to legal proceedings.

Employees must not willfully or knowingly falsify, alter, remove, or destroy records that are required to be maintained by law or Company policy.

12. CONTRACTS

To the extent possible, contracts outside normal business terms and conditions to which Velan is a party should be in writing, leaving as little as possible to conjecture or speculation. "Side letters" or "comfort letters" which are not exhibits, appendices or attachments to the main document should only be accepted (or given) with the approval of the President, the Chief Executive Officer, or one of the Executive Vice-Presidents of Velan Inc.

13. TELEPHONE USAGE AND ETIQUETTE

Velan telephones are to be used only for business purposes. Personal use of the phone is to be limited. Employees should have no expectation of privacy regarding such communications.

Long distance calls using Velan's long distance service shall be limited to business purposes. All telephone calls should be answered promptly. Telephone messages should be dealt with as soon as possible.

14. NON SALES RELATED GOVERNMENT INQUIRIES

As part of their job responsibilities, some Employees work with various government agencies on a routine basis in accordance with established practices and procedures and will continue to do so. Velan will cooperate with every reasonable and valid request for information.

Nevertheless, if an Employee receives a request from a government official which is outside the normal course of business, Velan might have to first assert its basic legal rights, such as representation by counsel if necessary.

Therefore if a government representative:

- requests an interview with you,
- seeks information or access to files outside the ordinary course of business or,
- poses written questions outside the ordinary course of business,

you should inform her/him that you must discuss the matter with your supervisor or Legal Counsel. If, however, the government representative (a police officer for example) has a search warrant, you should cooperate immediately but contact the Executive Vice-President Human Resources & General Counsel immediately. If you are served with any legal document regarding the Company, you must inform Velan's President, the Chief Executive Officer, or the Executive Vice-President Human Resources & General Counsel and send a copy to her attention, unless prohibited by law.

When submitting information to any government representative, you must consider whether the information submitted should be marked Confidential and whether appropriate steps should be taken to protect its confidentiality. Therefore, you should seek the advice of Velan officers as soon as possible.

15. POLITICAL ACTIVITIES

Velan recognizes the importance of the political process and encourages Employees to participate in a manner consistent with their obligations to the Company. However, Velan does not make or reimburse contributions of Employees to political parties. Where pending issues are vital to Velan's interests, Velan may make contributions to a committee supporting or opposing legislation and public referendums, provided such contributions are legal and are approved by the Board of Directors, the President, or the Chief Executive Officer. The Company may participate in the political process through various trade associations as permitted by law.

16. COMPETITION/ANTITRUST

Fair and ethical competition is a fundamental principle of our economic system and Velan's policy is to comply strictly with applicable competition/antitrust laws. These laws regulate trade practices and prohibit a wide range of practices, which could restrain or limit competition. Employees must exercise care to avoid violating competition/antitrust and trade practice laws.

17. CONTACTS

For the purpose of any matter relating to this policy including but not limited to the reporting of complaints, you can contact either in person, by phone, by mail, or email, in addition or in lieu of your supervisor, any of the following individuals (also referred to as Senior Officers in this document):

James Mannebach,
Chairman and Chief Executive Officer
Tel.: (514) 748-7743
Email: jim.mannebach@velan.com

Rishi Sharma,
Chief Financial & Administrative Officer
Tel.: (514) 748-7743
Email: rishi.sharma@velan.com

Sabine Bruckert,
Executive Vice-President, Human Resources, General Counsel and Corporate Secretary
Tel.: (514) 748-7743
Email: sabine.bruckert@velan.com

Note: if you choose to report any complaints relating to the policy against discrimination and harassment to your supervisor, he/she in turn has the obligation to report to a member listed above.

18. CONCLUSION - PROCEDURES AND DISCIPLINARY PROCEDURES

In performing his/her duties, each employee must:

- i. Maintain high standards of ethical conduct and avoid conflicts of interest, as defined in this Code;
- ii. Promptly disclose any actual, apparent or potential material conflict of interest;
- iii. Ensure full, fair, accurate, timely, and clear information as stated in Company reports and documents;
- iv. Comply with and take all reasonable actions required to ensure others will comply with all applicable laws, rules and regulations, to the best of his/her knowledge;
- v. Comply with and ensure others comply with Velan's policies, disclosures, control procedures, internal controls, and procedures;
- vi. Promptly report any violations of this Code to the President, Chief Executive Officer, Chief Financial Officer, an Executive Vice-President, or Executive Vice-President Human Resources & General Counsel.

It is important:

- That all Employees read, understand and comply with this Code. Explanations if needed relative to this Code must be requested from the Executive Vice-President Human Resources & General Counsel, an Executive Vice-President, the President, and the Chief Executive Officer.
- To file the required disclosures with respect to conflict of interest with the Company and updated as needed.
- To report any violations of this Code to Senior Officers.

a. Breach of this Code of Business Conduct and Ethics

Employees are required to comply with this Code of Business Conduct and Ethics. Failure to do so may result in disciplinary measures up to and including discharge in accordance with applicable labour rules and regulations.

b. Obligations following termination of employment

The provisions of paragraph iv of this Code of Business Conduct and Ethics may still apply following termination of the Employee's employment with the Company (whether by reason of termination by the Company, resignation of the Employee, or otherwise). Nothing contained in this Code of Business Conduct and Ethics shall be construed to create any obligation of the Company to retain the Employee in their employment.

c. Conclusion

The policies and guidelines referenced in this Code are applicable to all Employees. It will be enforced fairly and without prejudice at all levels. The provisions of this Code establish only the minimum standards of conduct and Employees might be required to comply with other work rules. Following this publication, Velan reserves the right to periodically update the Code. The most recent version of the Code will be made available on our Web site and from your Human Resources representative.

Ethics, integrity and trust are critical to Velan and it is the responsibility of all of us to live these values each day to preserve our ethical culture and the highest standards to be a trusted partner for our shareholders, customers, suppliers and between each other. The Code of Business Conduct and Ethics is an important tool in the pursuit of that goal.

19. ACKNOWLEDGMENT

This is to certify that I have received, read and understood the Velan Code of Business Conduct and Ethics. I understand that my compliance with this code is a condition of my position with Velan.

Please cut the section below and return to Velan’s Human Resources Department.

This is to certify that I have received, read and understood the
Velan Code of Business Conduct and Ethics.

Employee signature

Date

Please print name