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PRESS RELEASE

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FOR IMMEDIATE RELEASE

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VELAN INC. REPORTS ITS FOURTH QUARTER AND YEAR-END 2011/12 FINANCIAL RESULTS

MONTREAL, QUEBEC

Velan Inc. (TSE:VLN), a world-leading manufacturer of industrial valves, announced today its financial results for its fourth quarter and fiscal year ended February 29, 2012.

	Three months ended		Fiscal years ended	
(millions of U.S. dollars, excluding per share amounts)	February 29, 2012	February 28, 2011	February 29, 2012	February 28, 2011
Sales	$117.8	$107.0	$437.1	$380.7
Gross Profit	23.0	29.6	87.3	101.4
Gross margin %	*19.5%*	*27.7%*	*20.0%*	*26.6%*
Net income (loss) attributable to Multiple and Subordinate Voting Shares	5.9	7.1	7.9	21.2
Net income (loss) per share – Basic	0.27	0.32	0.36	0.96
Diluted	0.27	0.31	0.36	0.95

Highlights

Fourth Quarter Fiscal 2012 (unless otherwise noted, all comparisons are to the fourth quarter of fiscal 2011):

- Net earnings[1] amounted to $5.9 million or $0.27 per share compared to $7.1 million or $0.32 per share last year. Excluding the results of Velan ABV S.p.A. ("ABV"), the effects of purchase price accounting and currency impacts, the Company would have reported net earnings[1] of $6.0 million or $0.27 per share in the current quarter compared to $8.2 million or $0.37 per share last year.
- Net new orders received ("bookings") amounted to $125.9 million, an increase of $0.2 million or 0.2% compared to last year. Excluding ABV and currency impacts, bookings would have decreased by $11.7 million or 9.3%. Because the Company has a very large order backlog, it is quoting long lead times, which is negatively impacting bookings for some products. The Company ended the fiscal year with a backlog of $661.8 million; $617.1 million excluding ABV. The Company's backlog increased by 20.8% when compared to the end of the previous fiscal year.
- Sales amounted to $117.8 million, an increase of $10.8 million or 10.1%. Excluding ABV and currency impacts, sales increased $4.4 million or 4.1%.

[1] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*

- Gross margin decreased by 8.2 percentage points from 27.7% to 19.5%. Excluding ABV, the effects of purchase price accounting and currency impacts, gross margin would have decreased by 6.1 percentage points from last year.
- The Company generated net cash[1] from operations of $15.6 million. This source of net cash[1] is primarily attributable to a decrease in accounts receivable, which was driven by the collections in the quarter of the increased billings reported in the third quarter of the current year. The Company ended the year with net cash[1] of $37.1 million.

Year-ended fiscal 2012 (unless otherwise noted, all amounts are in U.S. dollars and all comparisons are to the prior fiscal year):

- Net earnings[2] amounted to $7.9 million or $0.36 per share compared to $21.2 million or $0.96 per share last year. Excluding ABV, the effects of purchase price accounting and currency impacts, the Company would have reported net earnings[1] of $12.5 million or $0.56 per share this year compared to $14.3 million or $0.65 per share last year.
- Net new orders received ("bookings") amounted to $529.0 million, an increase of $78.9 million or 17.5% compared to last year. Excluding ABV and currency impacts, the increase would have been $42.4 million or 9.4%.
- Sales amounted to $437.1 million, an increase of $56.4 million or 14.8%. Excluding ABV and currency impacts, sales increased $26.2 million or 6.9%.
- Gross margin decreased by 6.6 percentage points from 26.6% to 20.0%. Excluding ABV, the effects of purchase price accounting and currency impacts, gross margin would have decreased by 1.8 percentage points.
- The Company used net cash[1] from operations of $12.8 million. This use of net cash[1] is primarily attributable to increased inventory purchases to service the growing backlog.
- Based on average exchange rates, the U.S. dollar weakened 2.8% against the Canadian dollar when compared to the same period last year. This weakening resulted in the Company's Canadian dollar expenses being reported as higher U.S. dollar amounts in the current year. The euro strengthened 5.0% against the U.S. dollar when compared to the same period last year. This strengthening resulted in the Company's net profits from its European subsidiaries being reported as higher U.S. dollar amounts in the current year.

"The continued growth of both our sales and backlog, as well as the acquisition of ABV, has absorbed much of our working capital this year", John Ball, CFO of Velan Inc. said. "Notwithstanding these two factors, we continue to look for ways of improving the efficiency of our working capital and we are pleased that we ended the year with net cash[1] of $37.1 million and a strong balance sheet".

Tom Velan, President and CEO of Velan Inc. said, "The increases in bookings, backlog, and sales for the year to date are good indications of an improving global market for our products. We are starting our new year with a very strong backlog and the challenge we faced last year due to insufficient orders has changed to the challenge of producing our order backlog as quickly and profitably as possible. We are investing in increasing our global manufacturing capacity. Faced with significant material cost increases over the last two years, we have been raising our selling prices. For some of our product lines, we still face lower margins because material cost increases have risen faster than selling prices. We need to raise our margins by increasing volume and continuing to increase our prices where possible to cover cost increases.

[1] *Non-GAAP measures – see explanation below.*
[2] *Net earnings or loss refers to net income or loss attributable to Subordinate and Multiple Voting Shares.*

“We were disappointed by the results from our acquisition of ABV. This was a transition year for ABV, which had poor results due to a combination of some underpriced orders, significant material cost increases, and the additional work required to complete the acquisition, implement a new Enterprise Resource Planning (“ERP”) system, and establish the new manufacturing plant. We expect improving results going forward as the new plant capacity is now in operation and the new ERP system has been implemented. Also, ABV is starting this year with more than double the backlog it had at the time of acquisition. We are working with the management of ABV to help improve operations to increase both output and profitability.

“We are continuing to take measures to improve our operational excellence and cost competitiveness, and to strengthen our presence in international markets in order to improve our long-term performance and increase the value of our company. In the shorter term, we are focused on improved execution of our large project order backlog to increase sales and improve earnings.”

Dividend

The Board declared an eligible quarterly dividend of Canadian dollar $0.08 per share, payable on June 29, 2012, to all shareholders of record as at June 15, 2012.

Conference Call

Financial analysts, shareholders, and other interested individuals are invited to attend the fourth quarter conference call to be held on May 17, 2012, at 4:30 PM (EST). The toll free call-in number is 1-888-628-4143, access code 21591591. A recording of this conference call will be available for seven days at 1-416-626-4100 or 1-800-558-5253, access code 21591591.

About Velan

Velan Inc. (www.velan.com) is a world-leading manufacturer of industrial valves with sales of $437 million in its last reported fiscal year. The company employs over 1,950 people and has manufacturing plants in 10 countries. Velan Inc. is a public company with its shares listed on the Toronto Stock Exchange under the symbol VLN.

Safe Harbour Statement

Except for historical information provided herein, this press release may contain information and statements of a forward-looking nature concerning the future performance of the Company. These statements are based on suppositions and uncertainties as well as on management's best possible evaluation of future events. Such factors may include, without excluding other considerations, fluctuations in quarterly results, evolution in customer demand for the Company's products and services, the impact of price pressures exerted by competitors, and general market trends or economic changes. As a result, readers are advised that actual results may differ from expected results.

Non-GAAP measures

In this press release, the Company presented measures of performance and financial condition which are not defined under Canadian GAAP (“non-GAAP 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.

Net cash is defined as cash and cash equivalents plus short-term investments less bank indebtedness and short-term bank loans.