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NEWS RELEASE

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Covalon Announces Fiscal 2020 Year-End Results

MISSISSAUGA, Ontario – January 28, 2021 – /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announces its fiscal 2020 year-end results for the year ended September 30, 2020.

"2020 was a strategically important year for Covalon but also one that included challenges related to COVID-19," stated Brian Pedlar, Covalon's President and CEO. "Our revenue declined by 10% in Q4 to $5.9 million and 24% for fiscal 2020 to $25.8 million compare to fiscal 2019, due to COVID-19 impacts on our customers and our suppliers. Despite the challenges presented, which included temporary deferral of elective procedures and supply chain interruptions, we were able to minimize the impact of the revenue decline by reducing operating expenses by $3.4 million or 47% in Q4 and $11.5 million or 38% for fiscal 2020. As a result, we improved our Adjusted EBITDA(1) by $2.0 million in Q4 2020 as compared to Q4 2019 and by $3.1 million in fiscal 2020 as compared to fiscal 2019."

Mr. Pedlar continued, "The Covalon team worked around the clock to overcome the difficulties presented by the unprecedented global pandemic to:

- generate new sales opportunities for our infection prevention portfolio of products;
- engage virtually and in-person with existing customers;
- significantly reduce operating expenses year-over-year;
- launch several new products; and
- adapt our sales and service processes to engage with our customers during COVID-19 restrictions.

"With fiscal 2020 in the rear-view mirror, I believe the steps we have taken to mitigate the impacts of COVID-19 have positioned Covalon to overcome the pandemic's impact on our Company. We are now almost four months into our new fiscal year, and I am pleased with our progress," Mr. Pedlar concluded.

Outlook for 2021

We are seeing signs of improvement in product usage by our customer base in the United States and internationally even though the COVID-19 restrictions have not eased in many of the geographies in which we operate.

The inventory write-downs we recorded in fiscal 2020 due to delays in product shipments to the Middle East are not expected to have any impact on our future results. As a result, gross margins are expected to return to pre-COVID-19 levels in 2021.

Reduced operating expenses in 2021 are anticipated to be consistent with fiscal 2020 and may be reduced by additional government subsidies related to COVID-19 relief programs.

The changes made to our operations have placed the Company in a position to return to growth and profitability in 2021.

With cash-on-hand and amounts available under the HSBC operating bank line, we believe we have sufficient future cash flow to support our operating needs going forward.

(1) See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

Fiscal 2020 Operating Highlights

- Restrictions imposed by governments and the significant reduction in elective procedures by hospitals in the United States and internationally negatively impacted our product sales and our ability to sell to new customers during a majority of fiscal 2020, which resulted in negative growth in our sales in key markets.
- We launched three new products during fiscal 2020 into our United States hospital and clinic customer base and experienced strong engagement from hospitals in evaluating these new products despite the lockdown restrictions.
- We engaged in 39 customer development projects of various sizes with approximately 10 medical product companies in our medical coating business. These projects included those associated with our previously announced major licensing agreement with one of the world's largest medical device companies.
- Key antimicrobial patents were granted to the Company by the United States Patent and Trademark Office, the Canadian Intellectual Property Office, and the European Patent Office that are integral to the Company's IV Clear, MediClear Pre-Op, and SurgiClear products.
- To reduce risk and position our product brands for growth in the Middle East, we transferred distribution rights in the region to a multinational medical device company and a new local agent, who has a stronger sales force and distribution capabilities throughout major markets in that region.
- In response to the COVID-19 pandemic, we developed and launched a patent-pending 24-hour persistent hand sanitizer, mask spray, and surface disinfectant under our CovaGuard and CovalonGuard brands in various markets.

Strategic Review Process

As previously announced, in response to expressions of interest made by medical industry and private equity organizations, Covalon's Board of Directors formed a Special Committee and hired advisors to assist in undertaking a Strategic Review process, to ensure that all available strategic alternatives to enhance value for our shareholders are being evaluated.

Mr. Amir Boloor, Chair of Covalon's Board of Directors and Chair of the Special Committee, said, "I am very pleased with the initial progress made by the Special Committee. Covalon has been successful in attracting several additional very interesting expressions of interest which are currently being evaluated and discussed.

Mr. Boloor continued, "This process has clearly validated that Covalon owns a number of valuable medical technologies that are of interest to the medical industry.

"The entire Board of Directors, including the Company's major shareholders believe that Covalon is significantly undervalued given its compelling combination of patented intellectual properties, technology platforms, commercialized medical product portfolio and global sales channels.

"We will carefully deliberate on what actions, if any, are in the best interests of the Company's shareholders.

"While this process is underway, our Company continues to remain focused on continuing to execute its growth strategy, promoting its life-saving products to the medical industry, and providing meaningful growth opportunities to our dedicated staff," Mr. Boloor concluded.

Fiscal 2020 Financial Results

Revenue for the year ended September 30, 2020 was $25.8 million, compared to $34.0 million in the prior year. This decrease was largely driven by the impact of the COVID-19 pandemic. Gross profit was $12.5 million in fiscal 2020, compared to $21.8 million in fiscal 2019. Net loss was $7.0 million or $0.27 per share, compared to a net loss of $9.1 million or $0.41 per share in fiscal 2019.

Product revenue for fiscal 2020 was $23.6 million, compared to $30.0 million in the previous year. Product revenue was severely negatively impacted by a slowdown in orders due to the uncertainties of COVID-19 and a deferral in elective procedures.

Revenue in the United States was down $2.9 million in fiscal 2020 compared to fiscal 2019 due to the impact of COVID-19. This slowdown in the United States is anticipated to continue until hospitals and healthcare facilities resume the normal level of elective procedures. Revenue in the Middle East was down $6.4 million in fiscal 2020 compared to fiscal 2019 due to both COVID-19 and delays of major shipments under the previously announced contracts awarded to the Company in the Middle East, as the Company transferred distribution rights to a new partner in the region. To reduce risk in the Middle East, we transferred distribution rights to a new agent in the region, who has a stronger sales force and distribution capabilities throughout major markets in the region. Though this progress was delayed due to the impact of COVID-19 on the government processes in various Middle East countries, we are pleased to be working with our new agent and anticipate that deliveries under these contracts will return to normalized levels in 2021.

Gross margin was 48% for fiscal 2020, compared to 64% for the prior year. The decline in gross margin is attributed to the impact of $2.1 million of inventory provisions and certain non-recurring costs associated with repurposing existing inventory to meet customer orders during the fiscal year, which added additional incremental costs. Given the impact of COVID-19 on product demand, Covalon leveraged its supply chain to sell personal protective equipment to customers at lower margins than the Company's core products. Gross margin is significantly influenced by source of revenue and the relative mix of collagen-based dressings, silicone-based dressings, medical coated devices, passive dressings, moisture barriers, and related service revenues in any given financial period.

Adjusted gross margin[(1)], which excludes the inventory provisions, was 58% for fiscal 2020, compared to 66% for the prior year. The decline is attributed to product mix.

Operating expenses were $18.6 million, a decline of $11.5 million compared to $30.0 million for the prior year. This decrease was primarily related to a decrease in personnel costs, reduced travel, and agency fees related to deliveries for tenders in the Middle East. Covalon also recorded $2.1 million in government subsidies related to COVID-19, which were netted out against the related expenses during the year.

See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

Adjusted EBITDA[(1)] for 2020 improved to a loss of $2.6 million from a loss of $5.7 million in 2019. This reflects a $3.1 million improvement in Adjusted EBITDA compared to the prior year primarily driven by ongoing operating cost reductions.

Fiscal 2020 saw the Company end the year with a strengthened and more diversified revenue base. In fiscal 2020, approximately 82% of revenue was from sales in the United States and 9% of revenue was from sales in the Middle East. Last year's revenue split was 71% in the United States and 26% in the Middle East.

Conference Call Scheduled

A conference call to discuss Covalon's Fiscal 2020 Year-End Financial Results will be held Thursday, January 28th, 2021 at 9:00am EST. To participate in the call, please dial:

North American Toll-Free: 1.888.664.6392
Local (Toronto): 416.764.8659
Confirmation Number: 10953934

A recording of the call will be available by calling 1.888.390.0541 or 416.764.8677 and entering the encore replay enter code 953934# from January 28th, 2021, at 12:00pm EST to February 15th, 2021 at 11:59pm EST.

See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

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Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three-month periods ended September 30, 2020 and 2019, and for the years ended September 30, 2020 and 2019.

(unaudited)	Three months ended, September 30, 2020	2019	Year ended September 30, 2020	2019
Revenue				
Product	**$5,454,101**	$5,322,475	**$23,621,388**	$30,147,854
Development and consulting services	**424,318**	1,201,981	**1,979,282**	3,265,636
Licensing and royalty fees	**41,162**	52,145	**199,436**	591,132
Total revenue	**5,919,581**	6,576,601	**25,800,106**	34,004,622
Cost of product sales	**4,106,092**	2,641,257	**13,313,976**	12,182,263
Gross profit before operating expenses	**1,813,489**	3,935,344	**12,486,130**	21,822,359
Operating expenses				
Operations	**227,615**	527,354	**1,355,851**	1,909,748
Research and development activities	**140,457**	224,399	**794,241**	1,359,417
Sales, marketing and agency fees	**1,633,724**	2,581,422	**7,789,305**	14,952,989
General and administrative	**1,791,597**	3,886,068	**8,638,800**	11,848,837
	3,793,393	7,219,243	**18,578,197**	30,070,991
Financing expenses	**203,132**	231,101	**860,157**	889,141
Net income (loss)	**$(2,183,036)**	$(3,515,000)	**$(6,952,224)**	$(9,137,773)
Other comprehensive loss				
Foreign currency translation adjustment	**(327,745)**	539,273	**193,160**	448,726
Other comprehensive loss	**$(2,510,781)**	$(2,975,727)	**$(6,759,064)**	$(8,689,047)
Basic loss per share	**$(0.08)**	$(0.16)	**$(0.27)**	$(0.41)
Diluted loss per share	**$(0.08)**	$(0.16)	**$(0.27)**	$(0.41)

See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

Non-IFRS Financial Measures

This press release makes reference to certain non-IFRS measures. These measures are not recognized or defined measures under IFRS, do not have standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional financial information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, these measures should not be considered in isolation or as a substitute for analysis of our financial information reported under IFRS. The non-IFRS financial measures, adjustments, and reasons for adjustments should be carefully evaluated as these measures have limitations as analytical tools and should not be used in substitution for an analysis of the Company's results under IFRS. We use non-IFRS measures including "Adjusted Gross Margin" and "Adjusted EBITDA" to provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Our management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets and forecasts and to determine components of management compensation. The following non-IFRS financial measures are presented in this news release, and a description of the calculation for each measure is included below:

- Adjusted Gross Margin is defined as gross profit before operating expenses, plus depreciation and amortization included in cost of sales, plus inventory provision amounts.
- Adjusted EBITDA is defined as net loss, plus interest expense, plus depreciation and amortization, plus stock-based compensation, less government subsidies, plus inventory provisions, plus accounts receivable write-off expenses.

You should also be aware that the Company may recognize income or incur expenses in the future that are the same as, or similar to some of the adjustments in these non-IFRS financial measures. Because these non-IFRS financial measures may be defined differently by other companies in our industry, our definitions of these non-IFRS financial measures may not be comparable to similarly titled measures of other companies, thereby diminishing their utility.

The table below provides a reconciliation of gross profit before operating expenses under IFRS in the consolidated financial statements to Adjusted Gross Margin for the three months, and year ended September 30, 2020. Management believes that Adjusted Gross Margin is useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows from period to period. The adjusting items below are considered to be outside of the Company's core operating results, and these items can distort the trends associated with the Company's ongoing performance, even though some of those expenses may recur.

(unaudited)	Three months ended September 30,			Year ended September 30,	
	2020	2019		2020	2019
Gross profit before operating expenses	**1,813,489**	3,935,344		**12,486,130**	21,822,359
Add: Depreciation and amortization	**89,705**	85,742		**349,595**	328,056
Add: Inventory provisions	**1,353,653**	69,330		**2,083,932**	111,019
Adjusted Gross Margin	**3,256,847**	4,090,416		**14,919,657**	**22,261,434**
Adjusted Gross Margin (%)	**55.0%**	62.2%		**57.8%**	**65.5%**

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three months, and year ended September 30, 2020. Management believes that these non-IFRS measures are useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to funds its cash requirements from period to period. The adjusting items below are considered to be outside of the Company's core operating results, and these items can distort the trends associated with the Company's ongoing performance, even though some of those expenses may recur.

(unaudited)	Three months ended September 30,			Year ended September 30,	
	2020	2019		2020	2019
Net loss	**(2,183,036)**	(3,515,000)		**(6,952,224)**	(9,137,773)
Add: Interest expense	**203,132**	231,101		**860,157**	889,141
Add: Depreciation and amortization	**284,266**	189,954		**1,206,094**	629,888
Add: Stock based compensation	**89,656**	383,833		**935,624**	1,717,091
Less: Government subsidies	**(412,932)**	-		**(2,147,174)**	-
Add: Inventory provisions	**1,353,653**	69,330		**2,083,932**	111,019
Add: Accounts receivable write-off	**-**	-		**1,420,002**	-
Adjusted EBITDA	**(665,261)**	(2,640,782)		**(2,593,589)**	(5,790,634)

See "Non-IFRS Measures" below, including for a reconciliation of the non-IFRS measures used in this release to the most comparable IFRS measures.

To learn more about Covalon, please contact:

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About Covalon

Covalon Technologies Ltd. researches, develops, and commercializes new healthcare technologies that help save lives around the world. Covalon's patented technologies, products, and services address the advanced healthcare needs of medical device companies, healthcare providers, and individual consumers. Covalon's technologies are used to prevent, detect, and manage medical conditions in specialty areas such as infection control, vascular access, surgical procedures, advanced wound care, and medical device coatings. To learn more about Covalon, visit our website at www.covalon.com

Neither TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

This news release contains forward-looking statements which reflect the Company's current expectations regarding future events. The forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan, "estimate", "expect", "intend" and statements that an event or result "may", "will", "should", "could" or "might" occur or be achieved and other similar expressions. These forward-looking statements involve risk and uncertainties, including completion of integration of the AquaGuard acquisition, the difficulty in predicting product approvals, acceptance of and demands for new products, the impact of the products and pricing strategies of competitors, delays in developing and launching new products, the regulatory environment, fluctuations in operating results, the impact and timing of COVID-19 on operating activities and market conditions, and other risks, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Many risks are inherent in the industry; others are more specific to the Company. Investors should consult the Company's ongoing quarterly filings for additional information on risks and uncertainties relating to these forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The Company assumes no obligation to update or alter any forward-looking statements whether as a result of new information, further events or otherwise.

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