

Covalon Announces Strong Year End and Fourth Quarter Results for Fiscal 2021

- Year-end net profit of \$23.5 million or \$0.91 per share which includes net income from the sale of the AquaGuard operations
- Revenue from continuing operations increased 45% to \$19.6 million for the year, compared to \$13.5 million in the prior year due to an increase in product sales
- Fourth quarter was profitable with net income of \$1.0 million or \$0.04 per share and Adjusted EBITDA of \$1.8 million from continuing operations
- Covalon ended the year with \$25.5 million of cash or \$0.99 per share on the balance sheet with all debt repaid

MISSISSAUGA, ON, Dec. 13, 2021 /CNW/ - Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2021 fourth quarter and year end results for the period ended September 30, 2021.

Brian Pedlar, Covalon's President and CEO, said, "I am very pleased to report that our Company ended the year with a net profit of \$23.5 million or \$0.91 per share after including net income from the sale of our AquaGuard operations. We ended the year profitable, with 45% revenue growth year over year from continuing operations. Our fourth quarter was profitable with net income of \$1.0 million or \$0.04 per share from continuing operations. Most significantly, we finished the year with \$25.5 million of unrestricted and escrow cash on our balance sheet and no debt.

"Covalon is a different company today than we were just a few short months ago. We are a much stronger company today, both financially and operationally.

"Our cost management initiatives and strong growth in product revenue has led to a \$8.2 million year-over-year improvement in net income from continuing operations and a \$4.8 million year-over-year improvement in Adjusted EBITDA⁽¹⁾ from continuing operations this fiscal year.

"I am also delighted to report a strong fourth quarter with revenue of \$6.6 million from continuing operations. Operating expenses were \$1.9 million for the quarter ended September 30, 2021.

"I'm very proud of our team's efforts over the past 18 months to steer us clear of COVID-19 challenges and their contributions to our successful turnaround," continued Mr. Pedlar.

Continuing operations includes revenue from our core business of collagen, medical coatings, and antimicrobial silicone adhesive dressings, which continues to experience growth in the United States and internationally. Discontinued operations are comprised of AquaGuard operations for the year and the resulting gain on the sale of the AquaGuard product line as of July 28, 2021.

Fiscal 2021 Q4 and Year-End Financial Results

Covalon is continuing to see signs of improvement in product usage by our customers in the United States and internationally even though the impacts of COVID-19 continue to adversely affect our customers and restrictions have not completely eased in many of the geographies in which we operate.

Product revenue increased 56% to \$17.7 million, compared to \$11.3 million for the same period in the prior year. Product revenue increased in the United States by 61% or \$4.1 million and in the Middle East by 91% or \$2.1 million. Development and consulting services revenue for the year ended September 30, 2021 decreased by 15% to \$1.7 million, compared to \$2.0 million for the same period of the prior year. Revenue from development and consulting services varies based on opportunities and the length of the sales cycle for given projects.

Gross margin for the year ended September 30, 2021 increased to 50% compared to 34% in the prior year. Gross margin is significantly influenced by source of revenue and the relative mix of products sold in any given financial period. Both periods include inventory allowance provisions and rework costs associated with selling product.

Adjusted gross margin⁽¹⁾, which excludes inventory provisions and depreciation, increased to 53% for fiscal 2021, compared to 52% for the prior year.

Operational expenses from continuing operations decreased 26% to \$8.9 million compared to \$12 million for the prior year, mainly due to reduced personnel expenses and a \$1.4 million accounts receivable write off in 2020 which did not occur in 2021. Excluding government subsidies and accounts receivable write off expense, operating expenses decreased approximately 16% or \$2 million. The Company recorded \$0.8 million (2020 - \$1.1 million) of government subsidies netted out against the related expenses.

Net income was \$23.5 million or \$0.91 per share, compared to a net loss of \$7.0 million or \$0.27 per share in fiscal 2020. Adjusted EBITDA⁽¹⁾ for fiscal 2021 was \$1.3 million compared to an EBITDA loss of \$3.5 million in the prior year.

Revenue for the three months ended September 30, 2021 increased 125% to \$6.6 million, compared to \$2.9 million the prior year. Gross margin for the period increased to 46% compared to 6% for the same period the prior year. Net income from continuing operations was \$1.0 million or \$0.04 per share, compared to a net loss of \$2.3 million or \$0.09 per share in fiscal 2020.

Conference Call and Webcast Scheduled

A conference call and webcast to discuss Covalon's Fiscal 2021 Year-End Financial Results will be held Monday, December 13, 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: 11333139

To view the webcast accompanying the conference call, please copy and paste the below url into a web browser:

https://produceredition.webcasts.com/starthere.jsp?ei=1511898&tp_key=97dc9893c4

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 333139# until to December 27, 2021 at 11:59pm EST.

Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the quarters and years ended September 30, 2021 and 2020.

	Three months ended September 30,		Year ended September 30,	
	2021	2020	2021	2020
Revenue				
Product	\$6,027,755	2,475,005	\$17,650,865	11,329,716
Development and consulting services	522,383	424,318	1,691,380	1,979,282
Licensing and royalty fees	60,442	41,162	219,056	199,436
Total revenue	6,610,580	2,940,485	19,561,301	13,508,434
Cost of sales	3,545,483	2,754,604	9,864,970	8,861,011
Gross profit before operating expenses	3,065,097	185,881	9,696,331	4,647,423
Operating expenses				
Operations	340,887	140,471	995,158	1,040,499
Research and development activities	299,625	140,457	1,140,517	794,241
Sales, marketing and agency fees	305,293	649,458	1,927,181	2,916,571
General and administrative	976,144	1,458,571	4,795,132	7,283,315
	1,921,949	2,388,957	8,857,988	12,034,626
Finance expenses	117,904	109,226	419,379	435,587
Net income (loss) from continuing operations	1,025,244	(2,312,302)	418,964	(7,822,790)
Net income from discontinued operations	21,344,351	129,265	23,057,942	870,566
Net income (loss)	\$22,369,595	\$(2,183,037)	\$23,476,906	\$(6,952,224)
Income (loss) per common share of continuing operations				
Basic earnings (loss) per share (Note 21)	\$0.04	\$(0.09)	\$0.02	\$(0.30)
Diluted earnings (loss) per share (Note 21)	\$0.04	\$(0.09)	\$0.02	\$(0.30)
Income per common share of discontinued operations				
Basic earnings per share (Note 21)	\$0.83	\$0.01	\$0.89	\$0.03
Diluted earnings per share (Note 21)	\$0.83	\$0.00	\$0.89	\$0.03
Income (loss) per common share				
Basic earnings (loss) per share (Note 21)	\$0.87	\$(0.08)	\$0.91	\$(0.27)
Diluted earnings (loss) per share (Note 21)	\$0.86	\$(0.08)	\$0.91	\$(0.27)

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, 2021 and 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.

	Three months ended September 30,		Year ended September 30	
	2021	2020	2021	2020
Gross profit before operating expenses	3,065,097	185,881	9,696,331	4,647,423
Add: Depreciation and amortization	49,470	82,081	282,843	258,979
Add: Inventory provisions	231,618	1,353,653	361,556	2,083,932
Adjusted Gross Margin	3,346,185	1,621,615	10,340,730	6,990,334
Adjusted Gross Margin (%)	51%	55%	53%	52%

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, 2021 and 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.

	Three months ended September 30,		Year ended September 30,	
	2021	2020	2021	2020
Net income (loss) from continuing operations	1,025,244	(2,312,302)	418,964	(7,822,790)
Add: Interest expense	117,904	109,226	419,379	435,587
Add: Depreciation and amortization	399,527	190,351	700,466	756,620
Add: Share based compensation	9,698	91,463	163,769	715,428
Less: Government subsidies	(8,668)	(418,872)	(801,821)	(1,132,479)
Add: Inventory provisions	231,618	1,353,653	361,556	2,083,932
Add: Accounts receivable write-off	-	-	-	1,420,002
Adjusted EBITDA from continuing operations	1,775,323	(986,481)	1,262,313	(3,543,700)

About Covalon

Covalon Technologies Ltd. is a researcher, developer, manufacturer, and marketer of patent-protected medical products that improve patient outcomes and save lives in the areas of advanced wound care, infection management and surgical procedures. Covalon leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under Covalon's name; and (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company is listed on the TSX Venture Exchange, having the symbol COV and trades on the OTQX Market under the symbol CVALF. 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 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.

(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.

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