

**FORM 51-102F3**  
**MATERIAL CHANGE REPORT**

**Item 1            Name and Address of Company**

Covalon Technologies Ltd. (the “**Company**”)  
1660 Tech Avenue, Unit 5  
Mississauga, Ontario  
L4W 5S7

**Item 2            Date of Material Change**

July 29, 2021

**Item 3            News Release**

A press release was issued through Cision on July 29, 2021.

**Item 4            Summary of Material Change**

On July 29, 2021, the Company announced that it simultaneously signed and closed on the sale of its AquaGuard product line to TIDI Products, LLC (“**TIDI**”), an arm’s length party, for US\$30 million (or approximately CDN\$38 million), subject to adjustment for estimated cash, inventory and working capital amounts at closing.

Under the terms of a purchase agreement, Covalon sold all of its interest in Covalon Technologies Holdings (USA), Ltd. and Covalon Technologies AG Ltd. (the “**Former Subsidiaries**”) to TIDI. The transaction included the sale of moisture barrier products sold under the AquaGuard brand, certain trademarks and intellectual property, related customer contracts, and the manufacturing assets to support the AquaGuard business. Immediately prior to closing, Covalon spun-off all of its assets in the Former Subsidiaries other than its AquaGuard product line of business to an existing subsidiary of Covalon, which will carry on Covalon’s ongoing business in the United States. The purchase price of US\$30 million includes US\$2 million placed in escrow for indemnity claims (which escrow amount will be released 50% in 12 months following closing and the remaining 50% in 14 months following closing, assuming no claims).

Covalon used net proceeds from the sale to fully satisfy its indebtedness to its senior lender, HSBC Bank Canada (“**HSBC**”), and the credit facility with HSBC has now been terminated. Covalon will explore putting in place a new credit facility that reflects the Company’s improved balance sheet and financial position.

Covalon also extinguished US\$7,552,300 of secured indebtedness owed to Cenorin, LLC under a promissory note dated as of October 1, 2018, as amended, by making a cash payment of US\$4,000,000 to Cenorin and issuing to Cenorin 200,000 warrants for the purchase of common shares in the capital of Covalon (the “**Warrants**”). Each Warrant entitles the holder to acquire a common share of Covalon at a price of CDN\$4.00 for a period of five years. The issuance of the Warrants has been approved by the TSX Venture Exchange. The Warrants and the common shares of Covalon underlying them will be subject to a hold period of four months and one day in accordance with applicable securities laws.

**Item 5 Full Description of Material Change**

For a full description of the material change, please refer to the press release of the Company dated April 19, 2021, attached hereto as Schedule "A".

**Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102**

Not applicable.

**Item 7 Omitted Information**

Not applicable.

**Item 8 Executive Officer**

The name and business number of an executive officer of the Company who is knowledgeable about the material change and this report is:

Brian Pedlar  
Chief Executive Officer  
905-568-8400 ext. 233

**Item 9 Date of Report**

This report is dated the 6<sup>th</sup> day of August, 2021.

## Schedule "A"

See attached.

**Covalon Announces Sale of its AquaGuard® Product Line for  
US\$30 Million or Approximately CDN\$38 Million**

- Purchase and sale agreement executed with simultaneous closing with TIDI Products, LLC as buyer
- The transaction materially improves Covalon's balance sheet to an estimated net cash position of approximately CDN\$24 million or CDN\$0.93 per share after repayment of all outstanding debt
- The sale results in a net gain, prior to transaction expenses, of approximately CDN\$20 million or CDN\$0.77 per share on an after-tax basis over what Covalon paid for the AquaGuard business approximately 3 years ago
- AquaGuard's customers and distribution partners are expected to benefit from TIDI's current extensive market reach, bringing AquaGuard to more patients and more hospitals
- Covalon will now focus on accelerating the growth of its three core patented platforms of infection prevention products, including Collagen Dressings, Antimicrobial Silicone Adhesive Dressings and Advanced Medical Coatings, in addition to other technologies developed by Covalon's advanced medical laboratory

**MISSISSAUGA, ON July 29, 2021 /CNW/** – Covalon Technologies Ltd. (the “**Company**” or “**Covalon**”) (TSXV: COV) (OTCQX: CVALF), an advanced medical technologies company, is pleased to announce that it has today closed the sale of its AquaGuard product line to TIDI Products, LLC (“**TIDI**”), an arm's length party, for US\$30 million (or approximately CDN\$38 million), subject to adjustment for estimated cash, inventory and working capital amounts at closing.

Brian Pedlar, Covalon's President and Chief Executive Officer, said, “After carefully evaluating numerous expressions of interest during our previously announced strategic review process led by the Special Committee, the Covalon Board of Directors decided that the transaction with TIDI was the best option for Covalon to proceed with at this time. The transaction results in a strong balance sheet with significant cash and no debt, and allows us to focus on accelerating the growth of our core patented medical platforms in the United States and internationally, including our Collagen Dressings, Antimicrobial Silicone Adhesive Dressings and Advanced Medical Coatings platforms.”

Amir Boloor, Chair of Covalon's Board of Directors and the Special Committee, said, “The Strategic Review process validated how valuable Covalon's technologies are, and how highly regarded they are by the medical industry. The fact that we were able to divest a non-core asset at fair value for an amount that is approximately equal to the market capitalization of the entire Company speaks to the opportunity to unlock significant further value in our core platforms. Retaining the valuable patented intellectual property and medical platforms, as well as its talented lab, positions Covalon extremely well going forward.”

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Covalon used net proceeds from the sale to fully satisfy its indebtedness to its senior lender, HSBC Bank Canada (“HSBC”), and the credit facility with HSBC has now been terminated. Covalon will explore putting in place a new credit facility that reflects the Company’s improved balance sheet and financial position.

Covalon also extinguished US\$7,552,300 of secured indebtedness owed to Cenorin, LLC under a promissory note dated as of October 1, 2018, as amended, by making a cash payment of US\$4,000,000 to Cenorin and issuing to Cenorin 200,000 warrants for the purchase of common shares in the capital of Covalon (the “Warrants”). Each Warrant entitles the holder to acquire a common share of Covalon at a price of CDN\$4.00 for a period of five years. The issuance of the Warrants has been approved by the TSX Venture Exchange. The Warrants and the common shares of Covalon underlying them will be subject to a hold period of four months and one day in accordance with applicable securities laws.

The transaction results in Covalon having a pro forma cash position of approximately CDN\$24 million or CDN\$0.93 per share after repayment of all outstanding debt.

The sale results in a net gain, prior to transaction expenses, of approximately CDN\$20 million or CDN\$0.77 per share on an after-tax basis over what Covalon paid for the AquaGuard business approximately 3 years ago.

#### **Advisors**

Stikeman Elliott LLP and Foley & Lardner LLP acted as legal advisors, and Morrison Park Advisors acted as financial advisor, to Covalon. Sidley Austin LLP acted as legal advisor to TIDI Products, LLC.

#### **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 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

#### **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](http://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.*

SOURCE Covalon Technologies Ltd.

For further information: To learn more about Covalon, please contact: Brian Pedlar, CEO, Covalon Technologies Ltd., Email: [bpedlar@covalon.com](mailto:bpedlar@covalon.com), Phone: 905.568.8400 x 233, Toll free: 1.877.711.6055, Web site: [www.covalon.com](http://www.covalon.com), Twitter: @covalon

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