

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the three months ended December 31, 2021 and 2020

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**MANAGEMENT'S COMMENTS ON UNAUDITED INTERIM
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The unaudited condensed consolidated interim financial statements are prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") and reflect management's best estimates and judgment based on information currently available. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements.

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars

	December 31, 2021	September 30, 2021
Assets		
Current assets		
Cash and cash equivalents	\$22,371,357	\$22,946,923
Cash in escrow	2,535,600	2,548,200
Accounts receivable	3,486,754	6,395,547
Inventories	4,129,162	4,702,201
Prepaid expenses	1,056,973	845,451
Total current assets	34,579,846	37,438,322
Non-current assets		
Restricted cash	137,087	137,061
Property, plant and equipment	1,207,907	1,256,594
Intangible assets	853,134	897,865
Right-of-use assets	787,136	852,262
Total non-current assets	2,985,264	3,143,782
Total assets	\$37,565,110	\$40,582,104
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	\$3,059,417	\$4,039,607
Lease liabilities (Note 4)	549,878	541,378
Deferred revenue	455,457	414,649
Total current liabilities	4,064,752	4,995,634
Non-current liabilities		
Deferred revenue	133,119	162,448
Lease liabilities (Note 4)	1,902,503	2,049,495
Total non-current liabilities	2,035,622	2,211,943
Total liabilities	6,100,374	7,207,577
Shareholders' equity		
Share capital (Note 5)	44,855,816	44,676,999
Contributed surplus	11,748,127	11,833,354
Foreign exchange translation reserve	619,662	1,106,246
Accumulated deficit	(25,758,869)	(24,242,072)
Total shareholders' equity	31,464,736	33,374,527
Total liabilities and shareholders' equity	\$37,565,110	\$40,582,104

On behalf of the Board:
(signed) "Abe Schwartz"
(signed) "Brian Pedlar"

Director
Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars

	Three months ended	
	December 31,	
	2021	2020
Revenue		
Product	\$4,497,698	\$1,997,359
Development and consulting services	388,367	541,750
Licensing and royalty fees	50,280	60,590
Total revenue	4,936,345	2,599,699
Cost of sales	2,643,968	1,264,472
Gross profit before operating expenses	2,292,377	1,335,227
Operating expenses		
Operations	478,260	258,483
Research and development activities	259,667	142,770
Sales and marketing	1,170,177	560,932
General and administrative	1,479,552	1,309,031
	3,387,656	2,271,216
Finance expenses	12,223	97,925
Net (loss) from continuing operations	(1,107,502)	(1,033,914)
Net income (loss) from discontinued operations (Note 3)	(409,295)	661,571
Net (loss)	\$(1,516,797)	\$(372,343)
Other comprehensive income (loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment continuing operations	(486,584)	(576,865)
Foreign currency translation adjustment discontinued operations	-	(273,272)
Total comprehensive loss	\$(2,003,381)	\$(1,222,480)
Loss per common share of continuing operations		
Basic (loss) per share (Note 11)	\$(0.04)	\$(0.04)
Diluted (loss) per share (Note 11)	\$(0.04)	\$(0.04)
Income (loss) per common share of discontinued operations		
Basic earnings (loss) per share (Note 11)	\$(0.02)	\$0.03
Diluted earnings (loss) per share (Note 11)	\$(0.02)	\$0.03
Loss per common share		
Basic (loss) per share (Note 11)	\$(0.06)	\$(0.01)
Diluted (loss) per share (Note 11)	\$(0.06)	\$(0.01)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Covalon Technologies Ltd.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Expressed in Canadian Dollars

	Number of shares	Share capital	Contributed surplus	Accumulated deficit	Foreign exchange translation reserve	Total
Balance at October 1, 2020	25,818,677	\$44,607,119	\$11,652,765	\$(47,718,978)	\$565,772	\$9,106,678
Share-based payment expense	-	-	124,078	-	-	124,078
Net loss for the period	-	-	-	(372,343)	-	(372,343)
Foreign currency translation adjustment	-	-	-	-	(850,137)	(850,137)
Balance at December 31, 2020	25,818,677	\$44,607,119	\$11,776,843	\$(48,091,321)	\$(284,365)	\$8,008,276
Balance at October 1, 2021	25,868,677	\$44,676,999	\$11,833,354	\$(24,242,072)	\$1,106,246	\$33,374,527
Share-based payment expense	-	-	27,590	-	-	27,590
Issuance of shares	30,000	178,817	(112,817)	-	-	66,000
Net loss for the period	-	-	-	(1,516,797)	-	(1,516,797)
Foreign currency translation adjustment	-	-	-	-	(486,584)	(486,584)
Balance at December 31, 2021	25,898,677	\$44,855,816	\$11,748,127	\$(25,758,869)	\$619,662	\$31,464,736

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

	Three months ended December 31,	
	2021	2020
Cash flows from (used in) operating activities		
Net loss for the period from continuing operations	\$(1,107,502)	\$(1,033,914)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation of property, plant and equipment	21,102	63,106
Amortization of intangible assets	13,129	23,127
Depreciation - right of use assets	21,438	130,608
Share-based payment expense (Note 6)	21,034	99,236
Interest expense and accretion	12,223	97,925
Cash used in operating activities before change in non-cash working capital balances	(1,018,576)	(619,912)
Net changes in non-cash working capital balances:		
Accounts receivable	2,908,892	(103,522)
Prepaid expenses	(213,202)	211,118
Inventories	(161,134)	153,428
Accounts payable and accrued liabilities	(984,514)	(138,456)
Deferred revenue	9,318	(198,500)
Total net changes in non-cash working capital balances	1,559,360	(75,932)
Total cash flows from (used in) operating activities	540,784	(695,844)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(105,766)	(51,970)
Restricted cash	(26)	305
Total cash flows used in investing activities	(105,792)	(51,665)
Cash flows from (used in) financing activities		
Interest paid	-	(75,521)
Repayment of debt	-	(300,000)
Issuance of shares	66,000	-
Payment of lease liabilities	(76,403)	(76,403)
Total cash flows used in financing activities	(10,403)	(451,924)
Foreign exchange rate changes on cash	(39,621)	(191,205)
Total cash flows during the period of continuing operations	384,968	(1,390,638)
Total cash flows during the period of discontinued operations	(960,534)	417,538
Total cash flows during the period	(575,566)	(973,100)
Cash and cash equivalents, beginning of the period	\$22,946,923	\$3,506,991
Cash and cash equivalents, end of the period	\$22,371,357	\$2,533,891

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

1. CORPORATE INFORMATION

Covalon Technologies Ltd. (“the Company”) is incorporated under the laws of Ontario and is engaged in the business of researching, developing, manufacturing, and marketing of patent-protected medical products that improve patient outcomes and save lives in the areas of infection management, advanced wound care and surgical procedures. The unaudited condensed consolidated interim financial statements of Covalon Technologies Ltd. for the three months ended December 31, 2021 comprise the results of the Company and its wholly owned subsidiaries. The Company leverages its patented medical technology platforms and expertise in two ways: (i) by developing products that are sold under the Company’s name; and, (ii) by developing and commercializing medical products for other medical companies under development and license contracts. The Company has received regulatory approval on numerous products and leverages contract manufacturers to make its products and distribution contracts to sell its commercialized products to medical customers. The Company generates its revenues through development contracts, licensing agreements, distribution contracts, and sales of products.

On July 29, 2021, the Company sold its AquaGuard product line and all its interest in two subsidiaries (see note 3).

The Company is listed on the TSX Venture Exchange, having the symbol COV. The Company also trades on the OTCQX Best Market, having the symbol of CVALF.

The address of the Company’s corporate office and principal place of business is 1660 Tech Avenue, Unit 5, Mississauga, Ontario, Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The Company’s unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) applicable to the preparation of interim financial statements, including IAS 34, Interim Financial Reporting. These condensed consolidated interim financial statements are presented in Canadian dollars and should be read in conjunction with the Company’s annual financial statements for the year ended September 30, 2021, which were prepared in accordance with IFRS.

The accounting policies adopted are consistent with those of the previous financial year end.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on February 28, 2022.

Accounting standards issued but not yet adopted

IAS 1 – Presentation of Financial Statements

On January 23, 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. The standard is effective for periods beginning on or after January 1, 2023, and the Company continues to evaluate the impact of applying the new standard.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

Covid-19

In March 2020, the World Health Organization characterized the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, as a global pandemic. In response to the outbreak, governmental authorities in Canada and internationally have introduced various recommendations and measures to try to limit the pandemic, including travel restrictions, border closures, non-essential business closures, quarantines, self-isolations, shelters-in-place, and social distancing. The governmental responses have caused material disruption to business globally, economic slowdowns, and shifts in economic markets. The significant uncertainty related to the virus, and the governmental responses, has negatively impacted the Company's suppliers, as well as customers and their demand for our products and services.

Included in continuing, and discontinued, operations for the three months ended December 31, 2021, the Company received funding of \$nil (2020 - \$280,195) under the Canadian Emergency Wage Subsidy Program ("CEWS"). The Company also received funds from other government subsidy programs of \$nil (2020 - \$22,259) for the three months ended December 31, 2021.

Operationally, the Company has been negatively impacted by the COVID-19 pandemic, and the efforts to mitigate the pandemic, as have many of the Company's employees, customers, and vendors regardless of geographic location. The Company's direct sales staff were limited in their ability to call on customers in the United States and the United Kingdom. There have also been increased costs associated with shipping products, and a slow-down in receiving regulatory approvals. As a result of this uncertainty there is a higher level of estimation uncertainty as it relates to the assessment provisions for inventory and receivables, and general future cash flows. Our distribution relationships with several companies in North America and internationally have been impacted due to the material disruption to business globally, economic slowdowns, and shifts in economic markets caused by governmental responses to the COVID-19 pandemic. Demand for some of the Company's products also temporarily decreased as facilities adjust to patient demand and procedure types. The Company has not experienced material payment delays or defaults from customers as a result of the COVID-19 pandemic and its impact on their respective businesses. The Company continues to evaluate the current and potential impact of the COVID-19 pandemic on its business, affairs, operations, financial condition, liquidity, availability of credit and results of operations.

3. AQUAGUARD SALE

On July 29, 2021, the Company sold the AquaGuard product line to TIDI Products, LLC ("TIDI"), an arm's length party, for \$37,837,852 including post-closing adjustments related to actual amounts of inventory and indebtedness ("AquaGuard Sale"). The financial information related to the AquaGuard product line is reported in the current, and comparative periods, as discontinued operations.

The financial performance information presented for the three months ended December 31, 2021, and comparatives, are summarized below and included in the consolidated statements of operations and comprehensive income (loss) as net income (loss) from discontinued operations:

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

	<u>December 31, 2021</u>	December 31, 2020
Revenue	483,010	3,388,713
Cost of sales and operating expenses	874,306	2,706,047
Finance expenses	17,999	21,095
Net income (loss) from discontinued operations	(409,295)	661,571

Disclosures with respect to the consolidated statements of cash flows for both the three months ended December 31, 2021 and December 31, 2020 are as follows:

	<u>December 31, 2021</u>	December 31, 2020
Cash flows from operating activities	(862,852)	502,862
Cash flows from investing activities	(12,623)	(1,218)
Cash flows from financing activities	(85,059)	(84,106)
Total cash flow	(960,534)	417,538

4. LEASE LIABILITIES

Lease liabilities are comprised of the following amounts:

	<u>Lease liabilities (\$)</u>
Balance at October 1, 2021	2,590,873
Interest	12,223
Payments	(161,463)
Foreign exchange	10,748
Balance at December 31, 2021	2,452,381
Less: Current portion	549,878
Long-term portion	1,902,503

Following the impairment of the right of use asset related to the Company's Seattle lease agreement at September 30, 2021, an onerous contract liability was recognized in accounts payable and accrued liabilities related to future variable lease payments that are not included in the lease liability. At December 31, 2021 the amount of this liability was \$332,078 (September 30, 2021 - \$352,089).

5. SHAREHOLDERS' EQUITY

Common Shares

The Company is authorized to issue an unlimited number of common shares with no par value. All shares are fully paid.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

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Warrants

The following is a summary of all warrants:

	Number of Warrants	Weighted average exercise Price	Weighted Average Expiry (years)
Balance at September 30, 2021	2,950,000	\$2.14	3.10
Exercised during the period	-	-	-
Balance at December 31, 2021	2,950,000	\$2.14	2.84

6. SHARE-BASED PAYMENTS

Option Plan Details

The Company has a Stock Option Plan (“the Plan”) under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees, or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. Unless the board of directors decides otherwise, options granted under the plan will vest as follows: 34% of the options vest in one year, with a further 33% vesting in each of the subsequent two years on the anniversary of the initial grant date.

The following is a summary of changes in stock options from October 1, 2021 to December 31, 2021:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Forfeited	Closing Balance	Vested	Unvested	Weighted Average Expiry (years)
8-Feb-17	8-Feb-22	\$2.20	133,333	-	133,333	133,333	-	0.11
20-Jun-17	20-Jun-22	\$2.47	343,333	-	343,333	343,333	-	0.47
25-Oct-17	25-Oct-22	\$3.80	60,000	-	60,000	60,000	-	0.82
21-Dec-17	21-Dec-22	\$4.65	97,500	(10,000)	87,500	87,500	-	0.98
24-Jan-18	24-Jan-23	\$6.02	60,000	-	60,000	60,000	-	1.07
27-Sep-18	27-Sep-23	\$8.50	97,500	-	97,500	97,500	-	1.74
22-Dec-18	22-Dec-23	\$4.28	226,670	(45,004)	181,666	59,950	121,716	1.98
15-Mar-19	15-Mar-24	\$5.03	120,100	(20,100)	100,000	33,000	67,000	2.21
			1,138,436	(75,104)	1,063,332	874,616	188,716	1.06
		Weighted Average Exercise Price	\$4.03	\$4.53	\$3.99	\$3.87	\$4.55	

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

Share Based Payment Expense

Total expense arising from share based payment transactions recognized during the three months ended December 31, 2021 for continuing operations, as part of employee benefit expense were \$21,034 (2020 - \$99,236).

Total expense arising from share based payment transactions recognized during the three months ended December 31, 2021 for discontinued operations, as part of employee benefit expense were \$6,556 (2020 - \$24,842).

7. FINANCIAL RISK MANAGEMENT

The following is a discussion of market, credit, and liquidity risks and related mitigation strategies that have been identified.

Credit Risk

The Company is exposed to credit risk associated with its cash and cash equivalents and accounts receivable. The risk is reduced by having accounts receivables insured or obtaining letters of credit when the Company determines that it is warranted. The Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss for all receivables. Receivables have been grouped based on shared credit risk characteristics and the days outstanding to measure the expected credit loss. On this basis the loss allowance at December 31, 2021 and September 30, 2021 is nominal.

Accounts receivable are written off when there is no reasonable expectation of recovery which may be supported by failure to make contractual payments for more than 180 days as well as other factors.

Accounts receivable are subject to normal industry risks in each geographic region in which the Company operates. The Company attempts to manage these risks by dealing with creditworthy customers; however, due to the limited number of potential customers in each market this is not always possible. As at December 31, 2021, three customers accounted for 42% (September 30, 2021 – three customers for 67%) of the accounts receivable balance. These customers, who are distributors and strategic partners of the Company, represent a significant amount of the Company's sales. Credit risk exposure is mitigated by strong credit granting policies, the use of letters of credit, and due diligence procedures for new customers.

The aging of accounts receivable is as follows:

	December 31, 2021	September 30, 2021
Current	\$3,312,578	\$5,962,535
30-60 days past due	120,244	388,241
Over 60 days past due	53,932	44,771
	<u>3,486,754</u>	<u>6,395,547</u>

Interest Rate Risk

The Company is subject to interest rate risk on its cash, cash equivalents. The Company believes that interest rate risk is low due to market based variable interest rates.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

Currency Risk

The Company's exposure to foreign currency risk at the end of the reporting period, expressed in Canadian dollars, was as follows:

	<u>December 31, 2021</u>				<u>September 30, 2021</u>			
	<u>Canadian</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>	<u>CAD</u>	<u>USD</u>	<u>GBP</u>	<u>Total</u>
Cash and cash equivalents	\$252,451	\$23,045,699	\$73,207	\$23,371,357	\$135,807	\$22,783,541	\$27,575	\$22,946,923
Accounts Receivable	\$133,063	\$3,125,134	\$228,557	\$3,486,754	\$6,181	\$6,138,265	\$251,101	\$6,395,547
Restricted cash and cash held in escrow	-	\$2,535,600	-	\$2,535,600	\$137,061	\$2,548,200	-	\$2,685,261
Accounts payable and accrued liabilities	\$555,030	\$2,379,055	\$125,332	\$3,059,417	\$292,110	\$3,581,504	\$165,993	\$4,039,607
Lease liabilities	\$982,353	\$1,470,028	-	\$2,452,381	\$1,046,758	\$1,544,115	-	\$2,590,873

If exchange rates were to change by 5% at December 31, 2021 total comprehensive income (loss) would change by \$1,251,689 (September 30, 2021 - \$1,322,853).

Fair Value

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and lease liabilities approximate their carrying values, due to their relatively short periods to maturity.

Liquidity risk

The Company continually monitors working capital to ensure sufficient cash is available to meet operational and capital expenditure requirements. As at December 31, 2021, the Company has contractual obligations related to lease liabilities and accounts payable and accrued liabilities that are due as reflected in the following table:

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

	Carrying amount (\$)	Future cash flows (\$)	Less than 1 year (\$)	Between 1 and 5 years (\$)	Greater than 5 years (\$)
Accounts payable and accrued liabilities	3,059,417	3,059,417	3,059,417	-	-
Lease liabilities	2,452,381	2,697,308	651,932	2,045,376	-
Total	5,511,798	5,756,725	3,711,349	2,045,376	-

8. CAPITAL MANAGEMENT

The Company defines capital that it manages as its shareholders' equity comprising share capital, contributed surplus, foreign exchange translation reserve, accumulated deficit, and debt. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide services to its customers and returns to its shareholders. The capital at December 31, 2021 is \$31,464,736 (September 30, 2021 – \$33,374,527).

The Company manages its capital structure and adjusts it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

9. RELATED PARTY TRANSACTIONS

Key management personnel includes the Company's directors and senior management team. These individuals are responsible for planning, directing and controlling the activities of an entity. Key management personnel compensation comprised:

	Three months ended December 31,	
	2021	2020
Compensation and short-term employee benefits	\$232,848	\$239,442
Share based payment expense	6,124	37,504
	238,972	276,946

During the year end September 30, 2013, a non-interest bearing loan of \$50,000 was made to a key employee. As of December 31, 2021, \$10,000 of this loan remained outstanding.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

10. EXPENSES BY NATURE

Net income (loss) from continuing operations include the following expenses by nature:

	Three months ended December 31,	
	2021	2020
Inventoried materials	\$2,589,673	\$1,089,730
Wages, benefits, consulting fees, director compensation	2,345,859	1,899,788
Government subsidies	-	(302,454)
Share based payments	21,034	99,236
Depreciation and amortization	109,964	248,911
Facility	173,165	81,631
Professional fees	445,496	474,844
Other expenses	346,433	(55,998)
Total	\$6,031,624	\$3,535,688

11. LOSS PER SHARE

The weighted average number of shares outstanding during the period ended December 31, 2021 was 25,872,264 (December 31, 2020 – 25,818,677).

For the three months ended December 31, 2021, the computation of diluted loss per share from both continuing and discontinued operations is equal to the basic loss per share due to the Company incurring losses. For the three months ended December 31, 2020, the computation of diluted loss per share from continuing operations is equal to the basic loss per share due to the Company incurring losses.

Details of dilutive securities outstanding are as follows:

Dilutive securities	December 31, 2021	December 31, 2020
Stock options	16,025	-
Warrants	530,269	-
Total dilutive shares	546,294	-

As at December 31, 2020, there were no stock options or warrants that were dilutive to the Company using the treasury stock method.

Covalon Technologies Ltd.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM STATEMENTS (UNAUDITED)

Expressed in Canadian Dollars

For the three months ended December 31, 2021 and 2020

12. CONTINGENCIES AND COMMITMENTS

From time to time, the Company is party to legal proceedings arising out of the normal course of business. The results of these litigations cannot be predicted with certainty, and management is of the opinion that the outcome of these types of proceedings is generally not determinable. Any loss resulting from these proceedings will be charged to operations in the period that a loss becomes probable.

13. SEGMENT REPORTING

The Company generated continuing operations revenue of \$3,591,954 (2020 – \$1,138,357) in the US, \$739,022 (2020 – \$752,440) in the Middle East, \$6,890 (2020 – \$24,283) in Canada, and \$598,479 (2020 – \$684,619) in the rest of the world.

As of December 31, 2021, the Company had \$2,489,003 (September 30, 2021 - \$2,652,698) of its property, plant, and equipment, right-of-use assets and intangible assets located in Canada and \$359,174 (September 30, 2021 - \$354,023) in the USA.