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TECHNOLOGIES LTD.

NEWS RELEASE

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Covalon Announces Third Quarter Fiscal 2023 Results

MISSISSAUGA, Ontario – August 16, 2023 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its third quarter fiscal 2023 results.

Brian Pedlar, Covalon's President and CEO, said, "I am pleased to announce another strong financial quarter for Covalon. Revenue for the three months ended June 30, 2023, increased 39% to $6.3 million versus prior year and we've also seen improvements to our gross margins during the quarter. We are in a much stronger position in our key markets compared to last year, and we are seeing the results of investments made in 2022 continue to positively impact us in 2023. With our strong product and technology portfolio, Covalon is focused on becoming the leading provider of compassionate care solutions that help patients heal faster and live better. We are on track with our growth plan, and we have made strong progress in the first nine months of 2023 towards reaching our goals.

"Over the past year the Company has transformed its strategy to focus on growing its United States and international infection prevention and wound care business by building technology and brand awareness with clinicians and customers. This is being accomplished through the Company's portfolio of consumable medical device dressings that are sold to hospitals, long-term care facilities, clinics, and home healthcare providers directly by the Company's sales team and through distribution partners. Historically the Company has also offered services to large medical companies utilizing Covalon's medical coating technology, which represents approximately 3% of the Company's revenue this quarter. This portion of Covalon's business is resource intensive and is not in line with the Company's focus on manufacturing and selling consumable medical devices. As a result, the Company has decided to transition away from medical coating projects and instead focus its business strategy on the Company's core business verticals. Contributing to the Company's decision to shift away from the medical coating business is the fact that its largest development services customer has been unable to meet its internal deadlines over the past several years, which has resulted in unpredictable revenues, unpredictable staffing requirements, and significant increased costs for staff and facilities for Covalon, that has prevented Covalon from scaling its development services business. As a result of the negative impacts on Covalon, the Company spent a considerable amount of effort over the past year to renegotiate with the customer so as to be fairly reimbursed by the customer. In response, the Company was notified that this customer has determined to not proceed with its medical coating projects for now and accordingly, Covalon does not anticipate continuing to derive development services revenue under the current projects.

"Our efforts to grow our customer base in the United States and strengthening our brand world-wide have led to significant growth in revenue over the first nine months of this fiscal year. Revenue for the nine months was up 54% to $19.7 million compared to 2022. We continue to engage with major hospitals in the United States that are evaluating and implementing our infection prevention products in their intensive care units. We have seen positive impacts in our product sales through our distributors in the United States, and increased orders from our international channels. Even with our decision to transition

(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.

away from our medical device coatings projects, we anticipate continued growth in revenue this year compared to 2022.

“Gross margins were significantly improved in the first nine months of 2023. As part of the Company’s customer focus initiatives, we improved our supply chain operations and invested in upgrading both business systems and infrastructure. Additional ongoing investments include expanding Covalon’s in-house manufacturing, which will allow us to better serve our customers and drive growth in key markets going forward. The full positive impact on our margins from our supply chain improvement initiatives are expected to be further realized over time.

“We continue to align our operating costs to growth prospects, as we see the results of our improved sales and marketing initiatives and as we realize the benefits of our efforts to transform our supply chain. Operating costs from continuing operations for the quarter ended June 30, 2023, increased 13% over the same period last year. Our team is executing on deliberate and well-planned strategic decisions to re-position Covalon to be able to unlock value from our lifesaving, patented products and technology by investing in our people, our commercial capabilities, and our infrastructure. We are confident that the changes we have made to Covalon will allow us to consistently achieve our objectives.

“The momentum we have, and the certainty of purpose we have in our products and mission, will allow Covalon to succeed. This quarter demonstrates that we are moving in the right direction with respect to investments made last year in several key business areas, including sales and marketing, operations, and IT infrastructure. We are excited about our progress in transforming Covalon into a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing,” concluded Mr. Pedlar.

Conference Call Scheduled

A conference call and webcast to discuss Covalon’s Q3 fiscal 2023 financial results will be held Wednesday, August 16, 2023, at 9:00am ET. To view, listen to, and participate in the live webcast, please follow the link below:

https://events.q4inc.com/attendee/682406686

To listen and participate via the conference call, please dial:

North American Toll-Free: 1-888-259-6580

Local (Toronto): 416-764-8624

Conference ID: 27101802

Participants will be able to ask questions of Company management during the Q&A portion of the conference call either by asking them on the call or by submitting them using the chat function on the webcast.

A recording of the call will also be available on www.covalon.com under Financials on the Investors tab.

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Q3 Fiscal 2023 Financial Results

Total revenue for the three months ended June 30, 2023 increased 39% to $6.3 million compared to $4.5 million for the same period of the prior year.

Total revenue for the nine months ended June 30, 2023 increased 54% to $19.7 million compared to $12.8 million for the same period of the prior year.

Product revenue for the three-month period ended June 30, 2023 increased 46% to $6.0 million compared to $4.1 million for the same period of the prior year. Product revenue for the Company increased $1.9 million compared to the prior year due substantially to increased customer demand for the Company's collagen dressing product line in the US market.

Product revenue for the nine months ended June 30, 2023 increased 50% to $17.4 million compared to $11.6 million for the same period of the prior year. Product revenue increased $5.8 million over the prior year due substantially to increased customer demand for collagen dressings in the US market and IV Clear product lines internationally.

Development and consulting services revenue for the three-month period ended June 30, 2023 decreased to $0.2 million, compared to $0.4 million for the same period of the prior year. During the quarter, we engaged in 6 customer development projects of various sizes with approximately 3 medical product companies.

Development and consulting services revenue for the nine months ended June 30, 2023 increased by 116% to $2.1 million, compared to $1.0 million for the same period of the prior year. During the nine months ended June 30, 2023, we engaged in 24 customer development projects of various sizes with approximately 6 medical product companies that included the various projects underway associated with the Major Contract.

Licensing and royalty fees for the three months ended June 30, 2023 were $0.03 million, compared to $0.04 million for the three months ended June 30, 2022. The timing of this revenue will vary depending on length and timing of projects and discussions with customers.

Licensing and royalty fees for both the nine months ended June 30, 2023 and nine months ended June 30, 2022 were $0.2 million, respectively.

Gross margin for the three-month period ended June 30, 2023 increased to 57% compared to 47% in the same period for the prior year. During the three months ended June 30, 2023, the Company released inventory provisions of $0.2 million as a result of changes in obsolescence estimates, as compared to an inventory provision expense of $0.2 million being recorded during the three months ended June 30, 2022. The gross margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Gross margin for the nine months ended June 30, 2023 increased to 58% compared to 48% in the same period for the prior year. During the nine months ended June 30, 2023, the Company recorded inventory provision reversals resulting in a gain of $0.4 million as a result of changes in obsolescence estimates, as

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compared to an inventory provision expense of $1.0 million being recorded during the nine months ended June 30, 2023.

Operating expenses for the three months ended June 30, 2023 increased $0.5 million to $4.2 million, compared to $3.7 million for the prior year's comparative period. Approximately $0.2 million relates to increased sales and marketing activities primarily due to an increase in sales and marketing staffing levels, and approximately $0.3 million is primarily due to higher foreign exchange gains which occurred in the comparable period as compared to the current period.

Operating expenses for the nine months ended June 30, 2023 increased $1.9 million to $13.1 million, compared to $11.3 million for the prior year's comparative period. Approximately $1.8 million relates to increased sales and marketing activities primarily due to an increase in sales and marketing staffing levels.

Both net loss and net loss from continuing operations for the three months ended June 30, 2023 was $0.5 million or $0.02 per share, compared to a net loss of $1.6 million or $0.06 per share for the three months ended June 30, 2022.

Net loss from continuing operations for the nine months ended June 30, 2023 was $1.6 million or $0.06 per share, compared to a net loss of $5.2 million or $0.20 per share for the nine months ended June 30, 2022. Net loss from discontinued operations for the nine months ended June 30, 2023 was $nil, compared to a net loss of $0.4 million or $0.02 per share for the nine months ended June 30, 2022. Net loss for the nine months ended June 30, 2023 was $1.6 million or $0.06 per share, compared to a net loss of $5.6 million or $0.22 per share for the nine months ended June 30, 2022.

Adjusted Gross Margin for the three-month period ended June 30, 2023 was 55% compared to 53% for the same period of the prior year. Gross margin is highly influenced by the mix of collagen-based dressings, silicone-based dressings, medical coating services, passive dressings, and related service revenues generated in the periods. Gross margin fluctuates as a result of the mix of products sold in any given quarter, or year, by product type and geography. For further information about Adjusted Gross Margin, see "*Definitions and Reconciliations of Non-IFRS Financial Measures*" below.

Adjusted Gross Margin[1] for the nine months ended June 30, 2023 was 57% compared to 58% for the same period of the prior year. Gross margin is highly influenced by the mix of collagen-based dressings, silicone-based dressings, medical coating services, passive dressings, and related service revenues generated in the periods. Gross margin fluctuates as a result of the mix of products sold in any given quarter, or year, by product type and geography.

Adjusted EBITDA loss for the three months ended June 30, 2023 was $0.4 million, compared to an Adjusted EBITDA loss of $1.0 million for the three months ended June 30, 2022. For further information about Adjusted EBITDA, see "*Definitions and Reconciliations of Non-IFRS Financial Measures*" below.

Adjusted EBITDA[1] loss for the nine months ended June 30, 2023, was $0.9 million, compared to an Adjusted EBITDA loss of $3.5 million for the nine months ended June 30, 2022.

(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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Statement of Operations

The following unaudited table presents Covalon's consolidated statements of operations for the three- and nine-month periods ended June 30, 2023 and 2022.

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Revenue				
Product	$6,034,652	$4,125,650	$17,385,610	$11,599,140
Development and consulting services	205,169	364,733	2,131,981	986,424
Licensing and royalty fees	30,218	35,623	182,447	170,621
Total revenue	6,270,039	4,526,006	19,700,038	12,756,185
Cost of sales	2,665,602	2,378,276	8,228,741	6,574,017
Gross profit before operating expenses	3,604,437	2,147,730	11,471,297	6,182,168
Operating expenses				
Operations	627,001	586,071	1,377,635	1,472,250
Research and development activities	365,922	308,356	931,388	980,313
Sales, marketing and agency fees	1,826,912	1,580,128	6,066,742	4,316,515
General and administrative	1,372,243	1,250,399	4,760,815	4,509,590
	4,192,078	3,724,954	13,136,580	11,278,668
Finance expenses (income)	(85,874)	31,376	(84,614)	81,617
Net (loss) from continuing operations	(501,767)	$ (1,608,600)	(1,580,669)	$(5,178,117)
Net (loss) from discontinued operations	-	-	-	(409,295)
Net (loss)	$(501,767)	$(1,608,600)	$(1,580,669)	$(5,587,412)
Other comprehensive income (loss)				
Amount that may be reclassified to profit or loss				
Foreign currency translation adjustment - continued operations	(235,941)	995,098	(499,249)	631,546
Total comprehensive (loss)	$(737,708)	$(613,502)	$(2,079,918)	$(4,955,866)
(Loss) per common share of continuing operations				
Basic (loss) per share	$(0.02)	$(0.06)	$(0.06)	$(0.20)
Diluted (loss) per share	$(0.02)	$(0.06)	$(0.06)	$(0.20)
(Loss) per common share of discontinued operations				
Basic (loss) per share	$0.00	$0.00	$(0.00)	$(0.02)

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Diluted (loss) per share	$0.00	$0.00	$(0.00)	$(0.02)
(Loss) per common share				
Basic (loss) per share	$(0.02)	$(0.06)	$(0.06)	$(0.22)
Diluted (loss) per share	$(0.02)	$(0.06)	$(0.06)	$(0.22)

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 and nine months ended June 30, 2023 and 2022 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.

(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.

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Gross profit before operating expenses	**$3,604,437**	$2,147,730	**$11,471,297**	$6,182,168
Add: Depreciation and amortization	**59,466**	59,949	**168,560**	151,774
Add: Inventory provisions (reversals)	**(221,225)**	216,803	**(379,949)**	1,009,772
Adjusted Gross Margin	**3,442,678**	2,420,482	**11,259,908**	7,343,714
Adjusted Gross Margin (%)	**55%**	53%	**57%**	58%

The table below provides a reconciliation of net loss under IFRS in the consolidated financial statements to Adjusted EBITDA for the three and nine months ended June 30, 2023 and 2022. 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 June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Net income (loss)	**($501,767)**	($1,608,600)	**($1,580,669)**	($5,178,117)
Add: Interest expense (income)	**(85,874)**	31,376	**(84,614)**	81,617
Add: Depreciation and amortization	**271,184**	242,880	**754,604**	488,063
Add: Stock based compensation	**107,825**	87,737	**437,282**	126,988
Add: Inventory provisions (releases)	**(221,225)**	216,803	**(379,949)**	1,009,772
Adjusted EBITDA	**($429,857)**	($1,029,804)	**($853,346)**	($3,471,677)

To learn more about Covalon, please contact:

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About Covalon

Covalon Technologies Ltd. is a patient-driven medical device company, built on the relentless pursuit to help the most vulnerable patients have a better chance at healing. Through a strong portfolio of patented technologies and solutions for advanced wound care, infection prevention, and medical device coatings,

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we offer innovative, gentler, and more compassionate options for patients to heal with less infections, less pain, and better outcomes. Our solutions are designed for patients and made for care providers. 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 OTCQX Market under the symbol CVALF. To learn more about Covalon, visit our website at www.covalon.com.

Neither the 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 may contain 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", or variations of such words and phrases or state that certain actions, events, or results "may", "could", "would", "might", "will" or "will be taken", "occur", or "be achieved". In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts, but instead represent management's expectations, estimates, and projections regarding future events. Forward-looking statements involve risks and uncertainties, including, but not limited to, the factors described in greater detail in the "Risks and Uncertainties" section of our management's discussion and analysis of financial condition and results of operations for the year ended September 30, 2022, which is available on the Company's profile at http://www.sedarplus.ca, any of which could cause results, performance, or achievements to differ materially from the results discussed or implied in the forward-looking statements. Investors should not place undue reliance on any forward-looking statements. The forward-looking statements contained in this news release are made as of the date of this news release, and the Company assumes no obligation to update or alter any forward-looking statements, whether as a result of new information, further events, or otherwise, except as required by law.

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