

Covalon Announces First Quarter Fiscal 2024 Results

MISSISSAUGA, Ontario – February 28, 2024 – (BUSINESS WIRE) – Covalon Technologies Ltd. (the "Company" or "Covalon") (TSXV: COV; OTCQX: CVALF), an advanced medical technologies company, today announced its fiscal 2024 first quarter results for the period ended December 31, 2023.

Brent Ashton, Covalon's newly appointed Chief Executive Officer stated, "Covalon's strong focus on our product business in the United States delivered a remarkable 36% growth in Q1. These advances were offset by revenue challenges primarily due to a decrease in our coatings business with a large customer and the timing of shipments for some international customers. Our team excelled in delivering strong gross margins despite the absence of the high-margin coating revenue we recognized in prior years.

I am extremely proud of the progress that the Covalon team has made in the past few months with a solid focus on strengthening foundational elements for our business and setting the stage for substantial revenue growth in fiscal 2024. In parallel with our intense focus on growth, we are also highly focused on streamlining our operating expenses relative to revenue, with the goal of achieving EBITDA profitability within fiscal 2024.

The entire Covalon team is very energized to drive Covalon into its forthcoming growth phase. Covalon's strengths in our products, intellectual property, dedicated team, and excellent industry partnerships gives us high confidence in our ability to generate significant value for our customers, team members, and shareholders."

Q1 Financial Overview

US product revenue for the quarter increased 36%, offset by International product revenue declining by 77%, largely due to the timing of shipments for a large International tender. Revenue for the three months ended December 31, 2023 therefore decreased 25% to \$4.7M compared to \$6.2M for the same period of the prior year.

Development and consulting services revenue for the three-month period ended December 31, 2023 decreased to \$0.06M, compared to \$0.8M for the same period of the prior year. This decrease is a result of a customer's decision to not proceed with a medical coatings project, and a strategic decision by Covalon to increase the focus and priority of our US product segment.

Licensing and royalty fees for the three months ended December 31, 2023 were \$0.03M, compared to \$0.1M for the three months ended December 31, 2022. The timing of this revenue will vary depending on length and timing of projects and discussions with customers.

Gross margin for the three-month period ended December 31, 2023 increased to 61% compared to 60% in the same period for the prior year. During the three months ended December 31, 2023, the Company released inventory provisions of \$0.2M as a result of changes in obsolescence estimates, as compared to \$nil inventory provisions being recorded during the three months ended December 31, 2022. The gross

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



margin is significantly influenced by source of revenue and by the relative mix of products sold in any given financial period.

Operating expenses for the three months ended December 31, 2023 increased \$0.3M to \$4.3M, compared to \$4.1M for the prior year's comparative period. Approximately \$0.4M relates to increased operations activities primarily due to an increase in staffing levels and product development expenses, this is offset with approximately \$0.6M decrease related to the finance lease receivable for the sublease of a portion of our Seattle location.

Net loss for the three months ended December 31, 2023 was \$0.9M or \$0.03 per share, compared to a net loss of \$0.4M or \$0.02 per share for the three months ended December 31, 2022.

Adjusted Gross Margin⁽¹⁾ for the three-month period ended December 31, 2023 was 58% compared to 61% 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-GAAP Financial Measures*" below.

Adjusted EBITDA⁽¹⁾ loss for the three months ended December 31, 2023 was \$1.3M, compared to an Adjusted EBITDA income of \$0.05M for the three months ended December 31, 2022. For further information about Adjusted EBITDA, see "*Definitions and Reconciliations of Non-GAAP Financial Measures*" below.

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Statement of Operations

The following audited table presents Covalon's consolidated statements of operations for the three-month periods ended December 31, 2023 and 2022.

<i>(unaudited)</i>	Three months ended December 31,	
	2023	2022
Revenue		
Product	\$4,575,767	\$5,245,264
Development and consulting services	56,640	818,346
Licensing and royalty fees	30,650	121,795
Total revenue	4,663,057	6,185,405
Cost of sales	1,814,520	2,490,573
Gross profit before operating expenses	2,848,537	3,694,832
Operating expenses		
Operations	630,713	207,879
Research and development activities	311,411	285,975
Sales, marketing, and agency fees	1,646,303	2,029,936
General and administrative	1,731,625	1,526,895
	4,320,052	4,050,685
Gain of finance lease receivable	610,088	-
Finance (income) expenses	(9,964)	24,968
Net loss	\$(851,543)	\$(380,821)
Other comprehensive income (loss)		
Amount that may be reclassified to profit or loss		
Foreign currency translation adjustment	(387,273)	(16,785)
Total comprehensive loss	\$(1,238,816)	(397,606)
Loss per common share		
Basic loss per share (Note 17)	\$(0.03)	\$(0.02)
Diluted loss per share (Note 17)	\$(0.03)	\$(0.02)

Non-GAAP Financial Measures

This press release makes reference to certain non-GAAP measures. These measures are not recognized or defined measures under IFRS Accounting Standards, do not have standardized meaning prescribed by IFRS Accounting Standards 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

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those IFRS Accounting Standards 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 Accounting Standards. The non-GAAP 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 Accounting Standards. We use non-GAAP 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 Accounting Standards measures. We believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers. Our management also uses non-GAAP 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-GAAP 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-GAAP financial measures. Because these non-GAAP financial measures may be defined differently by other companies in our industry, our definitions of these non-GAAP 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 Accounting Standards in the consolidated financial statements to Adjusted Gross Margin for the three months, and year ended December 31, 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.

<i>(unaudited)</i>	Three months ended December 31,	
	<u>2023</u>	<u>2022</u>
Gross profit before operating expenses	2,848,537	3,694,832
Add: Depreciation and amortization	52,548	56,033
Add: Inventory provisions	(192,771)	-
Adjusted Gross Margin	2,708,314	3,750,865
Adjusted Gross Margin (%)	58%	61%

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The table below provides a reconciliation of net loss under IFRS Accounting Standards in the consolidated financial statements to Adjusted EBITDA for the three months, and year ended December 31, 2023 and 2022. Management believes that these non-GAAP measures are useful in assessing the performance of the Company's ongoing operations and its ability to generate cash flows to fund 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 December 31,	
	<u>2023</u>	<u>2022</u>
Net loss	(851,543)	(380,821)
Add: Net finance (income) expenses	(9,964)	24,968
Add: Depreciation and amortization	240,194	250,085
Add: Share based compensation	115,929	156,307
Add: Inventory provisions	(192,771)	-
Add: Gain on finance lease receivable	(582,140)	-
Adjusted EBITDA	(1,280,295)	50,539

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, 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

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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, 2023, which is available on the Company’s profile at 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.

SOURCE Covalon Technologies Ltd.

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